



**Venturepharm Laboratories Limited**  
**萬全科技藥業有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8225)

**Interim Report 2007**

\* for identification only

**INTERIM REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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The Stock Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Venturepharm Laboratories Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; (3) all opinions expressed in this report have been arrived at after due and careful consideration and founded on bases and assumptions that are fair and reasonable.



# Venturepharm Laboratories Limited

## 萬全科技藥業有限公司\*

(incorporated in the Cayman Islands with limited liability)  
(Stock Code: 8225)

The Directors are pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007, together with the comparative figures.

### FINANCIAL HIGHLIGHTS

1. The Group achieved a turnover of approximately RMB17,935,000 for the second quarter of 2007, representing an increase of approximately 152% compared with that of the first quarter of 2007.
2. The Group achieved a turnover of approximately RMB25,060,000 for the six months ended 30 June 2007, representing an increase of approximately 4% compared with that of the corresponding period in 2006.
3. The Group accomplished a net profit of approximately RMB5,829,000 for the second quarter of 2007, representing an increase of approximately 10 times compared with that of the corresponding period in the first quarter of 2007.
4. The Group accomplished a net profit of approximately RMB6,332,000 for the six months ended 30 June 2007, representing an increase of approximately 1% compared with that of the corresponding period in 2006.
5. Basic earning per share amounted to RMB1.76 cents for the six months ended 30 June 2007.
6. The Directors do not recommend payment of any interim dividend for the six months ended 30 June 2007.
7. The Group, in cooperation with another service provider, jointly won a CRO contract of RMB10 million one of the largest CRO projects in China.
8. The Group signed contracts with some leading international big pharms, including Actavis, Mitsubisbi Pharma and Johnson & Johnson.

\* for identification only

## CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2007	2006	2007	2006
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	17,935	16,105	25,060	24,179
Cost of sales		<u>(9,925)</u>	<u>(6,864)</u>	<u>(14,298)</u>	<u>(11,400)</u>
Gross profit		8,010	9,241	10,762	12,779
Other revenue		409	1,259	887	1,279
Administrative expenses		<u>(2,108)</u>	<u>(4,490)</u>	<u>(4,718)</u>	<u>(7,124)</u>
Profit from operations		6,311	6,010	6,931	6,934
Finance costs		<u>(103)</u>	<u>(264)</u>	<u>(219)</u>	<u>(286)</u>
<b>PROFIT BEFORE</b>					
<b>TAXATION</b>					
Income tax	5	6,208	5,746	6,712	6,648
	6	<u>(379)</u>	<u>(272)</u>	<u>(380)</u>	<u>(378)</u>
Profit for the year		<u><b>5,829</b></u>	<u>5,474</u>	<u><b>6,332</b></u>	<u>6,270</u>
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the					
Company		5,927	5,497	6,499	6,324
Minority interests		<u>(98)</u>	<u>(23)</u>	<u>(167)</u>	<u>(54)</u>
		<u><b>5,829</b></u>	<u>5,474</u>	<u><b>6,332</b></u>	<u>6,270</u>
Earnings per share (cent)	8				
– basic		1.62	1.52	1.76	1.74
– diluted		1.55	1.46	1.68	1.67

## CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
<b>Non-current assets</b>	<i>Notes</i>		
Property, plant and equipment	9	6,294	6,762
Available for sales financial assets		19,248	19,248
Interest in associates	10	3,235	3,235
Unlisted Investment	11	9,396	9,396
New drugs technology	12	7,785	8,107
		<hr/> 45,958	<hr/> 46,748
<b>Current assets</b>			
Work-in-progress		55,975	46,934
Trade receivables	13	23,369	18,023
Other receivables, deposits and prepayments		19,439	17,823
Amounts due from related companies	14	1,296	1,296
Bank balances and cash		4,618	10,221
		<hr/> 104,697	<hr/> 94,297
<b>Current liabilities</b>			
Trade payables		383	463
Accruals and other payables		3,216	1,085
Receipt in advance		7,678	5,507
Dividend payable		54	54
Interest-bearing borrowings		6,477	6,451
Tax payable		4,379	5,349
		<hr/> 22,187	<hr/> 18,909
<b>Net current assets</b>		<hr/> 82,510	<hr/> 75,388
<b>Net assets</b>		<hr/> <b>128,468</b>	<hr/> <b>122,136</b>
<b>Capital and reserves</b>			
Share capital		38,160	38,160
Reserves		87,386	80,887
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company		125,546	119,047
<b>Minority interests</b>		<hr/> 2,922	<hr/> 3,089
<b>Total equity</b>		<hr/> <b>128,468</b>	<hr/> <b>122,136</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Net cash used in operating activities	<b>(5,032)</b>	(4,101)
Net cash used in investing activities	<b>(597)</b>	(427)
Net cash generated from financing activities	<b>26</b>	3,680
Net decrease in cash and cash equivalents	<b>(5,603)</b>	(847)
Cash and cash equivalents at beginning of the period	<b>10,221</b>	9,161
Cash and cash equivalents at end of the period	<b>4,618</b>	8,314

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share-based payment reserve	Available-	Special reserve	Capital reserve	Statutory reserve	Statutory enterprise fund expansion	Retained earnings	Minority interest	Total
			for-sales financial assets reserve							
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006										
(Restate)	38,160	258	(1,377)	6,039	894	3,612	6,795	48,963	3,054	106,398
Profit for the period	-	-	-	-	-	-	-	6,324	(54)	6,270
At 30 June 2006	<u>38,160</u>	<u>258</u>	<u>(1,377)</u>	<u>6,039</u>	<u>894</u>	<u>3,612</u>	<u>6,795</u>	<u>55,287</u>	<u>3,000</u>	<u>112,668</u>
At 1 January 2007	38,160	53	(1,032)	6,039	894	3,803	6,986	64,144	3,089	122,136
Profit for the period	-	-	-	-	-	-	-	6,499	(167)	6,332
At 30 June 2007	<u>38,160</u>	<u>53</u>	<u>(1,032)</u>	<u>6,039</u>	<u>894</u>	<u>3,803</u>	<u>6,986</u>	<u>70,643</u>	<u>2,922</u>	<u>128,468</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Group reorganization

The Company was incorporated in the Cayman Islands on 21 May 2002 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands. Its shares have been listed on the GEM of the Stock Exchange since 10 July 2003 (the “Listing Date”).

Pursuant to a group reorganization to rationalize the structure of the Group in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 31 March 2003 (the “Group Reorganization”).

### 2. Accounting policies and basis of preparation

The unaudited condensed financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs), and interpretations (Ints) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those followed in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2006.

The accounts have been prepared on a consolidated basis and include the financial statements of the Company and its subsidiaries made up to 30 June 2007. The measurement basis used in the preparation of the financial statements is historical cost as modified by the revaluation of certain financial assets and liabilities at fair value.



### 3. Turnover

The Group is principally engaged in the research, development and commercialization of drug products. Entering into 2007, the Group adjusted its strategy in face of the booming international outsourcing market. Revenues recognized during the periods were as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2007	2006	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover				
– Transfer of technology for new drug and new drug development	<b>3,065</b>	5,501	<b>3,961</b>	7,858
– Contracted pharmaceutical development and clinical research services associated with technology transfer	<b>6,391</b>	5,142	<b>10,239</b>	6,359
– Contracted pharmaceutical development and clinical research services outsourced by customers	<b>8,136</b>	4,988	<b>10,046</b>	8,978
– Royalty income	<b>250</b>	371	<b>600</b>	625
– Active pharmaceutical ingredient	<b>93</b>	103	<b>214</b>	359
	<u><b>17,935</b></u>	<u>16,105</u>	<u><b>25,060</b></u>	<u>24,179</u>

### 4. Segment information

No geographical segment analysis is presented as all assets and operations of the Group for the periods are located in the PRC.

No business segment analysis is presented as the operations of the Group for the periods are principally related to pharmaceutical research and development, registration, application and testing.

## 5. Profit before taxation

Profit before taxation is arrived at after charging the following items:

	Unaudited		Unaudited	
	Three months		Six months	
	ended 30 June		ended 30 June	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	165	221	333	443
Less: amount capitalized in work-in-progress	0	0	0	0
	<u>165</u>	<u>221</u>	<u>333</u>	<u>443</u>
Provision against the receivables	0	180	0	981
Amortization of intangible assets	161	90	333	181
Finance cost	117	143	219	287
	<u><u>117</u></u>	<u><u>143</u></u>	<u><u>219</u></u>	<u><u>287</u></u>

## 6. Taxation

	Unaudited		Unaudited	
	Three months		Six months	
	ended 30 June		ended 30 June	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Company and subsidiaries				
PRC income tax	10	272	11	378
	<u>10</u>	<u>272</u>	<u>11</u>	<u>378</u>
	<u><u>10</u></u>	<u><u>272</u></u>	<u><u>11</u></u>	<u><u>378</u></u>

No Hong Kong Profits tax has been provided for, as the Group had no estimated assessable profits in Hong Kong for the six months ended 30 June 2007 (2006: nil). The Company's subsidiaries are subject to PRC income tax on their assessable profits.

## 7. Dividends

The board does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (2006: Nil).

## 8. Earnings per share

The calculation of basic earnings per share for the three and six months ended 30 June 2007 is based on the unaudited net profit of approximately RMB5,829,000 and RMB6,332,000 respectively (2006: approximately RMB5,474,000 and RMB6,270,000 respectively), and the weighted average number of approximately 360,000,000 ordinary shares in issue during the period (2006: 360,000,000).

The calculation of the diluted earnings per share for the three months and six months ended 30 June 2007 is based on the unaudited net profit of approximately RMB5,829,000 and RMB6,332,000 respectively (2006: approximately RMB5,474,000 and RMB6,270,000 respectively), and the weighted average of approximately 375,900,000 shares (2006: approximately 375,900,000) (after adjusting for the effect of the outstanding dilutive options under the share option schemes of the Company).

## 9. Property, plant and equipment

During the period, the Group acquired property, plant and equipment with a carrying value of RMB245,478 (2006: RMB30,940).

## 10. Investment in associate

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
As at 1 January	3,235	4,047
Additions in investment cost	—	—
Disposal of investment	—	—
Share of associates' results	—	—
	<u>3,235</u>	<u>4,047</u>

Details of the Group's associate at 30 June 2007, which is held indirectly by the Company, are as follows:

<b>Name of associate</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Revenue</b>	<b>Profit/ (loss)</b>	<b>Interest held</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Zhejiang Dankong Venturepharm Co. Ltd.	4,966	–	–	–	45%
NovaDerm Inc.	<u>2,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>45%</u>

#### 11. Unlisted investment

	<b>The Group</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investment Outside Hong Kong	<u>9,396</u>	<u>9,396</u>

19% of shares in Hainan Pioneer Pharmaceutical Co., Ltd., were acquired in January 2004.

#### 12. Intangible assets

The intangible assets of the Group represent capitalized development cost for drug products for own commercialization and it is amortized over its estimated useful life of 5 years.

#### 13. Trade receivables

Details of the ageing analysis are as follows:

	<b>Unaudited 30 June 2007 RMB'000</b>	<b>Audited 31 December 2006 RMB'000</b>
0 to 90 days	12,576	7,529
91 to 180 days	7,454	8,752
181 to 365 days	3,339	1,393
Over 365 days	–	349
	<u>23,369</u>	<u>18,023</u>

#### 14. Connected and related party transactions

Details of amounts due from related companies are as follows:

<b>Name of company</b>	<b>Unaudited 30 June 2007 RMB'000</b>	Audited 31 December 2006 RMB'000
Sanmenxia Sino way Pharmaceutical Co., Ltd ("Sino way Pharmaceutical")	<b>688</b>	760
Venturepharm Inc. ("VP Inc.")	<b>536</b>	536
	<b><u>1,224</u></b>	<u>1,296</u>

Notes: (1) Both companies are the subsidiaries of the Company's shareholder.

(2) The amounts are unsecured, interest-free and repayable on demand.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

During the second quarter of 2007, the Group achieved a turnover of RMB17,935,000 representing an increase of approximately 152% compared with that of the first quarter of 2007.

For the period ended 30 June 2007, the Group achieved a turnover of approximately RMB25,060,000, which represented an increase of 4% as compared with the turnover of the corresponding period in 2006.

As SFDA withheld the issuance clinical studying permission in the first quarter of 2007, we only obtained 2 permits, but in the second quarter, we obtained 8 permits, which improved revenue recognition during this period.

The gross profit margin of the Group during the period under review was 41%, declining from that of 53% for the corresponding period in 2006. The decline in gross profit margin was mainly attributable to decreasing proportion from PDS, a line of service which has higher profit margin but limited revenue and profit scalability. The Group has carried out a business strategy to pay more attention to CRO business so as to keep the new product in-house for future commercialization. General and administrative expenses decreased by 34% to approximately RMB4,718,000, because the Group has cut a large sum of unnecessary or urgent expenses in this period.

For the period ended 30 June 2007, the Group recorded a profit attributable to shareholders amounted to approximately RMB6,499,000, representing an increase of 3% as compared with that of approximately RMB6,324,000 for the corresponding period in 2006.

## BUSINESS REVIEW

During the period, the Group continued to actively transform its business platform to be a full scale and integrated pharmaceutical enterprise and to emphasize on drug development, product commercialization and pipeline building.

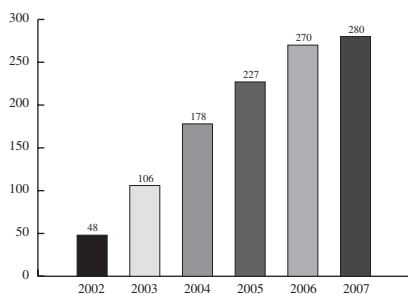
### Research and Development

The Group's portfolio covers 13 major and high growth therapeutic areas such as diabetes, CNS, cardiovascular disease, dermatology, cancer, AIDS, allergy and antibiotics.

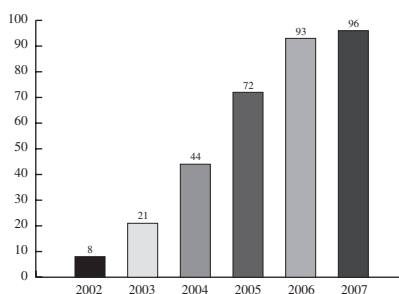
The Group's R&D strength still maintains the leading position in the industry. The Group initiated 25 new projects in the first half year of 2007 and till now has 115 products under development. During the period, the State Food and Drug Administration ("SFDA") granted 10 new Clinical Study Permits ("CSP") and 3 new Manufacturing Permits ("MP") to the Group. The total number of CSPs has climbed to 280 and the total number of MPs climbed to 96.

The following graph sets out the total number of CSPs and MPs obtained during the past years:

**Clinical Study Permit (Unit)**



**Manufacturing Permit (Unit)**



### Sales and Marketing

During the six months ended 30 June 2007, the Group successfully signed 55 PDS and CRS contracts amounting to total value of RMB43,432,000, which represented 10% increase in term of contract value compared with that of the corresponding period in 2006.

Meanwhile, the Group continued to invest in building up its marketing capacity and sales network, and launched new drug products under Venturepharm (萬全) brand name into the PRC market.

## **Patents**

The Group continued to place great emphasis on the protection of intellectual property rights during the reporting period. Up to 30 June 2007, the Group had submitted 145 patent applications.

## **PROSPECTS**

To capitalize on the opportunity of the increased demand of global R&D outsourcing market, the company has made best efforts to improve its service capacities and performance in R&D outsourcing service by providing fully integrated pharmaceutical services that include PDS (pharmaceutical Development Service), API (Active Pharmaceutical Ingredient), CRS (Contract Research Service), RAS (Regulatory Affairs Service), CMS (Contract Manufacturing Service) and CSS (Contract Sales Service).

In order to pursue its global vision and achieve size and scale of operations, it is imperative for the Company to expand its global footprint. To evaluate opportunities for acquisition of pharmaceutical assets, which, in addition to building size and scale, can expand the Company's therapeutic width by entering into new segments which are not already a part of the Company's portfolio. This will also strengthen the existing therapeutic areas.

## **DIVIDEND**

The Directors have not recommended payment of any interim dividend for the six months ended 30 June 2007.

## **SIGNIFICANT INVESTMENTS**

The Company invested its surplus fund through its principal bank in investment grade target redemption bond and such balance was RMB19,248,000 as at 30 June 2007.

## **MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARY AND ASSOCIATED COMPANIES**

No material acquisition nor material disposal of subsidiaries and associated companies were made by the Group during the reporting period.

## **CONTINGENT LIABILITIES**

As at 30 June 2007, the Group did not have any contingent liabilities.

## **CHARGE ON ASSETS**

As at 30 June 2007, the Group pledged its investment in securities of RMB19,248,000 as securities for the general banking facilities granted to the Group.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Other than those disclosed in the Company's prospectus dated 30 June 2003, the Group does not have any other plans for material investments or capital assets.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group has maintained a sound financial position and prudent liquidity risk management by maintaining sufficient cash and marketable securities. As at 30 June 2007, the Group's current assets amounted to about RMB104,697,000 of which approximately RMB4,618,000 was cash and bank deposits. The gearing ratio as measured by bank and other borrowings over total assets is 4%.

## **CAPITAL STRUCTURE**

There has not been any change to the capital structure of the Company since that date.

## **FOREIGN EXCHANGE EXPOSURE**

During the period under review, the Group's transactions were substantially denominated in Renminbi ("RMB") and about 11% of the cash and bank deposits were in either Hong Kong or United States dollars. The Directors are of the view that the Group's exposure to foreign currency exchange risk is limited and hence, the Group closely monitors its foreign currency exposure from time to time and will engage appropriate hedging activities when needed.

## **DIRECTORS' INTEREST IN SECURITIES**

As at 30 June 2007, the interests and short positions of the directors, chief executives of the Group and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have taken under such provision of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.41 to 5.49 of the GEM Listing Rules were as follows:



## Long positions in shares and underlying shares of the Company

### (1) The Company

Name	Type of interest	Capacity	Number of shares in which interested (other than under equity derivatives)	Number of shares in which interested under physically settled equity derivatives (Note 3)	Total number of shares	Approximate percentage of interest
William Xia GUO	Personal	Beneficial owner	9,110,377	8,850,000	17,960,377	4.99
William Xia GUO	Corporate	Interest of a controlled corporation (Note 1)	149,432,583	-	149,432,583	41.51
William Xia GUO	Corporate	Interest of a controlled corporation (Note 2)	15,966,073	-	15,966,073	4.44

*Note 1:* The controlled corporation, Venturepharm Holdings Inc. is 47.63% directly held by Mr. Guo Xia and 44.94% held by Mr. Guo Xia through Winsland Agents Limited, his wholly and beneficially owned company incorporated in British Virgin Islands.

*Note 2:* The controlled corporation, Bright Excel Assets Limited, is 100% beneficially owned by Venturepharm Holdings Inc.

*Note 3:* Various interests of the directors and chief executives pursuant to physically settled equity derivatives are through share options granted under the Pre-IPO share option scheme. Details of which are set forth as follows:

Name	Number of shares in which interested under physically settled equity derivatives as at 20 June 2003 and 30 June 2007	Date of Grant	Exercise price
William Xia GUO	7,200,000	20 June 2003	HK\$0.32
William Xia GUO	360,000	2 March 2005	HK\$0.52
William Xia GUO	324,000	10 August 2006	HK\$0.36
William Xia GUO	966,000	10 May 2007	HK\$0.625

Options granted to Mr. William Xia GUO contain a vesting schedule, pursuant to which may be exercise up to 30% of the underlying shares after 31 December 2003, up to another 30% of the underlying shares after 31 December 2004 and the remaining balance after 31 December 2005. These options will expire ten years after the date of grant. Mr. GUO has also undertaken to the Stock Exchange that he will not exercise his options granted under the Pre-IPO share option scheme within the first 12 months from the listing date.

(2) *A subsidiary of the Company – Beijing Dezhong-Venture Pharmaceutical Technology Development Company Limited*

<b>Name</b>	<b>Type of interest</b>	<b>Capacity</b>	<b>Capital contribution on a Sino-foreign co-operative joint venture</b>	<b>Approximate percentage of interest of shareholding in joint venture</b>
William Xia GUO	Corporate	Interest of a controlled Corporation ( <i>Note 1</i> )	US\$111,000	12.83

*Note 1:* The interest is held by Beijing Venturepharm Biotech Pharmaceutical Technology Company Limited, a limited liability company incorporated in the PRC, for which 99% of its shareholding is beneficially held by Mr. William Xia GUO and 1% held by Dr. Maria Xue-mei SONG.

Save as disclosed above, as at 30 June 2007, none of the directors and chief executive had any interests or short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the rules 5.41 to 5.49 of the GEM Listing Rules.

## **SUBSTANTIAL SHAREHOLDERS**

So far as it is known to any directors, chief executives of the Company, as at 30 June 2007, the interests and short positions of persons in the shares and underlying shares of the Company which would fall to be disclosed pursuant to Division 2 and 3 of Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein were as follows:

## Long positions in shares and underlying shares of the Company

Name	Capacity	Number of Shares	Approximate percentage of interest
Venturepharm Holdings Inc. (Note 1)	Beneficial owner	149,432,583	41.51
Venturepharm Holdings Inc. (Note 2)	Interest of a controlled corporation	15,966,073	4.44
Bright Excel Assets Limited (Note 2)	Beneficial owner	15,966,073	4.44
C Tech Fund	Beneficial owner	80,736,558	22.43
William Xia GUO (Notes 1, 2 & 3)	Beneficial owner and interest of controlled corporations	182,069,033	50.57

*Note 1:* Venturepharm Holdings Inc. is 47.63% directly held by Mr. Guo Xia and 44.94% held by Mr. Guo Xia through Winsland Agent Limited, his wholly and beneficially owned company incorporated in the British Virgin Islands.

*Note 2:* The controlled corporation, Bright Excel Assets Limited, is 100% beneficially owned by Venturepharm Holdings Inc.

*Note 3:* Apart from shares held through Venturepharm Holdings Inc., the interest of 16,310,377 shares comprising of 7,200,000 shares and 360,000 shares underlying the options granted to him under the Pre-IPO Share Option Scheme and Share Option Scheme respectively are beneficially owned by Mr. William Xia GUO.

Save as disclosed above, as at 30 June 2007, there was no other persons who recorded in the register of the Company as having interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein.

## SHARE OPTION SCHEMES

### 1. Pre-IPO Share Option Scheme

Pursuant to the written resolution passed by the shareholder on 31 March 2003, the Company adopted a share option scheme (the “Pre-IPO Share Option Scheme”) in order to recognize and reward the contribution of certain directors, senior management and advisers, the details of which are set out in the paragraph head “Share Option Scheme” in Appendix IV to the Prospectus. As at 20 June 2003, options comprising a total of 11,520,000 underlying shares were granted. As at 30 June 2007, the options outstanding are 11,520,000 and no options granted pursuant to the Pre-IPO Share Option Scheme had been exercised, cancelled or lapsed. Particulars of the outstanding options that had been granted under the Pre-IPO Share Option Scheme as at 30 June 2007 are as follows:

Name of grantees	Period during which the options remain exercisable after the date of grant	Exercise price per shares	Number of underlying shares under the option as at 20.6.2003 and 30.6.2007
William Xia GUO (Notes 1 & 2)	10 years	HK\$0.32	7,200,000
2 other participants (Notes 1 & 2)	10 years	HK\$0.32	2,520,000
1 other participant (Note 3)	10 years	HK\$0.40	1,800,000
			11,520,000

*Note 1:* Options granted to each of them contain a vesting schedule, pursuant to which may exercise up to 30 per cent of the underlying shares after 31 December 2003, (subject to Note 2), up to another 30 per cent of the underlying shares after 31 December 2004 and the balance after 31 December 2005.

*Note 2:* Each of the grantees has undertaken to the Stock Exchange that they will not exercise their options granted under the Pre-IPO Share Options Scheme within the first 12 months from the Listing Date.

*Note 3:* Options granted to an advisor contain a vesting schedule, pursuant to which may exercise up to 30 per cent of the underlying shares after 31 December 2002, up to another 30 per cent of the underlying shares after 31 December 2003 and the balance after 31 December 2004. The respective grantee has undertaken to the Stock Exchange that he will not exercise his options granted under the Pre-IPO Share Options Scheme within the first 6 months from the Listing Date.

## 2. Share Option Scheme

Pursuant to the written resolutions by the shareholders of the Company on 23 May 2003, the Company adopted a new share option scheme.

As at 2 March 2005, options comprising a total of 4,042,000 underlying shares were granted. As at 30 June 2007, the options outstanding are 1,892,000 and 2,150,000 options granted pursuant to the Share Option Scheme had been cancelled or lapsed. Particulars of the outstanding options which have been granted under the Share Option Scheme as at 30 June 2007 are as follows:

<b>Name of grantees</b>	<b>Period during which the options remain exercisable after the date of grant</b>	<b>Exercise price per shares</b>	<b>Number of underlying shares under the option at 2.3.2005 and 30.6.2007</b>
William Xia GUO	10 years	HK\$0.52	360,000
Other directors	10 years	HK\$0.52	720,000
Other participant	10 years	HK\$0.52	812,000
			1,892,000

As at 14 December 2005, options comprising a total of 1,098,000 underlying shares were granted. As at 30 June 2007, the options outstanding are 288,000 and 810,000 options granted pursuant to the Share Option Scheme had been cancelled or lapsed. Particulars of the outstanding options which have been granted under the Share Option Scheme as at 30 June 2007 are as follows:

<b>Name of grantees</b>	<b>Period during which the options remain exercisable after the date of grant</b>	<b>Exercise price per shares</b>	<b>Number of underlying shares under the option at 14.12.2005 and 30.6.2007</b>
4 participants	10 years	HK\$0.45	288,000
			<u>288,000</u>

As at 10 August 2006, options comprising a total of 4,118,400 underlying shares were granted. As at 30 June 2007, the options outstanding are 3,708,000 and 410,400 options granted pursuant to the Share Option Scheme had been cancelled or lapsed. Particulars of the outstanding options which have been granted under the Share Option Scheme as at 30 June 2007 are as follows:

<b>Name of grantees</b>	<b>Period during which the options remain exercisable after the date of grant</b>	<b>Exercise price per shares</b>	<b>Number of underlying shares under the option at 10.8.2006 and 30.6.2007</b>
William Xia GUO	10 years	HK\$0.36	324,000
Other directors	10 years	HK\$0.36	792,000
4 participants	10 years	HK\$0.36	2,592,000
			<u>3,708,000</u>

As at 10 May 2007, options comprising a total of 7,568,000 underlying shares were granted. As at 30 June 2007, the options outstanding are 7,568,000 and no options granted pursuant to the Share Option Scheme had been exercised, cancelled or lapsed. Particulars of the outstanding options which have been granted under the Share Option Scheme as at 30 June 2007 are as follows:

<b>Name of grantees</b>	<b>Period during which the options remain exercisable after the date of grant</b>	<b>Exercise price per shares</b>	<b>Number of underlying shares under the option at 10.5.2006 and 30.6.2007</b>
William Xia GUO	10 years	HK\$0.625	966,000
Other directors	10 years	HK\$0.625	956,000
Other participants	10 years	HK\$0.625	5,646,000
			7,568,000

## **COMPETING INTERESTS**

As at 30 June 2007, none of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business that competes or may compete with the business of the Group.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed shares during the six months ended 30 June 2007.

## **CORPORATE GOVERNANCE**

### **(1) Corporate governance practices**

The Company applied the principles and fully complied with the Code Provision as set out in Appendix 15 of the GEM Listing Rules ("CG Code") with certain deviations save as disclosed in respect of (1) the roles of chairman and chief executive officer and (2) the remuneration committee. The following summarizes the Company's corporate governance practices and explains deviations, if any, from the CG Code.

**(2) Directors' securities transactions**

The Company has adopted the Company Code for Securities Transactions by Directors of Listed Issuers in compliance with the provisions that are set out in the GEM Listing Rules as its own code of conduct for Directors' dealings of securities since 29 June 2005. Specific enquiries have been made with all Directors and the Directors confirmed that they have complied with the required standard set out in the Company Code in the period from 1 January 2007 to 30 June 2007.

**(3) Chairman and chief executive officer**

Chairman of the Board is responsible for the leadership and effective running of the Board, and ensures that all keys and appropriate issues are discussed by the Board in a timely and constructive manner.

However, the Chief Executive of the Company has not yet been appointed. Currently, the day-to-day management of the Company's business is handled by the executive directors and senior management, who take the responsibility to run the Group's business and to implement the Group's strategy so as to achieve the overall commercial objectives of the Company.

In order to comply with CG Code, the Directors will discuss the appointment of a chief executive Officer as soon as possible.

**(4) Board practice and procedures**

During the period from the date of listing to 30 June 2007, the Company has been in compliance with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

**(5) Audit committee**

The audit committee was established with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and internal control system of the Group and provide advice and comments to the Board. The audit committee has three members comprising the three Independent Non-Executive Directors, Mr. WANG Hong Bo, Mr. Paul CONTOMICHALOS and Mr. WU Ming Yu. Mr. WANG Hong Bo is the chairman of the audit committee.



The company's financial statements for the six months ended 30 June 2007 have been reviewed by the audit committee.

**(6) Directors' acknowledgement of their responsibility for the financial statements**

The Directors acknowledge that they take full responsibility in the preparation of the financial statements.

By Order of the Board  
**William Xia Guo**  
*Chairman*

Beijing, the PRC, 9 August 2007

*Executive Directors:*

William Xia GUO  
Maria Xuemei SONG

*Non-Executive Directors:*

FENG Tao  
WU Xin  
Nathan Xin ZHANG

*Independent Non-Executive Directors:*

WANG Hong Bo  
Paul CONTOMICHALOS  
WU Ming Yu