



**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 2008**

\* for identification only

**INTERIM REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**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 report, 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 2008, together with the comparative figures.

### FINANCIAL HIGHLIGHTS

1. The Group achieved a turnover of approximately RMB17,359,000 for the six months ended 30 June 2008, representing a decrease of approximately 30.7% compared with that of the corresponding period in 2007.
2. The Group accomplished a net profit of approximately RMB122,000 for the six months ended 30 June 2008, representing a sharp decrease compared with RMB6,332,000 in the corresponding period in 2007.
3. Basic earning per share amounted to RMB0.03 cents for the six months ended 30 June 2008.
4. The Directors do not recommend payment of any interim dividend for the six months ended 30 June 2008.
5. During the period, the company acquired 43.65% of issued and outstanding shares of commonwealth Biotechnologies Inc., a NASDAQ listed company.
6. During the period, the Group has expanded its Drug R&D Service Center for additional 20,000 square meters. Acesys Pharmatech, a Nanjing based global drug discovery service company with around 70 chemists, became part of the group to form the Chemical Drug Discovery unit.

\* for identification only

## CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Unaudited		Unaudited	
		Three months ended		Six months ended	
		30 June		30 June	
		2008	2007	2008	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	<b>8,124</b>	17,935	<b>17,359</b>	25,060
Cost of sales		<b>(3,241)</b>	(9,925)	<b>(9,042)</b>	(14,298)
Gross profit		<b>4,883</b>	8,010	<b>8,317</b>	10,762
Other revenue		<b>1,279</b>	409	<b>1,969</b>	887
Administrative expenses		<b>(1,097)</b>	(2,108)	<b>(3,951)</b>	(4,718)
Profit from operations		<b>5,065</b>	6,311	<b>6,335</b>	6,931
Finance costs		<b>(5,113)</b>	(103)	<b>(6,213)</b>	(219)
<b>PROFIT BEFORE TAXATION</b>	5	<b>(48)</b>	6,208	<b>122</b>	6,712
Income tax	6	<b>0</b>	(379)	<b>0</b>	(380)
Profit for the year		<b>(48)</b>	5,829	<b>122</b>	6,332
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the Company		<b>76</b>	5,927	<b>251</b>	6,499
Minority interests		<b>(124)</b>	(98)	<b>(129)</b>	(167)
		<b>(48)</b>	5,829	<b>122</b>	6,332
Earnings per share (cent)	8				
– basic		–	1.62	<b>0.03</b>	1.76
– diluted		–	1.55	<b>0.03</b>	1.68

## CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	9	11,659	11,267
Available for sales financial assets		–	–
Interest in associates	10	29,515	833
Unlisted investment		–	–
New drugs technology	11	6,583	6,958
		<u>47,757</u>	<u>19,058</u>
<b>Current assets</b>			
Work-in-progress		84,991	66,503
Trade receivables	12	24,593	30,721
Other receivables, deposits and prepayments		30,206	34,841
Amounts due from related companies	13	625	629
Financial assets at fair value through profit or loss		35,452	72,409
Cash and cash equivalents		25,758	30,803
		<u>201,625</u>	<u>235,906</u>
<b>Current liabilities</b>			
Trade payables		761	285
Accruals and other payables		1,807	5,237
Receipt in advance		11,525	24,207
Dividend payable		–	–
Interest-bearing borrowings		–	–
Tax payable		7,169	6,060
Bank overdraft		–	3
		<u>21,262</u>	<u>35,792</u>
<b>Net current assets</b>		<u>180,363</u>	<u>200,114</u>
<b>Total assets less current liabilities</b>		<u>228,120</u>	<u>219,172</u>
<b>Non-current liabilities</b>			
Corporate bonds payables		101,332	95,936
<b>Net assets</b>		<u>126,788</u>	<u>123,236</u>
<b>Capital and reserves</b>			
Share capital		38,356	38,160
Reserves		85,969	82,484
Total equity attributable to equity shareholders of the Company		<u>124,325</u>	<u>120,644</u>
<b>Minority interests</b>		<u>2,463</u>	<u>2,592</u>
<b>Total equity</b>		<u>126,788</u>	<u>123,236</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash used in operating activities	(7,849)	(5,032)
Net cash used in investing activities	12,894	(597)
Net cash generated from financing activities	0	26
Net decrease in cash and cash equivalents	(5,045)	(5,603)
Cash and cash equivalents at beginning of the period	<u>30,803</u>	<u>10,221</u>
Cash and cash equivalents at end of the period	<u><u>25,758</u></u>	<u><u>4,618</u></u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share- based payment reserve	Available- for-sales financial assets reserve	Special reserve	Capital reserve	Statutory reserve	Statutory fund expansion	Retained earnings	Minority interest	Total
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>
At 1 January 2008	38,160	2,853	-	6,039	900	3,803	6,986	61,903	2,592	123,236
Issue of new shares by the Company	196	-	-	-	3,234	-	-	-	-	3,430
Profit for the period	-	-	-	-	-	-	-	251	(129)	122
At 30 June 2008	<u>38,356</u>	<u>2,853</u>	<u>-</u>	<u>6,039</u>	<u>4,134</u>	<u>3,803</u>	<u>6,986</u>	<u>62,154</u>	<u>2,463</u>	<u>126,788</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 2007.

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 2008. 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 and revenue

The Group is principally engaged in the research, development and commercialization of drug products. Entering into 2008, 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	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
– Transfer of technology for new drug and new drug development.	1,276	3,065	456	3,961
– Contracted pharmaceutical development and clinical research services associated with technology transfer	1,786	6,391	9,007	10,239
– Contracted pharmaceutical development and clinical research services outsourced by customers	4,810	8,136	6,822	10,046
– Royalty income	250	250	1,040	600
– Active pharmaceutical ingredient	2	93	34	214
	<u>8,124</u>	<u>17,935</u>	<u>17,359</u>	<u>25,060</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 ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	385	165	617	333
Less: amount capitalized in work-in-progress	0	0	0	0
	<b>385</b>	165	<b>617</b>	333
Provision against the receivables	0	0	0	0
Amortization of intangible assets	187	161	374	333
Finance cost	5,113	117	6,213	219
	<b>5,505</b>	282	<b>12,804</b>	585

## 6. Taxation

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2008	2007	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Company and subsidiaries				
PRC income tax	0	10	0	11
	<b>0</b>	10	<b>0</b>	11

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 2008 (2007: 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 2008 (2007: Nil).

## 8. Earnings per share

The calculation of basic earnings per share for the three and six months ended 30 June 2008 is based on the unaudited net profit of approximately RMB-48,000 and RMB122,000 respectively (2007: approximately RMB5,829,000 and RMB6,332,000 respectively), and the weighted average number of approximately 362,404,564 ordinary shares in issue during the period (2007: 360,000,000).

The calculation of the diluted earnings per share for the three months and six months ended 30 June 2008 is based on the unaudited net profit of approximately RMB-48,000 and RMB122,000 respectively (2007: approximately RMB5,829,000 and RMB6,332,000 respectively), and the weighted average of approximately 383,809,564 shares (2007: approximately 381,405,000) (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 RMB392,071 (2007: RMB245,478).

## 10. Investment in associate

	Unaudited Six months ended 30 June	
	RMB'000	RMB'000
As at 1 January	833	3,235
Additions in investment cost	28,682	–
Disposal of investment	–	(2,235)
Impairment of investment	–	(167)
Share of associates' results	–	–
	<u>29,515</u>	<u>833</u>

Details of the Group's associate at 30 June 2008, which is held indirectly by the Company, are as follows:

Name of associate	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Profit/ (loss) RMB'000	Interest held RMB'000
Commonwealth Biotechnologies Inc.	123,086	–	–	–	43.65%
NovaDerm Inc.	<u>2,081</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>40%</u>

During the period, the company acquired 43.65% of issued and outstanding shares of Commonwealth Biotechnologies Inc.

## 11. 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.

## 12. Trade receivables

Details of the ageing analysis are as follows:

	<b>Unaudited</b> <b>30 June</b> <b>2008</b> <i>RMB'000</i>	Audited 31 December 2007 <i>RMB'000</i>
0 to 30 days	2,748	14,815
31 to 60 days	9,552	2,676
61 to 90 days	2,142	4,353
91to 180 days	3,484	–
Over 180 days	7,027	8877
	<u>24,593</u>	<u>30,721</u>

## 13. Connected and related party transactions

Details of amounts due from related companies are as follows:

<b>Name of company</b>	<b>Unaudited</b> <b>30 June</b> <b>2008</b> <i>RMB'000</i>	Audited 31 December 2007 <i>RMB'000</i>
Sanmenxia Sino way Pharmaceutical Co., Ltd ("Sino way Pharmaceutical")	636	636
Venturepharm Inc. ("VP Inc.")	(11)	(12)
Hanzhong Venturepharm Pharm Chemical Company	–	5
	<u>625</u>	<u>629</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

For the period ended 30 June 2008, the Group achieved a turnover of approximately RMB17,359,000, which represented a decrease of 31% as compared with the turnover of the corresponding period in 2007. The reasons were as follows: 1. Since the new regulation put into effect on 1 October 2007, SFDA has further enhanced the supervision and the quality requirement of all steps in new drug R&D. Administrative Provisions of Drug Registration on-site Verification officially issued in May 2008 by SFDA has strictly required the on-site supervision for clinical trials and dynamic manufacturing site of products which has got approval of marketing to ensure the uniformity of registered technique processing and large scale technique process for marketing. Most companies would not initiate clinical trials immediately after obtaining clinical trials license as before. However, they need to develop processing technique in advance to confirm the manufacturing processing and produce samples for clinical trials with the confirmed manufacturing processing. For this reason, the start time of clinical trials for the companies who has got clinical trials license would delay for several months and the new contracts of domestic clinical research decreases. 2. For the same reason, the domestic clients prefer to consider the inspection of technique processing and on-site verification of dynamic manufacturing for products with marketing approval while introducing projects. When transferring technique processing, it should comply with the requirement and condition of large-scale manufacturing to guarantee the smooth progress of clinical trials and the uniformity of registered technique processing and large scale technique process for marketing. There is more difficulty for new drug transferring. 3. National large scale inspection started from 2006 exerted great impact on drugs applied from 2005. About 24,000 applications have been listed in to special work group for retained drugs in transition period and would be collectively handled with by specialists from all majors. The evaluation of all delayed applications will be finished during September to December 2008 and a series of licenses are expected to be issued in the late half year. It would be assumed that after the reformation, the company which stands the test would grow greatly.

For the period ended 30 June 2008, the gross profit margin of the Group during the period under review was 48%, increasing from that of 43% for the corresponding period in 2007. The Group recorded a profit attributable to shareholders amounted to approximately RMB122,000, representing a sharp decrease compared with that of approximately RMB6,332,000 for the corresponding period in 2007.

## BUSINESS REVIEW

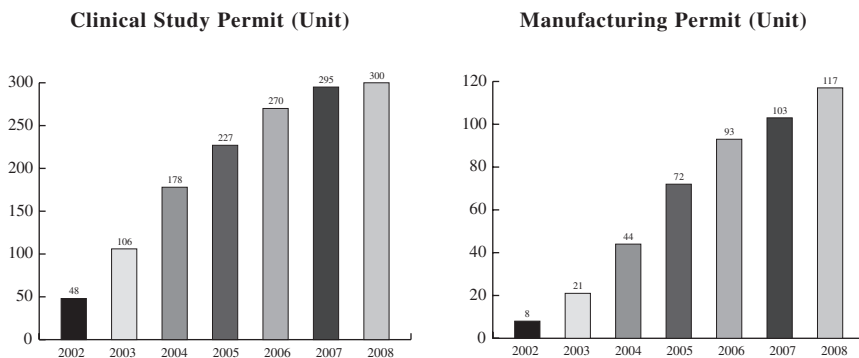
During the period, the Group continued to actively transform its business platform to be a full scale and integrated pharmaceutical enterprise and to emphasize on drug development, product commercialization and pipeline building.

### Business Highlights

1. The group becomes the first Chinese company to acquire a NASDAQ listed US biotech company. The group has acquired 43.65% of the issued and outstanding shares of Commonwealth Biotechnologies Inc (CBI), a NASDAQ listed company, and become the largest shareholder of CBI. The companies of CBI-biotech, Exelgen (tripoles) and Mimotopes are all world respected leaders in the fields of drug discovery, chemistry and peptide, respectively. After the acquisition of Venturepharm, CBI could continue providing World Class R&D services in global life science industry with low cost in China.
2. Acesys Phamatech, a Nanjing based global drug discovery service company with around 70 chemists, has become part of the group to form the Chemical Drug Discovery unit.
3. The group has expanded its Drug R&D Service Center by adding 20,000 square meters space to support CBI's China operation.
4. Company still stands as the No. 1 in New Drug Application in the first half of the year (Statistics from China SFDA).

The Group has initiated 10 new projects in the first half of the year of 2008, and till now has 238 products under development. During the period, SFDA has granted 5 new Clinical Study Permits ("CSP") and 14 new Manufacturing Permits ("MP") to the Group. The total number of CSPs has reached 300 and the total number of MPs has climbed up to 117 and the Group had submitted 226 patent applications.

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



## **Sales and Marketing**

During the six months ended 30 June 2008, the Group successfully signed 28 PDS and VPS contracts amounting to total value of RMB21,764,000, which represented 50% decrease in term of contract value compared with that of the corresponding period in 2007.

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 2008, the Group had submitted 226 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).

The Group is actively pursuing the strategy of growth through both organic and inorganic means.

During the period, the company acquired 43.65% of issued and outstanding shares of commonwealth Biotechnologies Inc., a NASDAQ listed company. The businesses of the company and that of CBI are complementary to each other, which will increase the potential to offer in the pharmaceutical outsourcing industry. Through acquisition of CBI, the company would be able to strengthen its R&D, enter into new segment of the industry and complement its geographical expansion. The mission of the company is to be a global player in the pharmaceutical industry.

## **DIVIDEND**

The Directors have not recommended payment of any interim dividend for the six months ended 30 June 2008.

## **SIGNIFICANT INVESTMENTS**

The Company invested its surplus fund through its principal bank in investment market funds, which was RMB35,452,000 as at 30 June 2008.

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

During the reporting period, the company acquired 43.65% of issued and outstanding shares of Commonwealth Biotechnologies Inc., a NASDAQ listed company. For more information, please refer to the Circular of the Company dated 27 June 2008, published on the website of Hong Kong stock exchange.

## **CONTINGENT LIABILITIES**

As at 30 June 2008, the Group did not have any contingent liabilities.

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

Other than those disclosed in the Company's public announcements, 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 2008, the Group's current assets amounted to about RMB201,625,000 of which approximately RMB25,758,000 was cash and bank deposits. The Group had no short-term bank liabilities and maintained sufficient cash and a strong and sound financial position.

## **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"). In view of the RMB appreciation trend, the Group engaged in risk-free value-added banking activities in due course and transferred its USD-denominated businesses to RMB-denominated businesses according to the relevant business scale. Meanwhile, the Group has assets and liabilities in foreign currencies, which affect the income and balance statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2008.



## DIRECTORS' INTEREST IN SECURITIES

As at 30 June 2008, 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	8,244,000	17,354,377	4.68
William Xia GUO	Corporate	Interest of a controlled corporation (Note 1)	149,432,583	–	149,432,583	41.23
William Xia GUO	Corporate	Interest of a controlled corporation (Note 2)	15,966,073	–	15,966,073	4.41

*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		Date of grant	Exercise price
	as at 20 June 2003	and 30 June 2008		
William Xia GUO		7,200,000	20 June 2003	HK\$0.32
William Xia GUO		360,000	11 November 2004	HK\$0.52
William Xia GUO		360,000	14 December 2005	HK\$0.45
William Xia GUO		324,000	10 August 2006	HK\$0.36

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*

Name	Type of interest	Capacity	Capital contribution on a Sino-foreign co-operative joint venture	Approximate percentage of interest of shareholding in joint venture
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 2008, 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 2008, 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	41.23
Venturepharm Holdings Inc. (Note 2)	Interest of a controlled corporation	15,966,073	4.41
Bright Excel Assets Limited (Note 2)	Beneficial owner	15,966,073	4.41
C Tech Fund	Beneficial owner	80,736,558	22.28
William Xia GUO (Notes 1, 2 & 3)	Beneficial owner and interest of controlled corporations	182,069,033	50.23

*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 2008, 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 2008, 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 2008 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 30.6.2008
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 2008, 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 2008 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 as at 2.3.2005 and 30.6.2008</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 2008, the options outstanding are 648,000 and 450,000 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 2008 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 as at 14.12.2005 and 30.6.2008</b>
William Xia GUO	10 years	HK\$0.45	360,000
4 participants	10 years	HK\$0.45	288,000
			<u>648,000</u>

As at 10 August 2006, options comprising a total of 4,118,400 underlying shares were granted. As at 30 June 2008, 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 2008 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 as at 10.8.2006 and 30.6.2008</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 31 December 2007, the options outstanding are 6,805,200 and 762,800 options granted pursuant to this Share Option Scheme had been cancelled or lapsed. Particulars of the outstanding options which have been granted under this Share Option Scheme as at 31 December 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 as at 10.5.2007 and 30.6.2008</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	4,883,200
			6,805,200

## **COMPETING INTERESTS**

As at 30 June 2008, 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.

## **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 the roles of chairman and chief executive officer.

### **(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 2008 to 30 June 2008.

**(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 2008, 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 2008 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, 13 August 2008

*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