



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

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

(Stock Code: 8225)

**Third Quarterly Report 2008**

\* for identification only

**THIRD QUARTERLY REPORT  
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008**

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

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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 nine months ended 30 September 2008, together with the comparative figures.

### FINANCIAL HIGHLIGHTS

1. The Group achieved a turnover of approximately RMB29,787,000 for the nine months ended 30 September 2008, representing a decrease of approximately 2% compared with that of the corresponding period in 2007.
2. The Group accomplished a net profit of approximately RMB416,000 and gross profit 14,044,000 for the nine months ended 30 September 2008, which representing a decrease of approximately 89% and an increase of 21% compared with the corresponding period in 2007 respectively. The main contribution of the net profit is the currency exchange rate.
3. The Directors do not recommend payment of any interim dividend for the nine months ended 30 September 2008.
4. Company still stands as the No.1 in New Drug Application in the first 3 quarters of the year (Statistics from China SFDA).

\* for identification only

## CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2008	2007	2008	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	12,428	5,409	29,787	30,469
Cost of sales		<u>(6,701)</u>	<u>(3,859)</u>	<u>(15,743)</u>	<u>(18,853)</u>
Gross profit		5,727	1,550	14,044	11,616
Other revenue		391	1,092	2,360	1,979
Administrative expenses	4	<u>(8,687)</u>	<u>(4,182)</u>	<u>(12,638)</u>	<u>(8,900)</u>
Profit from operations		(2,569)	(1,541)	3,766	4,694
Finance costs		<u>2,863</u>	<u>(667)</u>	<u>(3,350)</u>	<u>(886)</u>
<b>PROFIT BEFORE TAXATION</b>	5	<b>294</b>	(2,208)	<b>416</b>	3,808
Income tax	6	<u>0</u>	<u>37</u>	<u>0</u>	<u>26</u>
Profit for the year		<u><b>294</b></u>	<u>(2,171)</u>	<u><b>416</b></u>	<u>3,834</u>
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the Company		351	(1,969)	602	4,203
Minority interests		<u>(57)</u>	<u>(203)</u>	<u>(186)</u>	<u>(370)</u>
		<u><b>294</b></u>	<u>(2,171)</u>	<u><b>416</b></u>	<u>3,834</u>
Earnings per share (cent)	8				
– basic		0.10	(0.55)	0.17	1.17
– diluted		0.09	N/A	0.16	1.12

## CONSOLIDATED BALANCE SHEET

		<b>Unaudited 30 September 2008 RMB'000</b>	Audited 31 December 2007 RMB'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	9	11,782	11,267
Available for sales financial assets		–	–
Interest in associates	10	28,369	833
Unlisted Investment		–	–
New drugs technology	11	6,183	6,958
		<u>46,334</u>	<u>19,058</u>
<b>Current assets</b>			
Work-in-progress		70,805	66,503
Trade receivables		28,439	30,721
Other receivables, deposits and prepayments		48,710	34,841
Amounts due from related companies	12	625	629
Financial assets at fair value through profit or loss		38,792	72,409
Cash and cash equivalents		5,744	30,803
		<u>193,115</u>	<u>235,906</u>
<b>Current liabilities</b>			
Trade payables		1,117	285
Accruals and other payables		7,177	5,237
Receipt in advance		11,781	24,207
Dividend payable		–	–
Interest-bearing borrowings		–	–
Tax payable		584	6,060
Bank overdraft		5	3
		<u>20,664</u>	<u>35,792</u>
<b>Net current assets</b>		<u>172,451</u>	<u>200,114</u>
<b>Total assets less current liabilities</b>		<u>218,785</u>	<u>219,172</u>
<b>Non-current liabilities</b>			
Corporate bonds payables		91,712	95,936
<b>Net assets</b>		<u>127,073</u>	<u>123,236</u>
<b>Capital and reserves</b>			
Share capital		38,356	38,160
Reserves		86,320	82,484
Total equity attributable to equity shareholders of the Company		124,676	120,644
<b>Minority interests</b>		2,397	2,592
<b>Total equity</b>		<u>127,073</u>	<u>123,236</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

		<b>Unaudited</b>	
		<b>Nine months ended</b>	
		<b>30 September</b>	
	<i>Notes</i>	<b>2008</b>	2007
		<b>RMB'000</b>	<b>RMB'000</b>
Net cash used in operating activities		<b>3,106</b>	(10,575)
Net cash used in investing activities		<b>(24,889)</b>	403
Net cash generated from financing activities		<b>(3,276)</b>	93,286
Net decrease in cash and cash equivalents	<i>13</i>	<b>(25,059)</b>	83,114
Cash and cash equivalents at beginning of the period		<u><b>30,803</b></u>	<u>10,221</u>
Cash and cash equivalents at end of the period		<u><b>5,744</b></u>	<u>93,335</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share- based payment reserve	Available-	Special reserve	Capital reserve	Statutory reserve	Statutory 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 2007	38,160	53	(1,032)	6,039	894	3,803	6,986	64,144	3,089	122,136
Profit for the period	-	-	-	-	-	-	-	4,203	(370)	3,834
At 30 September 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>68,347</u>	<u>2,719</u>	<u>125,970</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
Reversal of share based payment reserve	-	-	-	-	-	-	-	-	(9)	(9)
Profit for the period	-	-	-	-	-	-	-	602	(186)	416
At 30 September 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>62,505</u>	<u>2,397</u>	<u>127,073</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) HKAS 34 Interim Financial Reporting. In addition, the financial statements comply with the applicable disclosure provisions of Rule 18, 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 September 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 of international outsourcing market. Revenues recognized during the periods were as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Turnover				
– Transfer of technology for new drug and new drug development	2,099	15	3,375	3,976
– Contracted pharmaceutical development and clinical research services associated with technology transfer	2,493	1,650	11,090	11,889
– Contracted pharmaceutical development and clinical research services outsourced by customers	7,232	3,708	13,644	13,754
– Royalty income	596	–	1,636	600
– Active pharmaceutical ingredient	8	36	42	250
	<u>12,428</u>	<u>5,409</u>	<u>29,787</u>	<u>30,469</u>

### 4. Administrative expenses

The administrative expenses increased approximately 42% compared with that of the corresponding period in 2007. The mainly influences were the legal charge during purchasing of CBI and the increasing of expenses due to the expanding of business.

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Administrative expenses	<u>8,687</u>	<u>4,182</u>	<u>12,638</u>	<u>8,900</u>

## 5. Profit before taxation

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

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2008	2007	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	525	142	1,142	475
Less: amount capitalized in work-in-progress	—	—	—	—
	525	142	1,142	475
Provision against the receivables	—	—	—	—
Amortization of intangible assets	401	102	775	435
Finance cost	(2,863)	667	3,350	886
	<u>525</u>	<u>142</u>	<u>1,142</u>	<u>475</u>

## 6. Taxation

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	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	—	(37)	—	(26)
	—	(37)	—	(26)

No Hong Kong Profits tax has been provided for, as the Group had no estimated assessable profits in Hong Kong for the nine months ended 30 September 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 nine months ended 30 September 2008 (2007: Nil).

## 8. Earnings per share

The calculation of basic earnings per share for the three and nine months ended 30 September 2008 is based on the unaudited net profit of approximately RMB602,000 and RMB351,000 respectively (2007: approximately RMB-1,969,000 and RMB4,203,000 respectively), and the weighted average number of approximately 362,806,664 ordinary shares in issue during the period (2007: 360,000,000).

The calculation of the diluted earnings per share for the three months and nine months ended 30 September 2008 is based on the unaudited net profit of approximately RMB602,000 and RMB351,000 respectively (2007: approximately RMB-1,969,000 and RMB4,203,000 respectively), and the weighted average of approximately 384,211,664 shares (2007: 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 RMB1,656,726 (2007: RMB56,938).

## 10. Investment in associate

	Unaudited nine months ended 30 September	
	2008	2007
	RMB'000	RMB'000
As at 1 January	833	3,235
Additions in investment cost	27,536	–
Disposal of investment	–	(2,235)
Impairment of Investment	–	(167)
Share of associates' results	–	–
	<u>28,369</u>	<u>833</u>

Details of the Group's associate at 30 September 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.	116,824	–	–	–	43.65%
NovaDerm Inc.	2,081	–	–	–	40%

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. Connected and related party transactions

Details of amounts due from related companies are as follows:

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

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

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

## 13. Net decrease in cash and cash equivalents

The dramatically changing of cash flow compared to the corresponding period in 2007 was due to the different business occurred during the periods. In the period of 2007, the group issued convertible bonds for financing, and in the period of 2008, the group purchased 43.65% of CBI shares (listed in U.S.A.) for investment. Besides, the Group paid the interests of the bond in the current period.

	Unaudited	
	Nine months ended 30 September 2008 RMB'000	2007 RMB'000
Net decrease in cash and cash equivalents	<u><b>(25,059)</b></u>	<u><b>83,114</b></u>

## 14. 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the period ended 30 September 2008, the Group achieved a turnover of approximately RMB29,787,000, which represented a decrease of 2% as compared with the turnover of the corresponding period in 2007. Although the turnover of these 9 months is still lower than the same period of 2007, but it has approved a lot compare with the first 2 quarters this year. The main reasons may as follows: (1) Since the new regulation took into action on 1 October 2007, SFDA has been enforcing its supervisory control over every development stages of new drugs and the quality control. In particular, in May 2008, SFDA announced “regulation of drug registration site inspection and management”. The regulation put great emphasis on clinical site inspection and on-processing manufacture site inspection, in order to assure the CMC consistency between the one filed with the registration application and the one post-approval. Many companies therefore rather focus on making sure the technique/processing of mass production and testing samples for clinical use, than start clinical operation right after the CTA approval. Therefore, many clinical trials that were to star after the CTA approval are put of for likely a period of months. This is the reason of reduced number of clinical project contracts domestically. (2) For a similar reason, companies who do technology transfer, or licensing-in will need take further effort making regulatory compliance, e.g., the CMC evaluation, the pre-approval manufacture site inspection, and the compatibility with the mass production before transfer deal to be made, in order to make regulatory compliances with regard to the CMC consistency between the one by which the drug samples are made for clinical study and post-registration production. Therefore the technology transfer and licensing-in projects become more difficult and hence, slow moving. (3) The 2006 nationwide evaluation has made considerable impact on the industry, in particular on the application filed during 2005. About 24,000 applications are currently classified into “Applications in the transitional period by special task group”. Applications of this class will be reviewed in consolidation, by experts from various scientific and therapeutic areas. By the end of September, almost half of the applications had been finished evaluation, the rate of pass through of our company is much higher since our best quality, thus the turnover of technology transfer and service this quarter is high than the last quarter. After the application passing for all sorts of products, we can expect that in the next quarter and next year, the revenue will increase comparatively. (4) The development of global business is gaining more and more successful cases recently, the percentage of global clients is much higher than before. It is, therefore, likely in the last quarter this year and the coming next year, there will be more approvals granted, and hence, the companies who are positioned and managed well through this difficult downward period will see considerable growths consequently.

For the period ended 30 September 2008, the gross profit margin of the Group during the period under review was 47%, increasing from that of 38% for the corresponding period in 2007.

The Group recorded a profit attributable to shareholders amounted to approximately RMB602,000, representing a decrease of approximately 86% compared with that of approximately RMB4,203,000 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.

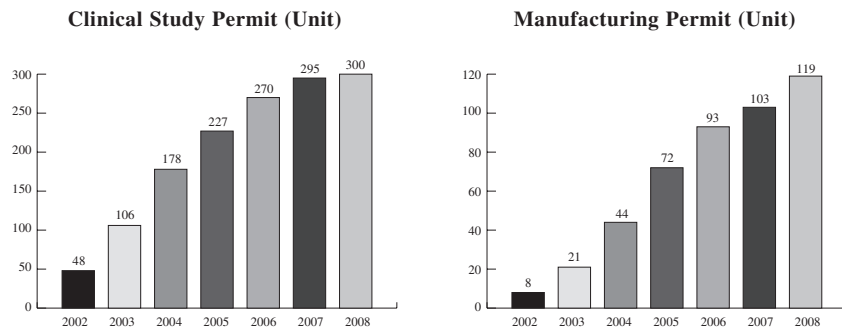
### **Business Highlights**

The group is transferring from drug development company into an Asia based, life science leader with principal activities in a most affordable world-class innovative full service plus model from venture capital, merchant banking, CRO, CMO, CSO, compound partnering to royalty sharing. The group now operates eight distinct business units (1) CBI (US) /CBI (China) services: core biology and biochemistry, (2) Fairfax Identity Laboratories, genetic testing and identification; (3) Mimotopes (Aus)/Mimotopes (China) for peptide Chemistry & discovery, (4) Tripos Discovery for discovery chemistry and compounds, (5) VPSCRO for global clinical, preclinical and regulatory affair service in China, (6) VP-API a group focus active pharmaceutical ingredient development with 7 technology platforms, (7) VP-Smart-DDS, a group focus on intelligent drug delivery technology. (8) Venturepharm life Capital, the group's merchant banking and investment group.

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. The group has expanded its Drug R&D Service Center by adding 20,000 square meters space to support CBI's China operation.
3. Company still stands as the No.1 in New Drug Application in the nine month of the year (Statistics from China SFDA).

The Group has initiated 10 new projects in the past nine months of 2008, and till now has 238 products under development. During the period, SFDA has granted 5 new Clinical Study Approval ("CA") and 16 new Manufacturing Approval ("MP") to the Group. The total number of CAs has reached 300 and the total number of MAs has climbed up to 119 and the Group had submitted 244 patent applications.

The following graph sets out the total number of CAs and MAs obtained during the past years:



### Sales and Marketing

During the nine months ended 30 September 2008, the Group successfully signed 33 PDS and VPS contracts amounting to total value of RMB23,372,000.

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 September 2008, the Group had submitted 244 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 nine months ended 30 September 2008.

## **SIGNIFICANT INVESTMENTS**

The Company invested its surplus fund through its principal bank in investment market funds, which was RMB38,792,000 as at 30 September 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 HK stock exchange.



## **CONTINGENT LIABILITIES**

As at 30 September 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 September 2008, the Group's current assets amounted to about RMB193,115,000 of which approximately RMB5,744,000 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 significant 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 nine months ended 30 September 2008.

## DIRECTORS' INTEREST IN SECURITIES

As at 30 September 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) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) pursuant to Rules 5.46 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	40.27
William Xia GUO	Corporate	Interest of a controlled corporation (Note 2)	15,966,073	–	15,966,073	4.30

*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 September 2008			Date of grant	Exercise price
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 September 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) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) pursuant to the rules 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

So far as it is known to any directors, chief executives of the Company, as at 30 September 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	41.19
Venturepharm Holdings Inc. (Note 2)	Interest of a controlled corporation	15,966,073	4.40
Bright Excel Assets Limited (Note 2)	Beneficial owner	15,966,073	4.40
William Xia GUO (Note 1, 2 & 3)	Beneficial owner and interest of controlled corporations	182,069,033	49.07

*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 September 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 September 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 September 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 30.9.2008
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 September 2008, the options outstanding are 1,848,000 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 September 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 at 2.3.2005 and 30.9.2008</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	<u>768,000</u>
			<u><u>1,848,000</u></u>

As at 14 December 2005, options comprising a total of 1,098,000 underlying shares were granted. As at 30 September 2008, the options outstanding are 619,200 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 September 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 at 14.12.2005 and 30.9.2008</b>
William Xia GUO	10 years	HK\$0.45	360,000
4 participants	10 years	HK\$0.45	<u>259,200</u>
			<u><u>619,200</u></u>

As at 10 August 2006, options comprising a total of 4,118,400 underlying shares were granted. As at 30 September 2008, the options outstanding are 3,435,900 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 September 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 at 10.8.2006 and 30.9.2008</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	<u>2,319,900</u>
			<u><u>3,435,900</u></u>

As at 10 May 2007, options comprising a total of 7,568,000 underlying shares were granted. As at 30 September 2008, the options outstanding are 6,573,100 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 30 September 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 at 10.5.2007 and 30.9.2008</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	<u>4,651,100</u>
			<u><u>6,573,100</u></u>

## **COMPETING INTERESTS**

As at 30 September 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 September 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 September 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 in compliance with the GEM Listing Rules from 5.28 to 5.33 on July 2003. 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 nine months ended 30 September 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, 10 November 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