



**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 2012**

**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012**

*\*for identification only*

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***Characteristics of the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)***

***GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investor should be aware of the potential risk of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.***

***Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.***

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*This report, for which the directors (the “Directors”) of Venturepharm Laboratories Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, 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; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are 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 quarterly results of the Company and its subsidiaries (the "Group") for the nine months ended 30 September 2012, together with the comparative figures.

### HIGHLIGHTS

1. The Group achieved a turnover of RMB 21,896,000 for the nine months ended 30 September 2012 representing a decrease of approximately 35% compared with that of the corresponding period in 2011.
2. Due to the efficient cost control, the Group achieved profit from operations of RMB 1,161,000 for the nine months ended 30 September 2012, representing a decrease of approximately 78% compared with that of the corresponding period in 2011.
3. Basic earnings per share amounted to RMB 0.44 cent for the nine months ended 30 September 2012.
4. Directors do not recommend to do the payment of any interim dividends for the nine months ended 30 September 2012.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Unaudited		Unaudited	
		Three months ended 30 Sept.		Nine months ended 30 Sept.	
		2012	2011	2012	2011
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	6,493	9,457	21,895	33,470
Cost of sales		<b>(3,893)</b>	(4,508)	<b>(11,939)</b>	(17,601)
Gross profit		<b>2,600</b>	4,949	<b>9,956</b>	15,869
Administrative expenses	3	<b>(1,525)</b>	(2,993)	<b>(6,683)</b>	(8,640)
Profit from operations		<b>1,075</b>	1,956	<b>3,273</b>	7,229
Other income		<b>155</b>	(288)	<b>727</b>	1,012
Finance costs		<b>(894)</b>	(243)	<b>(2,681)</b>	(2,670)
Profit before taxation		<b>336</b>	1,425	<b>1,319</b>	5,571
Income tax	5	-	639	<b>(151)</b>	(319)
Profit for the year		<b>336</b>	2,064	<b>1,168</b>	5,252
Attributable to :					
Equity holders of the Company		<b>249</b>	2,052	<b>1,091</b>	5,115
Minority interests		<b>87</b>	12	<b>77</b>	137
Profit for the year		<b>336</b>	2,064	<b>1,168</b>	5,252
Earnings per share (cent)					
- basic	4	<b>0.09</b>	0.56	<b>0.32</b>	1.40
- diluted		<b>0.28</b>	0.67	<b>0.89</b>	1.80

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share-		Available-			Statutory				Total
	Based	Share-	for-sales	Special	Capital	Statutory	fund	Retained	Minority	
	Share	Payment	Assets	Reserve	reserve	reserve	expansion	earnings	interest	
	capital	reserve	reserve	Reserve	reserve	reserve	expansion	earnings	interest	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	38,469	3,627	-	6,039	1,459	3,803	6,986	(5,103)	1,045	56,325
New issue of shares	62	-	-	-	248	-	-	-	-	310
Profit for the period	-	-	-	-	-	-	-	5,115	137	5,252
At 30 Sept. 2011	38,531	3,627	-	6,039	1,707	3,803	6,986	12	1,182	61,887
At 1 January 2012	38,536	3,919	-	6,039	1,819	3,803	6,986	(156,610)	(316)	(95,824)
New issue of shares	-	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	-	1,091	77	1,168
At 30 Sept. 2012	38,536	3,919	-	6,039	1,819	3,803	6,986	(155,519)	(239)	(94,656)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. 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 2011

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 2012. 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.

The consolidated financial statements have been prepared under the going concern basis.

The Group maintains a sound financial position and prudent liquidity risk management. The group ceased investment in PDS projects without customer contract and planned to reduce staff cost, rental and other operation cost. Cash flows from operation activities of the group will maintain in healthy position.

On 4 September 2012, the Bond holders passed the Resolution to extend the maturity date of the convertible bonds to 10 September 2015 and heavily reduced current liabilities of the Group.

Meanwhile, considering the working capital and long term fund demand for future development, the Group will consider to raise funds through bank loans, issuance of new shares, issuance of new debts etc.

In September 2012, the Group obtained a short-term loan amounting to bank loan RMB 3 million. The loan was guaranteed by 北京中关村科技担保有限公司. One of the Group's Executive Directors, Maria Xuemei Song provided counter guaranty to 北京中关村科技担保有限公司 with her personal property for this loan where no security over the assets of the Group is granted in respect of her guaranty.

## 2. Turnover and revenue

The Group is principally engaged in the research, development and commercialization of drug products:

Breakdown of the revenue from all services is as follows:

	Unaudited three months ended 30 September		Unaudited nine months ended 30 September	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted clinical services outsourced by customers(VPS)	3,833	8,204	13,064	22,992
Contracted pharmaceutical development and services ( PDS )	2,660	1,116	8,490	8,828
Import registration services(IRS)	-	137	341	1,650
	<u>6,493</u>	<u>9,457</u>	<u>21,895</u>	<u>33,470</u>

### Impact of Businesses strategy change on PDS

For the PDS business before 2011, the Group initiated PDS project when the Group found a market opportunity, invested capital and other resource to research and develop a drug technology (including application and obtainment of patent, Clinical Study Approval and Manufacturing Approval) and sold the drug technology to customer. Because rigid requirement of new drug development under recent government regulations, the Group had to invest more capital and time to finish a PDS project before it could be sold to customer, and increased the risk of the Company. In 2011, the Group changed the business strategy of PDS. The Group had ceased the investment on PDS projects without customer contract and will start a new PDS project only after signing a customer contract.

For the former PDS project involving drug technology transfer and follow up service, the Group used to adopt the sales recognise method that the first stage contract payment should be recorded as revenue of technology transfer. However, in 2011, the Group changed the business strategy of PDS and only R&D service rather than drug technology transfer would be provided in PDS project. Thus, the first stage contract payment of PDS projects that formerly recorded as revenues from transfer of new drug development and formulation data would be recognised to the extent of the milestone payments earned in

accordance with the applicable performance requirements and contractual terms and, where appropriate, as the related costs are incurred. The financial impact of the above business strategy change on compare figures that published in previous quarterly report is as follows:

	Unaudited		Unaudited	
	three months ended		nine months ended	
	30 September		30 September	
	2012	2011 Adjusted	2012	2011 Adjusted
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted clinical services outsourced by customers(VPS)	3,833	3,224	13,064	6,969
Contracted pharmaceutical development and services ( PDS )	2,660	-	8,490	2,356
Import registration services(IRS)	-	366	341	1,101
	<u>6,493</u>	<u>3,590</u>	<u>21,895</u>	<u>10,426</u>

### 3. Administrative expenses

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2012	2011	2012	2011
Notes	RMB'000	RMB'000	RMB'000	RMB'000
Administrative expenses	<u>1,525</u>	<u>2,993</u>	<u>6,683</u>	<u>8,640</u>

Administrative expenses decreased by 23% for the reason of strict cost control.



#### 4. Earnings per share

Basic earnings per share is calculated by dividing the unaudited net profit for the three and six months ended 30 Sep 2012 approximately RMB 336,000 and RMB 1,168,000 (approximately RMB 2,064,000 and RMB 5,252,000 the corresponding period of 2011) attributable to owners of the Group by the weighted average number of 364,308,664 ordinary shares (2011: 364,243,264 shares) during the year.

The calculation of the diluted earnings per share for the year is based on the profit attributable to ordinary equity shareholders and adjusted to eliminate the interest expense less the tax effect. The weighted average number of 453,237,155 (2011: 453,171,755) ordinary shares after adjusting for the effect of the dilutive potential ordinary shares to be issued to the exercise of the options granted under all relevant Share Option Schemes and the conversion of convertible bond of 88,928,491 (2011: 88,928,491) shares

#### 5. Income Taxes

No Hong Kong profit taxes has been provided for, as the Group had no estimated assessable profits in Hong Kong for the period(2011: Nil)

PRC enterprise income tax is calculated and paid at 25% according to Chinese laws and regulations (2011: 25%).

	Unaudited		Unaudited	
	Three months		Nine months	
	ended	30 September	ended	30 September
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Chinese				
Income Tax	-	639	(151)	(319)

#### 6. Segment information

No geographical segment analysis is presented as 90% of assets and operations of the Group for the periods are located in the PRC.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

The Group has achieved a turnover of RMB 21,896,000 for the nine months ended 30 September 2012, representing a decrease of approximately 35% compared with that of the corresponding period in 2011, of which, contracted clinical service (VPS) achieved RMB 13,065,000, decreasing by 43%, Contracted pharmaceutical development and service (PDS) achieved RMB 8,490,000, decreasing by 4%.

Considering the impact mentioned in Note2, the comparable revenue increased by 110%.

### **Sales and marketing**

For the nine months ended 30 September 2012, the Group has signed 24 contracts with contract value of RMB 42,827,000, representing a decrease of approximately 8% compared with that of the corresponding period in 2011.

### **PROSPECTS**

To capitalize on the opportunity of the increased demand of global R&D outsourcing market, the Group has made the best efforts to improve its service capacities and performance in R&D outsourcing services by providing fully integrated pharmaceutical services which including Active Pharmaceutical Ingredient (API), Pharmaceutical Development service (PDS), Clinical Research Service (VPS), regulatory affair (RA) service and post market service (PMS). In the meantime, the Group believes that as the Government further standardizes and implements its supervision, the market environment will become more favorable to the Group. Meanwhile, the investment from Chinese Government into the scientific research of biologic and pharmaceutical technology will stimulate greatly to the R&D service market. The upcoming new booming age of the pharmaceutical industry will not only present the Group with rare and precious business opportunities, but also considerable return for the shareholders.

### **DIVIDEND**

The Directors have not recommended payment of any interim dividend for the nine months ended 30 September 2012.

### **SIGNIFICANT INVESTMENTS**

The Company invested its surplus fund through its principal bank in investment market funds, which was RMB 1,415,000 as at 30 September 2012.

### **CONTINGENT LIABILITIES**

As at 30 September 2012, 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.

## **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. The Group closely monitors its foreign currency risk from time to time and will use appropriate hedging when necessary.

## **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 2012,.

## **COMPETING INTERESTS**

As at 30 September 2012, 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.

### **Delay in Quarterly Result Announcement**

As the delay of the publication of the audited consolidated financial results of the company and its subsidiaries for the year ended 31 December 2011, the quarterly results announcement for the nine months ended 30 September 2012 was extended.

## **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 2012 to 30 September 2012

**(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.

**(4) Board practice and procedures**

During the period from the date of listing to 30 September 2012, 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. WU Shou Yuan, Mr. Paul CONTOMICHALOS and Mr. ZHANG Jing An. Mr. WU Shou Yuan is the chairman of the audit committee.

The company's financial statements for the nine months ended 30 September 2012 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, PRC, 21 March 2013

*Executive Directors:*

William Xia GUO

Maria Xuemei SONG

*Non-Executive Directors:*

FENG Tao

LI Jin Liang

Nathan Xin ZHANG

*Independent Non-Executive Directors:*

WU Shou Yuan

Paul CONTOMICHALOS

ZHANG Jing An