



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 2009

** for identification only*

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2009

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

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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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 2009, together with the comparative figures.

FINANCIAL HIGHLIGHTS

1. The Group achieved a turnover of RMB 19,449,000 for the six months ended 30 June 2009, representing an increase of approximately 12% compared with that of the corresponding period in 2008.
2. The Group accomplished a net profit of RMB 10,071,000 for the six months ended 30 June 2009, representing an increase of approximately 8155% compared with that of the corresponding period in 2008.
3. Basic earnings per share amounted to RMB2.81 cent for the six months ended 30 June 2009.
4. The Directors do not recommend payment of any interim dividend for the six months ended 30 June 2009.

** for identification only*

CONSOLIDATED INCOME STATEMENT

	Note	Unaudited		Unaudited	
		Three months ended 30 June		Six months ended 30 June	
		2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Revenue	3	7,705	8,124	19,449	17,359
Cost of sales		(4,159)	(3,241)	(11,357)	(9,042)
Gross profit		3,537	4,883	8,092	8,317
Administrative expenses		(2,992)	(1,097)	(5,992)	(3,951)
Other income	5	(566)	1,279	6,412	1,969
Operating (loss)/profit		(21)	5,060	8,512	6,335
Finance costs – net		2,150	(5,113)	1,369	(6,213)
(Loss)/profit before income tax	6	2,128	(48)	9,880	122
Income tax	7	253	0	191	0
(Loss)/profit for the year		2,381	(48)	10,071	122
Attributable to:					
Equity holders of the Company		2,340	76	10,148	251
Minority interest		42	(124)	(76)	(129)
		2,381		10,071	122
Basic (loss)/earnings per share	9	0.65 CENTS	-	2.81 CENTS	0.03 CENTS
Diluted (loss)/earnings per share	9	0.53 CENTS	-	2.30 CENTS	0.03 CENTS

CONSOLIDATED BALANCE SHEET

		Unaudited 30 JUNE 2009 RMB'000	Audited 31 DEC 2008 RMB'000
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment	11	9,646	10,920
New drugs technology		9,704	10,445
Investment in an associate		-	-
Deferred tax assets		8,332	8,128
		<u>27,682</u>	<u>29,493</u>
Current assets			
Work-in-progress	13	59,133	56,286
Trade receivables		13,619	13,200
Prepayments, deposits and other receivables		42,735	34,435
Amounts due from related companies		-	-
Financial assets at fair value through profit or loss		52,230	46,684
Cash and cash equivalents		3,044	6,711
		<u>170,762</u>	<u>157,316</u>
Total assets		<u>198,444</u>	<u>186,809</u>
EQUITY			
Capital and reserves attributable to equity holders of the company			
Ordinary shares		38,407	38,407
Reserves		76,477	66,329
		<u>114,884</u>	<u>104,736</u>
Minority interest in equity		<u>1,543</u>	<u>1,620</u>
Total equity		<u>116,427</u>	<u>106,356</u>
LIABILITIES			
Non-current liabilities			
Borrowings		65,363	65,785
Current liabilities			
Trade and other payables		10,907	8,161
Receipt in advance		3,618	4,378
Income tax liabilities		2,129	2,129
Borrowings		-	-
		<u>16,653</u>	<u>14,668</u>
Total liabilities		<u>82,017</u>	<u>80,453</u>
Total equity and liabilities		<u>198,444</u>	<u>186,809</u>
Net current assets		<u>154,109</u>	<u>142,648</u>
Total assets less current liabilities		<u>181,791</u>	<u>172,141</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six Months Ended 30 June	
	2009	2008
	RMB'000	RMB'000
Net cash used in operating activities	(4,312)	7,849
Net cash used in investing activities	(337)	(12,894)
Net cash generated from financing activities	1,189	0
Net decrease in cash and cash equivalents	(3,460)	(5,045)
Cash and cash equivalents at beginning of the period	<u>6,504</u>	<u>30,803</u>
Cash and cash equivalents at end of the period	<u>3,044</u>	<u>25,758</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share-based		Available-for-sale Financial		Statutory enterprise		Retained		Minority	
	Share capital	Payment reserve	Assets reserve	Special Reserve	Capital reserve	Statutory reserve	fund expansion	earnings	interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	38,160	2,853		6,039	900	3,803	6,986	61,903	2592	123,236
Profit for the period								251	(129)	122
At 30 June 2008	38,356	2,853		6,039	4,134	3,803	6,986	62,154	2,463	126,788
At 1 January 2009	38,407	2,766		6,039	1,186	3,803	6,986	45,549	1,620	106,356
Issue of new shares by the Company	-	-	-	-	-	-	-			
Profit for the period								10,148	(76)	10,071
At 30 June 2009	38,407			6,039	1,186	3,803	6,986	55,697	1,544	116,427

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 2008.

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 2009. 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 2009, 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 June		Unaudited six months ended 30 June	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
-Transfer of technology for new drug and clinical research services	3,927	3,062	7,267	9,463
-Contracted pharmaceutical development and clinical research services outsourced by customers	1,865	4,810	8,970	6,822
-Royalty income	1,317	250	2,604	1,040
-Active pharmaceutical ingredient	595	2	607	34
	7,705	8,124	19,449	17,359

4. Segment information

No geographical segment analysis is presented as main 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. Other income

Other income includes RMB5,176,000 fair value gain due to stock price increase of Commonwealth Biotechnologies Inc. (NASDAQ).

6. (Loss)/profit before income tax

(Loss)/profit before income tax is arrived at after charging the following items:

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation	399	385	798	617
Less: amount capitalized in work-in-progress	0	0	0	0
	<u>399</u>	<u>385</u>	<u>798</u>	<u>617</u>
Provision against the receivables	0	0	0	0
Amortization of intangible assets	122	187	244	374
Finance cost	<u>(2,150)</u>	<u>5113</u>	<u>(1369)</u>	<u>6213</u>

7. Income tax

	Unaudited three months ended 30 June		Unaudited six months ended 30 June	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Company and subsidiaries				
PRC income tax	0	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

No Hong Kong Profits tax has been provided for, as the Group had no estimated assessable profits in Hong Kong for the six months ended 30 June 2009 (2008 nil). The Company's subsidiaries are subject to PRC income tax on their assessable profits.

8. Dividends

The board does not recommend the payment of any interim dividend for the six months ended 30 June 2009. (2008: Nil)

9. Earnings per share

The calculation of basic earnings per share for the three and six months ended 30 June 2009 is based on the unaudited net profit of approximately RMB2,381,000 and RMB10,071,000 respectively (2008: approximately RMB-48,000 and RMB122,000 respectively), and the weighted average number of approximately 361,735,000 ordinary shares in issue during the period (2008: 362,404,564).

The calculation of the diluted earnings per share for the three months and six months ended 30 June 2009 is based on the unaudited net profit of approximately RMB2,381,000 and RMB10,071,000 respectively (2008: approximately RMB-48,000 and RMB122,000 respectively), and the weighted average of approximately 441,402,000 shares (2008: approximately 383,809,564) (after adjusting for the effect of the outstanding dilutive options under the share option schemes of the Company).

10. Property, plant and equipment

During the period, the Group acquired property, plant and equipment with a carrying value of RMB427,000 (2007: RMB392,071).

11. Investment in associate

	Unaudited six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
As at 1 January	0	833
Additions in investment cost	-	28,682
Disposal of investment	-	-
Impairment of investment	-	-
Share of associates' results	-	-
	<u>0</u>	<u>29,515</u>

Details of the Group's associate at 30 June 2009, which is held indirectly by the Company, are as follows:

Name of associate	Assets	Liabilities	Revenue	Profit/ (loss)	Interest held
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhejiang Dankong	0	-	-	-	0

Venturepharm Co. Ltd.					
NovaDerm Inc.	0	-	-	-	0
	<u>0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0</u>

12. Intangible assets

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

13. Trade receivables

Details of the ageing analysis are as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
0 to 30 days	450	2,748
31 to 60 days		9,552
61 to 90 days	60	2,142
91to 180 days	10	3,484
Over 180days	13,099	7,027
	<u>13,619-</u>	<u>24,593</u>

14. Connected and related party transactions

Details of amounts due from related companies are as follows:

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Name of company		
Sanmenxia Sino way Pharmaceutical Co., Ltd ("Sino way Pharmaceutical")	0	0
Venturepharm Inc. ("VP Inc.")	0	0
	<u>0</u>	<u>0</u>

Note: (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 2009, the Group achieved a turnover of approximately RMB19,449,000, which represented an increase of 12% as compared with the turnover of the corresponding period in 2008.

The gross profit margin of the Group during the period under review was 42%, declining from 48% for the corresponding period in 2008. The decline in gross profit margin was mainly attributable to decreasing proportion from PDS, a line of service which has higher profit margin but limited revenue and profit scalability. The Group has carried out a business strategy to de-emphasize technology transfer and related service so as to keep the new product in-house for future commercialization.

For the period ended 30 June 2009, the Group recorded a profit attributable to shareholders amounted to approximately RMB10,071,000, representing a 8155% increase as compared with that of approximately RMB122,000 for the corresponding period in 2008.

Strategic and Operational Highlights

The management of the company remains confident of the future of the company. Continue growth of the China healthcare industry and the recovery of the global economic provide great opportunities for the Group to capitalize on the increasing international outsourcing. The Group is strategically positioned as an Asian based life science leader in China, with a *world-class most affordable full service plus model*, covering discovery, preclinical and clinical study, pharmaceutical development services, compound partnering and royalty sharing.

The pharmaceutical industry is undergoing dramatic change. China is expected to become one of the world's top healthcare markets by as early as 2010.

To capture the opportunities, the Group has set up a series of strategic platforms worldwide to provide most affordable word-class fully-integrated R&D services to both domestic and international clients. Meanwhile, the Group continues to be committed to improving its R&D capabilities, which is critical to the Group's long-term success.

Key Drivers

1. Key growth driver 1 of 2009: further improve preclinical and clinical trial studies capabilities

The Company heavily invests in establishing clinical research operation units to drive the future growth. To expand the Group's therapeutic width, we continue to seek for pharmaceutical asset acquisition opportunities for new segments. We expect our clients will gradually embrace more full service outsourcing, and our mission is to deliver reliable value-added integrated project management services.

We aim at turning a No. 1 VPS CRO in domestic market to a global specialty pharma and Biotech company.

2. Key growth driver 2 for 2009: royalty and compound partnership model

The Company will continue the co-finance, co-development and co-marketing strategy and engage in strategic licensing of therapeutic compound pipelines.

3. Key growth driver 3 of 2009: set up a fully integrated high quality most affordable drug discovery global service division.

VPDiscovery Ltd and Mimotopes China will be the two engines to drive the growth of drug discovery global service.

We are determined to capitalize on the global outsourcing opportunities and remain committed to enhancing shareholder value, as we actively pursue our strategy of growth through both organic and inorganic means.

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.

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.

The Group has initiated 27 new projects in the past six months of 2009, and till now has 256 products under development. During the period, SFDA has granted 6 new Clinical Study Approval (“CA”) and 8 new Manufacturing Approval (“MP”) to the Group. The total number of CAs has reached 306 and the total number of MAs has climbed up to 125 and the Group had submitted 281 patent applications.

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



Sales and Marketing

During the six months ended 30 June 2009, the Group successfully signed 19 PDS and VPS contracts amounting to total value of RMB 32,154,000.

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 June 2009, the Group had submitted 281 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.

DIVIDEND

The Directors have not recommended payment of any interim dividend for the six months ended 30 June 2009.

SIGNIFICANT INVESTMENTS

The Company invested its surplus fund through its principal bank in investment market funds and trading financial assets, which was RMB52,230.000 as at 30 June 2009.

CONTINGENT LIABILITIES

As at 30 June 2009, 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 2009, the Group's current assets amounted to about RMB170,762,000 of which approximately RMB3,044,000 was cash and bank deposits. The Group has no bank short-term liabilities, sufficient cash, and better financial situation.

CAPITAL STRUCTURE

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

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to HKD, United States Dollars ("USD") and Swiss Franc ("CHF"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB. Foreign exchange risk also arises from certain financial assets and convertible bonds which are denominated in HKD, USD and CHF. The Group currently does not hedge its foreign exchange exposure.

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 2009.

DIRECTORS' INTEREST IN SECURITIES

As at 30 June 2009, 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	Total number of shares	Approximate percentage of interest
			(Note 3)	(Note 3)		
William GUO	Xia Personal	Beneficial owner	9,110,377	9,570,000	18,680,377	5.01
William GUO	Xia Corporate	Interest of a controlled corporation (Note 1)	149,432,583	-	149,432,583	40.09
William GUO	Xia Corporate	Interest of a controlled corporation (Note 2)	15,966,073	-	15,966,073	4.28

Note 1: The controlled corporation, Venturepharm Holdings Inc. is 47.63 % directly held by Mr. Guo Xia and 49.69% 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:

Number of shares in which interested under physically settled equity derivatives as at 20 June 2003			
Name	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 Nov 2004	HK\$0.52
William Xia Guo	360,000	14 Dec 2005	HK\$0.45
William Xia GUO	324,000	10 August 2006	HK\$0.36
William Xia GUO	966,000	10 May 2007	HK\$0.625
William Xia Guo	360,000	7 April 2009	HK\$0.435

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

		Capital contribution on a Sino-foreign co-operative joint venture		Approximate percentage of interest of shareholding in joint venture
Name	Type of Interest	Capacity		
William Xia GUO	Corporate	Interest of a controlled Corporation (Note 1)	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 2009, 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 June 2009, 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	50.18

Note 1: Venturepharm Holdings Inc. is 47.63% directly held by Mr. Guo Xia and 49.69% 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 2009, 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 2009, 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 2009 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 (Note 1&2)	10 years	HK\$0.32	7,200,000
2 other participants (Note 1&2)	10 years	HK\$0.32	2,520,000
1 other participant (Note 3)	10 years	HK\$0.40	1,800,000
			<u>11,520,000</u>

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 2009, the options outstanding are 1,827,000 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 2009 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 at 2.3.2005
			and 30.6.2009
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	747,000
			<u>1,827,000</u>

As at 14 December 2005, options comprising a total of 1,458,000 underlying shares were granted. As at 30 June 2009, the options outstanding are 619,200 and 810,000 options granted pursuant to the Share Option Scheme had been cancelled or lapsed. Particulars of the outstanding options which have been granted under the Share Option Scheme as at 30 June 2009 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 at 14.12.2005

Name of grantees	exercisable after the date of grant	per shares	and 30.6.2009
William Xia GUO	10 years	HK\$0.45	360,000
4 participants	10 years	HK\$0.45	259,200
			<u>619,200</u>

As at 10 August 2006, options comprising a total of 4,118,400 underlying shares were granted. As at 30 June 2009, the options outstanding are 2,916,900 and 950,400 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 2009 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 at 10.8.2006 and 30.6.2009
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	1,800,900
			<u>2,916,900</u>

As at 10 May 2007, options comprising a total of 7,568,000 underlying shares were granted. As at 30 June 2009, 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 June 2009 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 at 10.5.2007 and 30.6.2009
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	4,651,100
			<u>6,573,100</u>

As at 7 June 2009, options comprising a total of 11,966,800 underlying shares were granted. As at 30

June 2009, the options outstanding are 11,966,800 and 0 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 June 2009 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 at 10.5.2007 and 30.6.2009
William Xia GUO	10 years	HK\$0.435	360,000
Other directors	10 years	HK\$0.435	975,200
Other participants	10 years	HK\$0.435	10,631,600
			<u>11,966,800</u>

COMPETING INTERESTS

As at 30 June 2009, 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 REPORT

(1) CORPORATE GOVERNANCE PRACTICE

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") save with certain deviations 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 throughout the year ended 30 June 2009.

(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 Officer 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 the GEM Listing Rules, the Board will consult to nominate a Chief Executive Officer as soon as possible.

(4) BOARD PRACTICE AND PROCEDURES

Since the listing of the Company, the Company has complied with Board Practices and Procedures as in Rules 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 set out 5.28 to 5.33 in 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 audit committee has reviewed the Group's interim financial results ended 30 June 2009.

(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, 7 August 2009

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

This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the day of its posting.