



LifeTec Group Limited

# ○ Interim Report 2003

○ Bio-Technology

Natural ○

healthcare ○

Life



## RESULTS

The Board of Directors (the "Directors") of LifeTec Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 together with comparative figures for the corresponding period in year 2002 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
		2003	2002
	Notes	HK\$'000	HK\$'000
Turnover	2	15,537	13,338
Cost of sales		(2,637)	(2,416)
Gross profit		12,900	10,922
Other income	3	466	5,590
Marketing, selling and distribution expenses		(5,699)	(8,070)
Administrative expenses		(15,189)	(16,136)
Research & development expenses		(607)	(475)
Loss from operations	4	(8,129)	(8,169)
Finance costs		(393)	(1,272)
Amortisation of goodwill		(222)	–
Share of loss of an associate		(575)	(677)
Loss before taxation		(9,319)	(10,118)
Taxation	5	–	–
Loss before minority interests		(9,319)	(10,118)
Minority interests		(1,063)	(1,717)
Loss for the period		(10,382)	(11,835)
		2003	2002
		HK Cents	HK Cents
Loss per share	6	(0.6)	(0.8)

**CONDENSED CONSOLIDATED BALANCE SHEET**

		Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment		50,038	53,463
Investment property		3,200	3,200
Goodwill		1,553	1,775
Patent and investments in new drug projects	10	41,918	1,886
Interest in an associate		5,610	6,726
Advance payments for new drug projects	10	7,000	45,186
		<u>109,319</u>	<u>112,236</u>
<b>Current assets</b>			
Inventories		1,716	465
Debtors and prepayments	7	26,561	20,738
Bank balances and cash		3,402	17,856
		<u>31,679</u>	<u>39,059</u>
<b>Current liabilities</b>			
Creditors and accrued charges	8	18,943	18,230
Amounts due to directors		1,017	718
Bank borrowings - due within one year		3,709	4,481
Obligations under finance leases – due within one year		221	340
		<u>23,890</u>	<u>23,769</u>
<b>Net current assets</b>		<u>7,789</u>	<u>15,290</u>
<b>Total assets less current liabilities</b>		<u>117,108</u>	<u>127,526</u>
<b>Non-current liabilities</b>			
Bank borrowings - due after one year		7,561	8,615
Obligations under finance leases - due after one year		–	44
		<u>7,561</u>	<u>8,659</u>
<b>Minority interests</b>		<u>20,436</u>	<u>19,374</u>
		<u>89,111</u>	<u>99,493</u>
<b>Capital and reserves</b>			
Share capital	9	17,177	17,177
Reserves		71,934	82,316
		<u>89,111</u>	<u>99,493</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	Unaudited	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Net cash used in operating activities	(11,775)	(33,807)
Net cash used in investing activities	(297)	(1,989)
Net cash flow from financing activities	(2,382)	80,004
	<hr/>	<hr/>
Cash and cash equivalents at beginning of period	(14,454)	44,208
	<hr/>	<hr/>
Cash and cash equivalents at end of period	17,856	30,720
	<hr/>	<hr/>
	3,402	74,928
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,402	74,928
	<hr/>	<hr/>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For six months ended 30 June 2003

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 31 December 2002	17,177	240,779	88,643	(38,478)	637	(209,265)	99,493
Loss for the period	-	-	-	-	-	(10,382)	(10,382)
At 30 June 2003	17,177	240,779	88,643	(38,478)	637	(219,647)	89,111

For six months ended 30 June 2002

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 31 December 2001	14,159	163,483	88,643	(38,478)	664	(185,947)	42,524
Loss for the period	-	-	-	-	-	(11,835)	(11,835)
Issue of share capital	2,800	76,021	-	-	-	-	78,821
Exercise of share option	218	1,275	-	-	-	-	1,493
At 30 June 2002	17,177	240,779	88,643	(38,478)	664	(197,782)	111,003

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### (1) Accounting policies

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

In the current period, the Group has adopted, for the first time, SSAP 12 (Revised) "Income Taxes" ("SSAP 12 (Revised)"). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. In the previous years, partial provision was made for deferred taxation using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is considered necessary.

Save as disclosed above, the accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2002.

## (2) Turnover and segmental information

The Group's turnover and contribution to loss from operations by principal activity and geographical location are summarized as follows:

	Six months ended 30 June 2003		Six months ended 30 June 2002	
	Turnover <i>HK\$'000</i>	Operating Result <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Operating Result <i>HK\$'000</i>
<b>By principal activity:</b>				
Biopharmaceuticals	15,422	1,368	13,335	2,299
General trading & PVC	115	(336)	3	(459)
	<u>15,537</u>	<u>1,032</u>	<u>13,338</u>	<u>1,840</u>
Unallocated corporate expenses		(9,161)		(10,009)
		<u>(8,129)</u>		<u>(8,169)</u>
<b>By geographical location:</b>				
PRC	15,422	1,268	13,335	2,182
HK	115	(236)	3	(342)
	<u>15,537</u>	<u>1,032</u>	<u>13,338</u>	<u>1,840</u>
Corporate expenses		(9,161)		(10,009)
		<u>(8,129)</u>		<u>(8,169)</u>

**(3) Other income**

Other income for the six months ended 30 June 2002 represents the write-back of certain accounts payable and accrued charges which is the subject of the auditors' qualification in the previous two years. The write-back has been made after obtaining PRC legal advice and complies with the relevant PRC regulations. The directors consider the write-back reasonable and appropriate.

**(4) Loss from operations**

Loss from operations has been arrived at after charging:

	Unaudited Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Amortisation of patent	471	588
Depreciation	3,943	3,156
Loss on disposal of fixed assets	—	35
	<u>          </u>	<u>          </u>

**(5) Taxation**

No provision for taxation has been made for the six months ended 30 June 2003 and for the six months ended 30 June 2002 as the Group incurred a loss in both periods.

No provision for deferred tax has been made as the Group did not have any significant deferred tax liabilities as at 30 June 2003. No deferred tax asset has been recognised in respect of tax losses as the recoverability of these potential deferred tax assets is uncertain.

**(6) Loss per share**

The calculation of basic loss per share is based on the loss attributable to shareholders for the six months ended 30 June 2003 of HK\$10,382,000 (2002: loss of HK\$11,835,000) and the weighted average number of 1,717,745,946 shares (2002: 1,478,686,277 shares) in issue during the period.

The computation of diluted loss per share does not assume the conversion of the company's outstanding share options since their exercise would result in a decrease in loss per share.



## (7) Debtors and prepayments

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
The aged analysis of trade debtors is as follows:		
Within 30 days	11,502	9,838
31 - 60 days	1,236	1,061
61 - 90 days	755	1,353
More than 90 days	<u>7,106</u>	<u>2,691</u>
	20,599	14,943
Other debtors and prepayments	<u>5,962</u>	<u>5,795</u>
	<u>26,561</u>	<u>20,738</u>

The Group normally allows a credit period of 90 to 120 days to its trade customers. The credit policy is consistent with the pharmaceutical industry practice in China.

Included in other debtors and prepayments at 31 December 2002 and 30 June 2003 is an amount of HK\$1,300,000, representing the balance of consideration receivable resulting from the disposal of certain subsidiaries during the year of 2002. The amount is unsecured, interest free and will be repayable one month after the date of disposal of a property situated in the PRC held by the one of the disposed subsidiaries.

## (8) Creditors and accrued charges

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
The aged analysis of trade creditors is as follows:		
Within 30 days	31	118
31 - 60 days	19	64
61 - 90 days	39	-
More than 90 days	<u>311</u>	<u>231</u>
	400	413
Other creditors and accrued charges	<u>18,543</u>	<u>17,817</u>
	<u>18,943</u>	<u>18,230</u>

## (9) Share capital

	Number of shares	Nominal value <i>HK\$'000</i>
<b>Authorised</b>		
At 1 January 2003 and 30 June 2003	<u>10,000,000,000</u>	<u>100,000</u>
<b>Issued and fully paid</b>		
At 1 January 2003 and 30 June 2003	<u>1,717,745,946</u>	<u>17,177</u>

## (10) "Patent and investments in new drug projects" and "Advance payments for new drug projects"

Out of the balance of Advance payments for new drug projects as at 31 December 2002, approximately HK\$38,186,000 represented payment for acquisition of a subsidiary which was not yet completed at the previous balance sheet date. The transaction was subsequently completed during the period and the accounts of the subsidiary have been incorporated in these consolidated financial statements. The consolidation of the accounts of the subsidiary attributed to the increase in Patent and investments in new drug projects.

## (11) Related party transactions

During the six months ended 30 June 2003, the Company entered into the following transactions with an associate of the Group.

	Six months ended 30 June	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Management fee income	120	120
Maintenance expenses paid	<u>60</u>	<u>60</u>

The above transactions were recorded at cost.

**(12) Post balance sheet date events****(a) Rights Issue**

On 27 May 2003, the Company proposed to issue 858,872,973 rights shares at HK\$0.1 each on the basis of one rights share for every two existing shares held (the "Rights Issue"). The Company entered into an underwriting agreement dated 27 May 2003 with an underwriter in relation to the underwriting and certain other arrangements in respect of the Rights Issue.

Immediately before the Rights Issue, Mr. Jay Chun ("Mr. Chun") and Mr. Shan Shiyong ("Mr. Shan") were interested in 234,752,000 shares and 235,460,000 shares, representing approximately 13.67% and 13.71% of the total issued share capital of the Company respectively. Each of Mr. Chun and Mr. Shan had irrevocably undertaken to the Company and the underwriter that the shares beneficially owned by them would remain registered in their own names or under the names of the entities controlled by them from the date of the undertaking to 18 June 2003 and to take up their respective entitlements in full, representing 117,376,000 rights shares and 117,730,000 rights shares respectively.

On 10 July 2003, the Company announced the results of the Rights Issue. In accordance with the irrevocable undertakings given by Mr. Chun and Mr. Shan to the Company and the underwriter, Mr. Chun and Mr. Shan had fully subscribed for their respective provisional allotments under the Rights Issue. Mr. Chun and Mr. Shan did not apply for any excess rights shares. Accordingly, the respective percentage of shareholding interest of Mr. Chun and Mr. Shan in the Company remained unchanged at approximately 13.67% and 13.71% of the enlarged issued share capital of the Company immediately after the Rights Issue. In aggregate, the Company had received valid applications for subscription of 808,135,773 rights shares, representing approximately 94.09% of the total number of rights shares under the Rights Issue. As the Rights Issue was under-subscribed and pursuant to the underwriting agreement, the underwriter had procured subscription for the remaining 50,737,200 rights shares not taken up or applied for under the Rights Issue, representing approximately 5.91% of the total number of rights shares under the Rights Issue and approximately 1.97% of the enlarged issued share capital of the Company immediately after the Rights Issue. The share certificates in relation to the Rights Issue were despatched on 14 July 2003. The net proceeds of the Rights Issue was approximately HK\$81.2 million.

(b) **Disposal of Goldstone International Holdings Limited**

On 30 July 2003, the Company, through its wholly owned subsidiary, LifeTec (Holdings) Limited ("LifeTec"), entered into a disposal agreement with an independent third party (the "Purchaser"), whereby LifeTec agreed to sell and the Purchaser agreed to purchase the entire issued share capital of and the full amount of shareholder's loan to Goldstone International Holdings Limited ("Goldstone") for a total consideration of RMB58,300,000 (approximately HK\$55,000,000).

The principal business activity of Goldstone is the holding of approximately 65.7% interest in Weihai Sinogen Pharmaceutical Co., Ltd. ("Sinogen") which is principally engaged in the research, development, manufacturing and sale of a liver drug product carrying the brand name of Wei Jia in China. Wei Jia is used for treating severe hepatitis and severe chronic hepatitis. As a term of the disposal agreement, LifeTec will retain full management right for the Wei Jia production line of Sinogen after the disposal.

As a result of the disposal, the Company is expected to realize a surplus of approximately HK\$21.2 million (subject to audit) above the net book value of assets attributable to Goldstone and a loss of approximately HK\$17.4 million (subject to audit) after adjusting for goodwill on acquisition of Goldstone previously written off against reserves. The financial impact of the disposal will be recorded in the financial year ending 31 December 2003.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

## BUSINESS REVIEW AND PROSPECTS

### Biopharmaceutical Division

#### *Turnover and Profit*

The turnover of the Division for the six months ended 30 June 2003 has remarkably increased from approximately HK\$13.3 million to approximately HK\$15.5 million representing a period-to-period growth of approximately 16%. Gross profit for the period also increased by approximately 18% compared to that of the previous period. Both the turnover and the gross profit for the period fell short of the budget of the Company as a result of the devastating impact of the Severe Acute Respiratory Syndrome ("SARS") epidemic in China. Most of the infectious hospitals were closed off to exclusively cater for treating and caring for SARS patients and suspects. Infectious patients, including hepatitis patients in China also avoided staying for hospital care in order to minimize the risks of contracting SARS. The Group's marketing efforts almost came to a halt at the peak of the SARS epidemic in the second quarter of the year. Despite this havoc, the Company's sales in the current period still fared well compared to most competitors. Nevertheless, the hampered growth still exerted a limiting factor to enable contribution from sales being able to fully absorb all the operating expenses of the Group. However, significant improvement is expected in the second half of the year as sales volume has recovered and continues to increase by substantial percentages after the SARS epidemic has subsided.

Marketing, selling and distribution expenses comprise mainly commission to sales agents and are directly related to sales. The remaining represents marketing and promotion expenses and basic operating overheads of the marketing team. The decrease in administration expenses for the period was mainly attributable to tighter cost control and reduction in fixed overheads during the period.

The loss before taxation and minority interest improved from approximately HK\$10.1 million in the previous period to approximately HK\$9.3 million for the current period representing an overall improvement of approximately 8%. Finance costs of the Group for the period significantly decreased by approximately 69% from approximately HK\$1.3 million to approximately HK\$0.4 million. The reduction in finance costs was due to the improved financial position after the share placement in May 2002. The overall decrease in loss for the period and the increase in the weighted average number of shares in issue during the period have accounted for the decrease in loss per share from 0.8 Hong Kong cents to 0.6 Hong Kong cents for the period.

#### *Marketing, Sales and Distribution*

The Group has substantially strengthened the manpower and support in executing marketing activities and providing quality sales and customers services to agents and customers of the subsidiary. The period saw an increase in the number of sales agents in various parts of the country and the number of hospitals using “Wei Jia” has soared to over 600 by the end of the period. It is expected that the number of “Wei Jia” user hospitals will continue to increase in the second half to reach a total of at least 800 by the end of the financial year. In order to improve the control over the quality of the sales team and to squeeze the margin that has to be conceded to independent sales agents, the Company has decided to build its own sales team in regions not yet effectively covered by existing sales agents. This has already commenced in the second half after completion of the Rights Issue.

The Group acquired 100% interest in a new national drug distribution company in July 2003 as part of the corporate restructure. The new distribution company holds a national drug distribution license which enables the Group to distribute local as well as overseas biopharmaceutical products. Management is actively negotiating the exclusive agency for two new drugs to be added to the sales network of this new distribution subsidiary. The addition of new drug products to the sales and distribution portfolio will enable the Company to fully utilize the potential of its national sales network and would help to economize the overall cost of operations in China. The new products will help to increase the turnover and contribution from sales and distribution activities without the necessity of capital investment and the assumption of risk over the development period.

### *Corporate Restructure*

The Group completed a corporate restructure in July 2003 which involved the disposal of the 65.7% interest in Sinogen (held through Goldstone) to an independent third party for approximately HK\$55,000,000 and the acquisition of a national drug distribution company in China for approximately HK\$2,800,000. The Group retains the sole distributorship for Wei Jia in China and the rest of the world. All the effective intellectual property and production knowhow of Wei Jia remain with the Group. Sinogen will supply Wei Jia exclusively to the Group at a favourable price for 10 years. The restructure will help to lower the product cost of Wei Jia to the Company. The Group can also release and redeploy the funds invested in Sinogen for supporting the building and expansion of its national sales and distribution network and the acquisition of strategic biotech projects in the future. The rationale and full particulars of the restructure are contained in the discloseable transaction circular despatched to shareholders on 22 August 2003.

### *Research and Development*

#### Fibroscutum

The City University of Hong Kong's research team working on the recombinant DNA version of "Wei Jia" has discovered Fibroscutum, a novel compound which is a potential new drug candidate for anti-cancer and anti-fibrosis applications. The compound has been proved to have positive suppressive effect on the growth of liver cancer and fibroblast cells in laboratory tests conducted by the team. The Company has already filed provisional patents in the U.S. for the anti-fibrosis and anti-cancer applications of Fibroscutum. The patents also include the production process of Fibroscutum known to date. Applications for the same patent in China and other parts of the world will be filed in due course.

### Second Generation “Wei Jia”

Research work on the recombinant DNA version of “Wei Jia” has been making satisfactory progress. The team has succeeded in identifying the core active proteins and their functions in Wei Jia. Half of the research targets have been completed. In the next twelve months, the research will focus on synthesis of the core proteins by DNA recombinant techniques.

### Recombinant Human Augmenter For Liver Regeneration (“rhALR”)

Research team at the Institute of Infectious Diseases of the People’s Liberation Army in Beijing has identified specific production techniques of rhALR. Application for pre-clinical tests on rhALR is expected to begin in 2004.

### Pazufloxacin

Core laboratory tests for Pazufloxacin, a new generation antibiotic, have been completed and the Company is in the process of applying to the State Food and Drug Administration for pre-clinical tests on Pazufloxacin.

### New Pipeline Projects

At the current stage, the Group aims to focus its resources on developing its existing pipeline projects but will be watchful for strategic new projects that will contribute and complement the Group’s product pipeline.

### **Trading and PVC Division**

The Group continued to wind down the business and activities of this Division during the period. Activities of this Division are now negligible. Since full provision has been made for the investment in this Division, the eventual disposal of this subsidiary should result in positive cash flow to the Group.



### Medical Technology Division

Sales of the Division remained to be mediocre during the period resulting in a small share of loss of the associated company, LT3000 Online Limited (“LT3000”). The Group is seeking suitable opportunity to dispose of its interest in LT3000 in the foreseeable future.

The ultimate disposal of interests in the associated company and the PVC subsidiary will draw conclusion to the Group’s non-core businesses and operations, paving the way for a focused biopharmaceutical business.

### Prospects for the Current Year

The approval for a price increase for Wei Jia in Shandong Province was obtained earlier in the year. At the date of this report, national approval across the board was still being processed by the central government and was expected to be cleared in the second half of the year. The Company will formally launch a national price increase in the 4th quarter or early next year should the national approval be obtained in time. The expected price increase will be between 20% to 34%.

Following the Rights Issue and corporate restructure, the Group will devote more resources in the development of the new drugs in the pipeline and strengthening the reach and distribution power of its sales network. The Directors are confident in improving the sales of Wei Jia under the new sales distribution structure. With more financial resources at its disposal, the Group continues to be responsive and flexible in new biotech projects and acquisitions to accelerate the future growth of the Company. The Group will consistently explore various options to unlock the commercial value of its pipeline products through joint product development with or licensing of proprietary biotechnology to/from biopharmaceutical companies in overseas markets. The Directors will take all necessary action to protect, enhance and realize the valuable intellectual assets held by the Group.

## FINANCIAL REVIEW AND LIQUIDITY

The Company raised net proceeds of approximately HK\$81,200,000 by means of a rights issue in July this year. Part of the proceeds will be applied for the building of national sales and distribution network for drug distribution business and working capital of the Company. The remaining balance is reserved for potential acquisition of new projects. The Company also received cash of approximately HK\$14,000,000 and promissory notes of approximately HK\$41,000,000 as the consideration for the disposal of Goldstone in July 2003. Details of the Rights Issue are contained in the Rights Issue Prospectus sent to shareholders on 20 June 2003.

As at 30 June 2003, the Group had an aggregate un-utilized credit facilities of approximately HK\$82,000,000. The cash on hand and available credit facilities at the current date are sufficient for financing ongoing activities of the Group.

The percentage of total liabilities to total assets as at 30 June 2003 stood at approximately 22.3% which is roughly same as the corresponding figure of approximately 21.4% as at 31 December 2002.

## MANAGEMENT RESTRUCTURE, CHANGE OF DIRECTORSHIPS AND COMPANY SECRETARY

Mr. Wang Xi Gang resigned as an executive director of the Company on 21 August 2003.

Mr. Yeung Kam Lung, Patrick has tendered his resignation as Chief Operating Officer and Company Secretary of the Group and will leave service of the Company at the end of September 2003. Mr. Poon Yick Pang, Philip has been appointed as the Company Secretary of the Company in his place.

The Company is reluctant to see the departure of both Mr. Wang Xi Gang and Mr. Yeung Kam Lung, Patrick and would like to extend its gratitude for their contributions to the Company and the Group in the past.

Dr. Ma Yin Ming ("Dr. Ma") was re-designated as an executive director of the Company on 21 August 2003. Since joining the executive team, Dr. Ma has been appointed as the Head of China Operations of the Group. Dr. Ma holds a doctoral degree in accounting. He is a seasoned financial experts and a talented entrepreneur. He has been appointed as a member of the Auditing Standards Drafting Committee of the China Institute of Certified Public Accountants and as the leader of the Chinese Expert Advisory Group on accounting issues in connection with Asian Development Bank sponsored projects in China. His new role will provide valuable leadership and management to the Group's operations in China. Dr. Ma's previous role as independent non-executive director of the Company was succeeded by Mr. Wang Fa Qi who was appointed on the same date.

## EMPLOYEE SCHEME

At the date of this report, the Group employed a total of 94 staff including full-time executives and directors. The terms of employment of the staff, executives and directors conform to normal commercial practice. Share option benefits are granted to and included in the employment terms of selected senior executives of the Company.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

### (i) Interest in shares

As at 30 June 2003, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the

Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Name of director	The Company/ Name of associated corporation	Capacity/Nature of interests	Total <sup>(1) &amp; (2)</sup> interests in shares	Approximate aggregate percentage of interests
Mr. Chun	The Company	Beneficial owner	29,092,000	
		Interests of controlled corporation	<u>205,660,000 <sup>(3)</sup></u>	
		Sub-total	<u>234,752,000 <sup>(5)</sup></u>	13.67%
Mr. Shan	The Company	Interests of controlled corporation	<u>235,460,000 <sup>(4) &amp; (5)</sup></u>	13.71%

*Notes:*

- (1) All interests in shares stated above represent long positions.
- (2) These interests in shares were held by the directors before completion of the Rights Issue, details of which are set out in note (12) to the financial statements headed "Post balance sheet date events" above.
- (3) These shares were held by August Profit Investments Limited, a company which is wholly owned by Mr. Chun.
- (4) These shares were held by Best Top Offshore Limited, a company which is wholly owned by Mr. Shan.
- (5) Immediately after completion of the Rights Issue and as a result of Mr. Chun, Mr. Shan and companies controlled by them referred to in notes (3) and (4) above subscribing for their respective provisional allotments under the Rights Issue and not applying for any excess rights shares, Mr. Chun and Mr. Shan became respectively interested in 352,128,000 shares and 353,190,000 shares and their respective percentage of shareholding interest in the Company remained unchanged at approximately 13.67% and 13.71%.

## (ii) Share options

The following table discloses movements in the Company's share options during the six months ended 30 June 2003 under the old share option scheme adopted by the Company on 3 January 1997 and terminated on 15 July 2002:

Name of directors	Date of share options granted	Outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	Outstanding at the end of the period	Subscription price	Exercise period
Mr. Shan	2 June 2000	21,800,000	-	21,800,000	-	HK\$0.06848	2 June 2000 - 1 June 2003
Mr. Wang Xi Gang	2 June 2000	21,800,000	-	21,800,000	-	HK\$0.06848	2 June 2000 - 1 June 2003
Total for directors		<u>43,600,000</u>	<u>-</u>	<u>43,600,000</u>	<u>-</u>		

Name of chief executive	Date of share options granted	Outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	Outstanding at the end of the period	Subscription price	Exercise period
Mr. Yeung Kam Lung, Patrick	19 April 2000	1,500,000	-	1,500,000	-	HK\$0.24000	19 April 2000 - 18 April 2003
	5 June 2001	2,500,000	-	-	2,500,000	HK\$0.19600	5 June 2001 - 4 June 2004
	7 May 2002	5,000,000	-	-	5,000,000	HK\$0.14460	7 May 2002 - 6 May 2005
	8 May 2002	2,500,000	-	-	2,500,000	HK\$0.14580	8 May 2002 - 7 May 2005
Total for chief executive		<u>11,500,000</u>	<u>-</u>	<u>1,500,000</u>	<u>10,000,000</u>		

As at 30 June 2003, the Company had not granted any option to subscribe for shares of the Company under the existing share option scheme adopted by the Company on 15 July 2002.

As a result of the completion of the Rights Issue as disclosed under the heading “Post balance sheet date events”, adjustments had been made to the 10,000,000 outstanding share options in accordance with the provisions of the share option scheme adopted by the Company on 3 January 1997 and terminated on 15 July 2002 and such adjustments had been confirmed by the auditors of the Company to have calculated on the following basis: (a) the holder of the options have the same proportion of the issued share capital of the Company as that to which he was previously entitled prior to such adjustments, (b) the aggregate subscription price payable on the full exercise of each option remain the same as it was before the Rights Issue except for the option granted on 5 June 2001 which the aggregated subscription price payable on full exercise of such option after the Rights Issue is HK\$250 less than that before the Rights Issue and (c) the adjusted exercise price per share is greater than the nominal value of the share of the Company. Details of such adjustments were as follows:

Name	Date of grant	Exercise period	Exercise price per share before the Rights Issue	Exercise price per share after the Rights Issue	Number of underlying shares subject to outstanding share options before adjustments	Number of underlying shares subject to outstanding share options after adjustments
Mr. Yeung Kam Lung, Patrick	5 June 2001	5 June 2001 to 4 June 2004	HK\$0.1960	HK\$0.1306	2,500,000	3,750,000
	7 May 2002	7 May 2002 to 6 May 2005	HK\$0.1446	HK\$0.0964	5,000,000	7,500,000
	8 May 2002	8 May 2002 to 7 May 2005	HK\$0.1458	HK\$0.0972	2,500,000	3,750,000
Total					<u>10,000,000</u>	<u>15,000,000</u>

Save as disclosed above, as at 30 June 2003, none of the directors and the chief executive of the Company was interested or had any short position in any shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2003, so far as is known to directors, the interests and short positions of the persons or corporations, other than directors and chief executive of the Company, in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name	Total interests <sup>(1) &amp; (2)</sup> in shares	Approximate percentage of interests
Best Top Offshore Limited	235,460,000 <sup>(3)</sup>	13.71%
August Profit Investments Limited	205,660,000 <sup>(3)</sup>	11.97%
China Fund Inc	112,328,000 <sup>(3)</sup>	6.54%
Lao Jianwen	100,020,000 <sup>(4)</sup>	5.82%

*Notes:*

- (1) All interests in shares stated above represent long positions.
- (2) These interests in shares were held by the substantial shareholders of the Company before completion of the Rights Issue, details of which are set out in note (12) to the financial statements headed "Post balance sheet date events" above.

- (3) Immediately after completion of the Rights Issue and as a result of Best Top Offshore Limited, August Profit Investments Limited and China Fund Inc subscribing for their respective provisional allotments under the Rights Issue and not applying for any excess rights shares, Best Top Offshore Limited, August Profit Investments Limited and China Fund Inc became respectively interested in 353,190,000 shares, 308,490,000 shares and 168,492,000 shares and their respective percentage of shareholding interest in the Company remained unchanged at approximately 13.71%, 11.97% and 6.54%.
- (4) As a result of Lao Jianwen not subscribing for any rights shares under the Rights Issue, his shareholding in the Company became approximately 3.88% immediately after completion of the Rights Issue.

Save as disclosed above, as at 30 June 2003, the Company had not been notified any other person who was interested in or had a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements for the six months ended 30 June 2003 which have not been audited.

## COMPLIANCE WITH CODE OF BEST PRACTICE

The contents of this announcement have been reviewed and approved by the Audit Committee of the Company. It is the opinion of the Directors that the Company has complied with the requirements of the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2003.



## **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 period.

By Order of the Board of  
**LifeTec Group Limited**  
**Jay Chun**  
*Chairman*

Hong Kong, 22 September 2003