

LifeTec

生命科技集團有限公司
LifeTec Group Limited

2004

Interim Report

LifeTec



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 2004 together with comparative figures for the corresponding period in year 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
	<i>Notes</i>	2004	2003
		HK\$'000	<i>HK\$'000</i>
Turnover	2	37,149	15,537
Cost of sales		(6,399)	(2,637)
Gross profit		30,750	12,900
Other income	3	2,062	466
Marketing, selling and distribution expenses		(8,521)	(5,699)
Administrative expenses		(13,188)	(15,411)
Research & development expenses		(1,009)	(607)
Profit (loss) from operations	4	10,094	(8,351)
Finance costs		(169)	(393)
Loss on disposal of investment in new drug project		(400)	–
Share of profit (loss) of an associate		2,691	(575)
Profit (loss) before taxation		12,216	(9,319)
Income tax expense	5	(3,084)	–
Profit (loss) before minority interests		9,132	(9,319)
Minority interests		(292)	(1,063)
Profit (loss) for the period		8,840	(10,382)
		2004	2003
		HK Cents	<i>HK Cents</i>
Earnings (loss) per share	6		
– Basic		0.3	(0.6)
– Diluted		0.3	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited	Audited
		30 June	31 December
		2004	2003
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		4,488	3,554
Investment property		3,200	3,200
Goodwill		646	740
Intangible assets		46,866	47,454
Interest in an associate		3,095	–
Payments for investments	10	47,332	21,143
Promissory notes - due after one year		–	10,259
		105,627	86,350
Current assets			
Inventories		46	38
Debtors and prepayments	7	70,544	86,131
Promissory notes - due within one year		20,519	30,779
Investments in securities		49,375	73,243
Bank balances and cash		74,208	13,293
		214,692	203,484
Current liabilities			
Creditors and accrued charges	8	18,045	16,522
Amounts due to directors		364	364
Bank borrowings - due within one year		2,705	2,696
Obligations under finance leases			
– due within one year		–	44
Tax payable		3,084	7
		24,198	19,633
Net current assets		190,494	183,851
Total assets less current liabilities		296,121	270,201
Non-current liabilities			
Bank borrowings – due after one year		1,507	4,000
Deferred tax liability		6,912	6,912
		8,419	10,912
Minority interests		3,877	3,584
		283,825	255,705
Capital and reserves			
Share capital	9	25,980	25,766
Reserves		257,845	229,939
		283,825	255,705

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

**Unaudited
Six months ended 30 June**

	2004	2003
	HK\$'000	HK\$'000
Net cash from (used in) operating activities	26,885	(11,775)
Net cash from (used in) investing activities	17,447	(297)
Net cash from (used in) financing activities	16,583	(2,382)
Increase (decrease) in cash and cash equivalents	60,915	(14,454)
Cash and cash equivalents at beginning of period	13,293	17,856
Cash and cash equivalents at end of period	74,208	3,402
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	74,208	3,402

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For six months ended 30 June 2004

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 31 December 2003	25,766	313,381	88,643	-	93	239	(172,417)	255,705
Issue of warrants	-	-	-	25,141	-	-	-	25,141
Expenses incurred in connection with the issue of warrants	-	-	-	(574)	-	-	-	(574)
Issue of shares	1,213	10,816	-	(1,137)	-	-	-	10,892
Repurchase of warrants	-	-	-	(142)	-	-	-	(142)
Repurchase of shares	(999)	(14,965)	-	-	-	-	-	(15,964)
Expenses incurred in connection with the repurchase of shares	-	(73)	-	-	-	-	-	(73)
Profit for the period	-	-	-	-	-	-	8,840	8,840
At 30 June 2004	<u>25,980</u>	<u>309,159</u>	<u>88,643</u>	<u>23,288</u>	<u>93</u>	<u>239</u>	<u>(163,577)</u>	<u>283,825</u>

Note: Capital reserve is arisen on issue of warrants in February 2004. The balance of which represents net cash from issue of warrants, less adjustments for exercise of warrants and repurchase of warrants.

For six months ended 30 June 2003

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital 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	<u>17,177</u>	<u>240,779</u>	<u>88,643</u>	<u>-</u>	<u>(38,478)</u>	<u>637</u>	<u>(219,647)</u>	<u>89,111</u>

Notes:

(1) **Accounting policies**

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

The accounting policies adopted are consistent with those adopted in the preparation of the Group's annual audited financial statements for the year ended 31 December 2003.

Certain comparative figures have been reclassified to conform with the current period's presentation.

(2) **Turnover and segment information**

The Group is principally engaged in research, development and sale of biopharmaceutical products. No business segment analysis is presented as management considers this as one single business segment. The Group's turnover and contribution to profit (loss) from operations by geographical location are summarized as follows:

	Six months ended 30 June 2004		Six months ended 30 June 2003	
Geographical segments:	Turnover HK\$'000	Operating Result HK\$'000	Turnover HK\$'000	Operating Result HK\$'000
People's Republic of China	36,570	16,541	15,422	1,268
Other regions	579	37	–	–
Hong Kong	–	–	115	(236)
	<u>37,149</u>	<u>16,578</u>	<u>15,537</u>	<u>1,032</u>
Unallocated corporate expenses		<u>(6,484)</u>		<u>(9,383)</u>
Profit (loss) from operations		<u>10,094</u>		<u>(8,351)</u>

(3) **Other income**

Among other income for the six months ended 30 June 2004, about HK\$827,000 represents gain on investment in securities (subject to audit).

(4) **Profit (loss) from operations**

Profit (loss) from operations has been arrived at after charging (crediting):

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Amortisation of goodwill	94	222
Amortisation of intangible assets	588	471
Depreciation and amortisation	479	3,943
Gain on disposal of fixed assets	(44)	–
	<u> </u>	<u><u> </u></u>

Amortisation of goodwill and intangible assets are classified as administrative expenses in condensed consolidated income statement.

(5) **Income tax expense**

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
The charge represents:		
Current taxation		
Profits tax outside Hong Kong	3,084	–
	<u> </u>	<u><u> </u></u>

There is no movement in provision for deferred tax during the six months ended 30 June 2004. No deferred tax asset has been recognised in respect of tax losses as the recoverability of these potential deferred tax assets is uncertain.

(6) Earnings (loss) per share

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Earnings (loss):		
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share:		
– Profit (loss) for the period	8,840	(10,382)
Number of shares:		
	Six months ended 30 June	
	2004	2003
Weighted average number of shares for the purposes of basic earnings (loss) per share:	2,575,275,117	<u>1,717,745,946</u>
Effect of dilutive potential shares in respect of share options and warrants	130,263,478	
Weighted average number of shares for the purposes of diluted earnings per share:	2,705,538,595	

Note: As the exercise of the Company's outstanding share options during the period ended 30 June 2003 would be anti dilutive, no diluted loss per share was presented in that period.

(7) Debtors and prepayments

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
The aged analysis of trade debtors is as follows :		
Within 30 days	10,713	32,157
31 - 60 days	6,178	2,221
61 - 90 days	5,631	1,535
91 - 120 days	5,956	1,602
121 - 150 days	5,008	1
151 - 180 days	4,023	-
More than 180 days	11,232(a)	-
	<hr/> 48,741	<hr/> 37,516
Other debtors and prepayments	21,803	48,615
	<hr/> 70,544 <hr/>	<hr/> 86,131 <hr/>

The Group normally allows a credit period of 90 to 180 days to its trade customers. The credit policy is consistent with the pharmaceutical industry practice in China.

- (a) It represents the remaining part of the trade debt due from a distributor in Cambodia. Pursuant to the sales contract entered into with the distributor in year 2003, the total trade debt of HK\$28,080,000 as at 31 December 2003 will be repayable by 10 equal monthly instalments commencing from January to October 2004. In turn, the outstanding balance of HK\$11,232,000 will be repayable by 4 equal monthly instalments from July to October 2004.

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(8) Creditors and accrued charges

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
The aged analysis of trade creditors is as follows :		
Within 30 days	2,141	5,343
31 - 60 days	950	876
61 - 90 days	1,048	660
More than 90 days	567	848
	4,706	7,727
Other creditors and accrued charges	13,339	8,795
	18,045	16,522

(9) Share capital

	Number of shares	Nominal value HK\$'000
Authorised		
At 1 January 2004 and 30 June 2004	10,000,000,000	100,000
Issued and fully paid		
At 1 January 2004	2,576,618,919	25,766
Issue of shares on exercise of options	105,500,000	1,055
Issue of shares on exercise of warrants	15,760,000	158
Repurchase of shares	(99,890,000)	(999)
At 30 June 2004	2,597,988,919	25,980

(10) Payments for investments

During the six months ended 30 June 2004, the Company has disposed of its beneficial rights to a drug development project with carrying of HK\$7,000,000 at 31 December 2003 for a consideration of RMB7,000,000, therefore sustaining a loss of about HK\$400,000 (subject to audit).

The Company has entered into contracts to acquire beneficial rights to two drug projects during the period at the cost of about HK\$20,932,000 and about HK\$14,143,000 respectively. Deposits of about HK\$19,989,000 and about HK\$13,200,000 have been paid respectively.

(11) Issue of warrants

Pursuant to a conditional placing and underwriting agreement dated 27 January 2004 entered into between the Company, Kingston Securities Limited and Kingston Corporate Finance Limited, the Company issued 340,000,000 warrants at a placing price of HK\$0.078 per warrant. Holders of the warrants are entitled to subscribe in cash for shares in the Company at an initial subscription price of HK\$0.102 per share (subject to adjustments). The subscription rights attaching to the warrants might be exercised within the period from 23 February 2004 to 26 February 2005 (both dates inclusive). The net proceeds raised on the issue of warrants was about HK\$24.5 million.

Application was made to the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the listing of, and permission to deal in, the warrants and any shares that may fall to be issued upon the exercise of the subscription rights attaching to the warrants. Dealings in the warrants on the Stock Exchange commenced on 27 February 2004.

(12) Related party transactions

During the six months ended 30 June 2004, the Company entered into the following transactions with an associate of the Group.

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Management fee income	120	120
Maintenance expenses paid	60	60
	<hr/> <hr/>	<hr/> <hr/>

The above transactions were recorded at cost.

(13) Post balance sheet date events

(a) *Grant of options*

The Company has granted options on 13 August 2004 under the share option scheme adopted by the Company on 15 July 2002. Details of which are as follows:

	Date of share options granted	Number of options granted	Subscription price	Exercise period
Category:				
Employees	13 August 2004	4,000,000	HK\$0.081	1 September 2004 to 12 August 2009
Category:				
Consultants	13 August 2004	200,000,000	HK\$0.081	1 September 2004 to 12 August 2009
Total for all categories		204,000,000		

The fair value of the options granted on 13 August 2004 measured on the same date amounted to approximately HK\$12,117,600. The following assumptions were used to derive the fair value using the Black-Scholes option pricing model:

1.	Expected volatility based on historical volatility of share prices	142.06%
2.	Expected annual dividend yield, based on historical dividends	—
3.	Expected life of options	5 years
4.	Hong Kong Exchange Fund Notes rate for corresponding estimated expected life indicated at the date of grant	3.34%

(b) *Loss on investments in securities*

As at the date of this report, the entire investments in securities held by the Group, as at 30 June 2004 have been sold at an unaudited loss of about HK\$42,125,000 against the valuation of the securities as at 30 June 2004. Such loss will be reflected in the second half of the year. The loss is mainly attributable to the disposal of shares in South Sea Petroleum Holdings Limited (previously known as Sen Hong Resources Holdings Limited) which is the consideration for the disposal of the 5% effective interests in two drugs projects, namely rhALR and Pazufloxacin, in December 2003 at a profit of HK\$19,127,000.

Taking into account the unrealised gain of HK\$36,200,000 and the net realised gain of HK\$847,000 recognised in the year ended 31 December 2003, and unrealised gain of HK\$827,000 recognised in the current period, the Group's net loss from investments in securities from 1 January 2003 to 30 June 2004 amounted to HK\$4,251,000.

Taking into account the gain on disposal of the 5% effective interests in two drugs projects, namely rhALR and Pazufloxacin, in December 2003, the Group's net gain on the aforesaid transactions amounted to HK\$14,876,000.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003 : Nil).

BUSINESS REVIEW AND PROSPECTS

Biopharmaceutical Division

Turnover and Profit

The turnover of the Division for the six months ended 30 June 2004 has increased remarkably from HK\$15.5 million to HK\$37.1 million representing a period-to-period growth of 139%. Gross profit for the period also increased by approximately 138% compared to that of the previous period. Both the turnover and the gross profit for the period posted significant growth as the sales network continued to strengthen and extend to different parts of China. The strong operating results further confirmed the benefits of corporate restructure conducted in 2003.

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.

Marketing, Sales and Distribution

The Group has substantially strengthened the resources in marketing activities and provision of 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" soared to over 800 by the end of the period.

The State Food and Drug Administration ("SFDA") granted the new formal standard for Wei Jia in May 2004. Under the new standard, the storage life of the drug is extended from one year to two years. This indicates SFDA's recognition of Wei Jia's advanced production technique and product quality. The grant of new standard will benefit the marketing and promotion of the drug.

Research and Development

Fibroscutum

The City University of Hong Kong's research team is in the process of finalizing the animals testings on Fibroscutum, a novel compound which is a potential new drug candidate for anti-cancer and anti-fibrosis applications. All required supplementary information has been submitted to the U.S. patent authority for the application of the grant of full patent on the anti-fibrosis and anti-cancer applications of Fibroscutum.

Second Generation "Wei Jia"

Research work on the recombinant DNA version of "Wei Jia" has yielded encouraging results. The core active proteins of Wei Jia was successfully expressed in both procaryotic and eucaryotic systems. Animal test data confirmed the effects of recombinant proteins in the treatment of hepatic fibrosis.

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 be made in late 2004.

Pazufloxacin

Core laboratory tests for Pazufloxacin, a new generation antibiotic, have been completed. The approval to conduct clinical trials for Pazufloxacin has been granted by the SFDA in September 2004.

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.

Prospects for the Current Year

With the strategic alliance with China's leading pharmaceutical and distribution groups, management is confident that the sales of Wei Jia would continue to post healthy growth in the current year. Cash flow and financial position of the Group have improved as a result of the placement of warrants in February 2004 and strong cash inflow from operations in the period. The improving fundamentals of the Group will accelerate to distribution network expansion as well as the research and development of new genetic drugs.

Clinical trial plans are being formulated for a number of pipeline projects like Fibroscutum, rhALR and Pazufloxacin. First phase clinical trials for some of these drug candidates are expected to begin in late 2004 or in the first half of 2005. Clinical trial results will help to confirm the huge underlying value of the Group's biotech knowhow and investment.

FINANCIAL REVIEW AND LIQUIDITY

The Company raised approximately HK\$24.5 million net proceeds by means of a warrant issue in February this year. Part of the proceeds will be applied for the general working capital of the Company. Details of the warrant issue are contained in the circular sent to shareholders on 17 February 2004. During the period, 15,760,000 warrants were exercised and the Group received subscription moneys of approximately HK\$1.6 million. The Company also received cash of approximately HK\$20.5 million during the period on redemption of two promissory notes issued in relation to the disposal of Sinogen in July 2003. In the period, the Group has repurchased 99,890,000 shares and 1,960,000 warrants for approximately HK\$16 million.

As at 30 June 2004, the Group had cash on hand of about HK\$74.2 million. The cash on hand 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 2004 stood at 10.2% which is roughly the same as the corresponding figure of 10.5% as at 31 December 2003.

FOREIGN EXCHANGE RISK

The majority of the Group's operations are located in the People's Republic of China (the "PRC"), and the main operational currencies are Hong Kong Dollars and Renminbi (the lawful currency of the PRC), there is no significant exchange rate fluctuation during the six months under review. It is not necessary for the Group to make any foreign currency hedging arrangement to minimize the foreign exchange risk and exposure.

CONTINGENT LIABILITY

There is no material change in information disclosed in the Annual Report 2003.

EMPLOYEE SCHEME

At the date of this report, the Group employed a total of 112 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

As at 30 June 2004, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Directors	Name of company/ associated corporation	Capacity/ Nature of interests	Interests in	Interests in	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
			shares (other than pursuant to equity derivatives) ⁽¹⁾	underlying shares pursuant to equity derivatives ^(1&2)		
Mr. Jay Chun	The Company	Beneficial owner/ Personal interest	43,638,000	2,500,000	354,628,000	13.65%
	The Company	Interest of controlled corporation/ Corporate interest	308,490,000 ⁽³⁾	–		
Mr. Shan Shiyong, alias, Sin Sai Yung	The Company	Interest of controlled corporation/ Corporate interest	353,190,000 ⁽⁴⁾	–	353,190,000	13.59%
Dr. Ma Xianming, alias, Ma Yin Ming	The Company	Beneficial owner/ Personal interest	–	1,000,000	1,000,000	0.04%

Notes:

- (1) Interests in shares and underlying shares stated above represent long positions.
- (2) The equity derivatives are physically settled and unlisted.

The interests of the Directors in the underlying shares pursuant to equity derivatives represent share options granted to them pursuant to the share option scheme adopted by the Company on 15 July 2002 (the "Share Option Scheme"), details of which are set out in the paragraph headed "SHARE OPTIONS" below.

- (3) These shares were held by August Profit Investments Limited, a company which is wholly owned by Mr. Jay Chun.
- (4) These shares were held by Best Top Offshore Limited, a company which is wholly owned by Mr. Shan Shiyong.

SHARE OPTIONS

The following table discloses movements in the Company's share options during the six months ended 30 June 2004 under the Share Option Scheme:

	Date of share options granted	Outstanding at beginning of the period	Exercised during the period	Outstanding at end of the period	Subscription price	Exercise period
Category:						
Directors						
Mr. Jay Chun	27 November 2003	2,500,000	–	2,500,000	HK\$0.088	27 November 2003 to 26 November 2008
Dr. Ma Xianming, alias, Ma Yin Ming	27 November 2003	1,000,000	–	1,000,000	HK\$0.088	27 November 2003 to 26 November 2008
Total for Directors		<u>3,500,000</u>	<u>–</u>	<u>3,500,000</u>		
Category:	27 November 2003	76,825,000	(37,500,000)	39,325,000	HK\$0.088	27 November 2003 to 26 November 2008
Employees						
Category:	27 November 2003	91,375,000	(68,000,000)	23,375,000	HK\$0.088	27 November 2003 to 26 November 2008
Consultants						
Total for all categories		<u>171,700,000</u>	<u>(105,500,000)</u>	<u>66,200,000</u>		

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

Save as disclosed under the paragraph headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES" above, as at 30 June 2004, the Company had not been notified any other person or corporation 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES AND WARRANTS

The Company has purchased 99,890,000 shares and 1,960,000 warrants on the Stock Exchange during the six months ended 30 June 2004 and all of these have been cancelled, details of which are as follows:

(i) Shares

Month of repurchase	No. of shares repurchased	Highest price paid per share	Lowest price paid per share	Total consideration paid
March 2004	36,506,000	HK\$0.157	HK\$0.146	HK\$5,528,026
April 2004	530,000	HK\$0.167	—	HK\$88,510
May 2004	49,654,000	HK\$0.169	HK\$0.155	HK\$8,062,722
June 2004	13,200,000	HK\$0.171	HK\$0.167	HK\$2,226,200
Total	99,890,000			HK\$15,905,458

(ii) Warrants

Month of repurchase	No. of warrants repurchased	Highest price paid per warrant	Lowest price paid per warrant	Total consideration paid
June 2004	1,960,000	HK\$0.074	HK\$0.070	HK\$141,200

Saved as disclosed above, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed shares or warrants during the period.

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 unaudited interim financial statements for the six months ended 30 June 2004.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that the independent non-executive Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the six months ended 30 June 2004.

By Order of the Board
LifeTec Group Limited
Jay Chun
Chairman

Hong Kong, 13 September 2004

As at the date of this report, the executive directors are Mr. Jay Chun (Chairman and Managing Director), Mr. Shan Shiyong, alias, Sin Sai Yung and Dr. Ma Xianming, alias, Ma Yin Ming and the independent non-executive directors are Mr. Frank Hu and Mr. Wang Faqi.