

## 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 2002 together with comparative figures for the corresponding period in year 2001 as follows:

### Condensed Consolidated Income Statement

	Notes	Unaudited Six months ended 30 June	
		2002 HK\$'000	2001 HK\$'000
Turnover	2	13,338	4,865
Cost of sales other than depreciation		(1,336)	(715)
Depreciation on production plant and equipment		(1,080)	(1,047)
Gross profit		10,922	3,103
Other income	3	5,590	259
Marketing, selling and distribution expenses		(8,070)	(2,305)
Administrative expenses		(13,472)	(11,084)
Research & development expenses		(475)	(240)
Other depreciation and amortisation		(2,664)	(3,794)
Loss from operations	4	(8,169)	(14,061)
Financial expenses		(1,272)	(2,527)
Share of losses of associates		(677)	(560)
Amortisation of premium on acquisition of associates		–	(3,500)
Gain on disposal of a subsidiary		–	625
Loss before taxation		(10,118)	(20,023)
Taxation	5	–	–
Loss before minority interests		(10,118)	(20,023)
Minority interests		(1,717)	1,479
Loss for the period		(11,835)	(18,544)
		2002 HK Cents	2001 HK Cents
Loss per share	6	(0.8)	(1.6)

## Condensed Consolidated Balance Sheet

		Unaudited 30 June 2002 HK\$'000	Audited 31 December 2001 HK\$'000
	Notes		
<b>Non-current assets</b>			
Property, plant and equipment		55,464	56,811
Investment properties		3,200	3,200
Patent		2,941	3,529
Interest in an associate		6,486	6,950
		<b>68,091</b>	70,490
<b>Current assets</b>			
Inventories		1,374	605
Trade debtors	7	7,619	3,200
Other debtors and prepayments	7	28,332	7,820
Investment in securities		–	6,100
Bank balances and cash		74,928	31,201
		<b>112,253</b>	48,926
<b>Current liabilities</b>			
Creditors and accrued charges	8	30,168	34,182
Amounts due to directors		438	2,658
Bank borrowings – due within one year		13,910	14,275
Obligations under finance leases – due within one year		293	295
		<b>44,809</b>	51,410
<b>Net current assets / (liabilities)</b>		<b>67,444</b>	(2,484)
<b>Total assets plus current assets / less current liabilities</b>		<b>135,535</b>	68,006
<b>Non-current liabilities</b>			
Bank borrowings – due after one year		10,627	13,154
Obligations under finance leases – due after one year		244	384
		<b>10,871</b>	13,538
<b>Minority interests</b>		<b>13,661</b>	11,944
		<b>111,003</b>	42,524
<b>Capital and reserves</b>			
Share capital	9	17,177	14,159
Reserves		93,826	28,365
		<b>111,003</b>	42,524

## Condensed Consolidated Cash Flow Statement

	Unaudited	
	Six months ended 30 June	
	2002	2001
		<i>(restated)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	<b>(33,807)</b>	(22,187)
Net cash used in investing activities	<b>(1,989)</b>	(1,471)
Net cash flows from financing activities	<b>80,004</b>	28,733
	<b>44,208</b>	5,075
Cash and cash equivalents at beginning of period	<b>30,720</b>	658
Cash and cash equivalents at end of period	<b>74,928</b>	5,733
<b>Analysis of Balances of Cash and Cash Equivalents</b>		
Cash and bank balances	<b>74,928</b>	5,733

## Condensed Consolidated Statement of Changes in Equity

For six months ended 30 June 2002

	Share capital	Share premium	Special reserve	Goodwill reserve	Translation reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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)
Exchange difference arising on consolidation	-	-	-	-	-	-	-
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

For six months ended 30 June 2001

	Share capital	Share premium	Special reserve	Goodwill reserve	Translation reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2000	10,739	83,772	88,643	(40,061)	461	(128,689)	14,865
Loss for the period	-	-	-	-	-	(18,544)	(18,544)
Exchange difference arising on consolidation	-	-	-	-	20	-	20
Issue of share capital	1,420	36,136	-	-	-	-	37,556
Exercise of share option	-	-	-	-	-	-	-
At 30 June 2001	12,159	119,908	88,643	(40,061)	481	(147,233)	33,897

## Notes to the Condensed Financial Statements

### (1) Accounting policies

Revised SSAP 1 and revised SSAP 15 are adopted in preparation of these unaudited condensed consolidated interim financial statements and comparative figures in the condensed consolidated financial statements have been restated to conform with current period's presentation.

Save as disclosed above, the accounting policies and basis of preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2001.

### (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 2002		Six months ended 30 June 2001	
	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	13,335	2,299	4,865	(3,263)
General trading & PVC	3	(459)	–	(624)
	<b>13,338</b>	<b>1,840</b>	4,865	(3,887)
Unallocated corporate expenses		(10,009)		(10,174)
		<b>(8,169)</b>		(14,061)

	Six months ended 30 June 2002		Six months ended 30 June 2001	
	Turnover <i>HK\$'000</i>	Operating Result <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Operating Result <i>HK\$'000</i>
<b>By geographical location:</b>				
PRC	13,335	2,182	4,865	(3,513)
HK	3	(342)	–	(374)
	<b>13,338</b>	<b>1,840</b>	4,865	(3,887)
Corporate expenses		(10,009)		(10,174)
		<b>(8,169)</b>		(14,061)

### (3) Other income

Other income represents the write-back of certain accounts payable and accrued charges which was 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	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Amortisation of patent	588	1,386
Depreciation	3,156	3,455
Loss on disposal of investment property	–	141
Loss on disposal of fixed assets	35	213

**(5) Taxation**

No provision for taxation has been made for the six months ended 30 June 2002 and for the six months ended 30 June 2001 as the Group incurred a loss in both periods.

**(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 2002 of HK\$11,835,000 (2001: loss of HK\$18,544,000) and the weighted average number of 1,478,686,277 shares (2001: 1,136,708,377 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**

	<b>30 June 2002 HK\$'000</b>	31 December 2001 HK\$'000
The aged analysis of trade debtors are as follows:		
Within 30 days	<b>2,050</b>	1,636
31 – 60 days	<b>1,571</b>	374
61 – 90 days	<b>1,920</b>	902
More than 90 days	<b>2,078</b>	288
	<b>7,619</b>	3,200
Down payment for GMP production plant	<b>9,962</b>	–
Other debtors and prepayments	<b>18,370</b>	7,820
	<b>35,951</b>	11,020

The Group allows credit period of 90 days to its trade customers.

Included in other debtors and prepayments is an amount of HK\$9,429,000 approximately representing temporary deposit with a PRC institution. The full amount of the deposit will be withdrawn before the end of August 2002. The remaining balance comprises mainly utility deposits and prepayments arising from regular operating activities of the Company and its subsidiaries.

#### (8) Creditors and accrued charges

	<b>30 June</b>	31 December
	<b>2002</b>	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
The aged analysis of trade creditors are as follows:		
Within 30 days	<b>11</b>	239
31 – 60 days	<b>6</b>	–
61 – 90 days	<b>14</b>	9
More than 90 days	<b>219</b>	311
	<b>250</b>	559
Other creditors and accrued charges	<b>29,918</b>	33,623
	<b>30,168</b>	34,182



**(9) Share capital**

	<b>Number of shares</b>	<b>Nominal value HK\$'000</b>
<b>Authorised</b>		
At 1 January 2002 and 30 June 2002	10,000,000,000	100,000
<b>Issued and fully paid</b>		
At 1 January 2002	1,415,945,946	14,159
Placement of new shares ( <i>note a</i> )	280,000,000	2,800
Exercise of share option ( <i>note b</i> )	21,800,000	218
At 30 June 2002	1,717,745,946	17,177

(a) On 14 May 2002, the single largest shareholder of the Company (the "Vendor") entered into an agreement with a placing agent and the Company relating to the placement of 235,000,000 existing shares in the Company held by the Vendor at HK\$0.29 per share through the placing agent to independent third parties; and the subscription of the same amount of new shares by the Vendor from the Company at HK\$0.29 per share.

On 14 May 2002, the Company entered into an agreement with a placing agent relating to the placement of 45,000,000 new shares in the Company at HK\$0.29 per share through the placing agent to independent third parties.

The transactions stated above were completed on 23 May 2002 and the net proceeds from the placement amounted to HK\$78,800,000. The Company intended to apply such net proceeds for the acquisition of new biotechnology drug projects or the increase in investment in existing biopharmaceutical operations and for general working capital of the Group.

The allotted shares ranked *pari passu* with the existing shares in the Company in all respects.

- (b) Mr. Jay Chun exercised his 21,800,000 share options at HK\$0.06848 per share and relevant new shares were allotted to Mr. Jay Chun on 11 June 2002.

#### (10) Related party transactions

During the six months ended 30 June 2002, the company entered into the following transactions with an associate of the Group.

	Six months ended 30 June	
	2002	2001
	HK\$'000	HK\$'000
Management fee income	120	120
Maintenance expenses paid	60	60

The above transactions were charged at cost.

### Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

## Business Review and Prospects

### Biopharmaceutical Division

#### *Turnover and Profit*

The turnover of the Division for the six months ended 30 June 2002 has substantially increased from HK\$4.9 million to HK\$13.3 million representing a period-to-period growth of 174.1%. Gross profit for the period also jumped by 3.5 folds approximately compared to that of the previous period. Both the turnover and the gross profit for the period accord with the budget of the Company. The sales volume for the period was 1,000,000 vials approximately. This is equal to the total sales for the whole of last year. The corresponding sales volume for the previous period was

490,000 vials approximately. Due to production constraint, the Company's current sales still remain at a sub-optimal level resulting in the contribution from sales being not sufficient to absorb all the basic operating expenses of the Group. Accordingly, the Group still registered a loss from operations of HK\$8.2 million for the period despite achieving notable improvement over the previous period. However, significant improvement is expected in the second half of the year as sales volume continue to increase by substantial percentages.

Marketing, selling and distribution expenses comprise mainly commission to sales agents and are directly related to sales. With the remainder representing marketing and promotion expenses relating mainly to professional seminar and symposiums organized by Weihai Sinogen Pharmaceutical Co., Ltd. ("Sinogen") and basic operating overheads for the corporate marketing team. The increase in administration expenses for the period was mainly attributable to increase in staff costs and traveling expenses due the strengthening of the operating management team in general and more active business activities during the period.

The loss before taxation and minority interest showed significant decrease from HK\$20 million in the previous period to HK\$10.1 million for the current period representing an overall decrease of 49.5%. This was mainly due to the absence of amortization of premium on acquisition of associated company as full provision has been made for premium on acquisition in the second half of last year. Due to the overall improvement in the financial position of the Company after the share placement in last December, the financial expenses of the Group for the year has significantly decreased by 48% from HK\$2.5 million to HK\$1.3 million. The overall decrease in loss for the period and the increase in the weighted average number of shares in issue during the period from 1.13 billion to 1.47 billion have accounted for the decrease in loss per share from 1.6 Hong Kong cents to 0.8 Hong Kong cents for the period.

*Marketing, Sales and Distribution*

The corporate marketing team directly employed by Sinogen has increased from an average of 15 staffs in the second half of last year to 33 staffs at the current date. This 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 a dramatic increase in the number of sales agents in various parts of the country and the number of hospitals using “Wei Jia” has soared from around 150 at the end of last year to over 400 by the end of the period. This has surpassed the budgeted target of 300. 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 600 by the end of the financial year. The number of sales agents will continue to grow to about 100 whereas that for user hospitals shall reach 1,000 approximately. In order to improve the control over the quality of the sales team and to squeeze the margin that has to be conceded to the sales agents, Sinogen has decided to build its own sales team in regions not yet effectively covered by existing sales agents. Sinogen’s own sales team will also provide strong support for accessing the 200,000 clinics segment of the market in rural areas of the country.

Sinogen has initiated more aggressive marketing activities since the end of last year with the aim to increase the brand awareness of “Wei Jia” and the penetration of the product in the professional sector. The subsidiary has held a total of 8 seminars and symposiums during the period, participated in a number of other exhibitions and also gained certain media exposure. These include the Shanghai International Forum On Hepatocirrhosis and its Complications, Satellite Meeting on Technical Features and Clinical Therapeutic Effectiveness of “pHGF”, Exchange Meetings on Various Clinical Applications of “pHGF”, etc

Up to the current date, the sales volume of “Wei Jia” has been constrained by production capacity. This is expected to be overcome when the new GMP production line becomes fully operational by the middle of August. The planned capacity of the new production line is 20 million vials per annum which is 10 times that of the existing capacity. We expect that the total sales volume in the second half will be substantially improved.

### *Overseas Market*

Arrangement is in process to introduce “Wei Jia” into the Vietnam market. It is expected that final regulatory approval by Vietnam will go through in the fourth quarter of the year. Sinogen will continue to explore access to other South East Asian markets in the next stage.

### *Organization and Staff*

Substantial effort has been devoted by the Group to gear up the number and the quality of staff at the operational and middle management levels to cope with the anticipated growth ahead. The total number of staff at Sinogen has significantly increased from 85 at the end of last year to 165 as at the date of this report. The increase will satisfy the staff requirement of the new production line and further strengthen the quality of middle management at the factory level. There are also staff increases on the sales and marketing side both at the sales headquarters in Shanghai and at the regional level to cope with anticipated growth in sales, marketing and promotion activities.

At the holding company level, a senior executive has joined force to provide support in the areas of corporate finance, corporate planning and promotion. The management believes that the overall strengthening of the management and operation team should well prepare the Company and Sinogen along its future track of development.

### *Research and Development*

#### Extended Clinical Trials

Sinogen is conducting clinical research to establish the extended indications of “Wei Jia”. Extended clinical trials of Wei Jia on paediatric hepatitis applications commenced earlier in the year and will be completed in the second half of the year. The result of the clinical trial will be formally announced later this year. Preliminary clinical results of the trials are very encouraging and could establish “Wei Jia” as one of the best hepatitis drugs in the paediatric segment of the market.

Extended clinical trials of “Wei Jia” for treating cirrhosis, fatty liver and alcoholic hepatitis will start in the near future. The trials will be conducted by one of the top cirrhosis experts in China and are expected to take about nine months to a year’s time. The success in the aforementioned areas of application will provide strong support for “Wei Jia” to access a vast new market segment.

Other research and trials to extend the drug delivery system of “Wei Jia” will also follow in the near future. This is part of a medium term development process designed to fully exploit the potential of and to improve the competitiveness and reach of “Wei Jia”.

#### Second Generation “Wei Jia”

Certain preliminary research work on the recombinant DNA version of “Wei Jia” has been conducted. We will be starting focused core research in conjunction with two local universities with possible grant from the Government. The entire research process is expected to take about 24 months time. However, it is expected that certain technology and product patents could be generated after the first nine months of research. Clinical trials for the recombinant DNA version will follow.

#### New Pipeline Projects

We are pursuing further negotiation for the potential acquisition of an anti-cancer gene therapy project and will consider a more definite course of action after reviewing the recent clinical trial results of the project. The project has a number of technological breakthroughs and could promise the development of a new drug with enormous commercial potential.

We are also negotiating the acquisition of or, possibly, cooperation on a recombinant human liver drug currently researched by a prestigious DNA Research Centre in China. Preliminary basic research shows that the new drug has good commercial potential in the longer term.

The Company continues to be watchful for original technology new projects and aims to gradually build a reasonable new project pipeline over the medium term.

**Trading and PVC Division**

The Group is gradually winding down the business and activities of this Division and will seek suitable opportunities to hive off the investment in this Division. 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 sell its interest in LT3000 in the foreseeable future. Since the premium on acquisition of the investment in LT3000 has been written off in the last financial year, the disposal is expected to result in positive cash flow to the Group.

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

**Prospects for the Current Year**

Management is confident on the timely completion of the new GMP production line of Sinogen and has scheduled a formal opening ceremony on 18th August this year. The new production line will increase production capacity of Sinogen by ten times and will be able to overcome the short supply problem that has been limiting the sales of "Wei Jia" so far. Based on the current progress of Sinogen, the Company is expected to end the year with several fold increase in sales. Deviation, if any, will depend on whether production could gear up to optimal capacity smoothly during the initial months. With increased sales volume and turnover in the second half and administration overheads being stable, the management is positive that Sinogen will be able to achieved significantly improved results in the second half with positive contribution to the Group.

## Financial Review and Liquidity

The Company raised approximately HK\$78,800,000 net proceeds by means of a share placement in May this year. Part of the proceeds has been applied for the construction of the new production line and working capital of Sinogen and the Company. The remaining balance has planned to be used for the potential acquisition of new drug projects and the increase in equity participation of Sinogen.

As at 30 June 2002, the Group had aggregate un-utilized credit facilities of HK\$82,000,000. The cash on hand and available credit facilities together will be sufficient for financing ongoing activities of the Group.

The percentage of total liabilities to total assets as at 30 June 2002 stood at 30.9% which compares favorably to 59.8% as at the end of the previous period.

## Employee Scheme

At the date of this report, the Group employed a total of 180 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' Interests in Shares

At 30 June 2002, the interests of directors in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of shares held	
	Personal interests	Corporate interests
Mr. Jay Chun	21,800,000	147,000,000 (note 1)
Mr. Shan Shiyong	Nil	235,460,000 (note 2)

Notes:

- (1) This represents the shares owned by August Profit Investments Limited which is wholly owned by Mr. Jay Chun.
- (2) This represents the shares owned by Best Top Offshore Limited which is wholly owned by Mr. Shan Shiyong.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors of the Company in trust for the Group, as at 30 June 2002, none of the directors or their associates had any interests in the securities of the Company or any of its associated corporation as defined in the SDI Ordinance.

## Directors' and Executives' Interest in Share Options

Details of movement of share options to directors and executives of the Company for the six months ended 30 June 2002 to subscribe for ordinary shares of the Company pursuant to the Company's share option scheme which was adopted at a special general meeting of the Company held on 3 January 1997 were as follows:

Name	Exercisable period	Exercise price HK\$	Number of share option			
			Balance at 1 January 2002	Granted during the period	Exercise during the period	Balance at 30 June 2002
<b>DIRECTORS</b>						
Shan Shiyong	2 Jun 2000- 1 Jun 2003	0.06848	21,800,000	-	-	21,800,000
Wang Xi Gang	2 Jun 2000- 1 Jun 2003	0.06848	21,800,000	-	-	21,800,000
Jay Chun	2 Jun 2000- 1 Jun 2003	0.06848	21,800,000	-	(21,800,000)	-
Total Directors			65,400,000	-	(21,800,000)	43,600,000
Yeung Kam Lung, Patrick	19 Apr 2000- 18 Apr 2003	0.24000	1,500,000	-	-	1,500,000
	5 Jun 2001- 4 Jun 2004	0.19600	2,500,000	-	-	2,500,000
	7 May 2002- 6 May 2005	0.14460	-	5,000,000	-	5,000,000
	8 May 2002- 7 May 2005	0.14580	-	2,500,000	-	2,500,000
Total employees			4,000,000	7,500,000	-	11,500,000
<b>TOTAL</b>			<b>69,400,000</b>	<b>7,500,000</b>	<b>(21,800,000)</b>	<b>55,100,000</b>

Save as disclosed above and other than certain nominee shares in subsidiaries held by Directors of the Company in trust for the Group, as at 30 June 2002, none of the directors, chief executives or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

### **Adoption of the New Share Option Scheme and Termination of the Existing Option Scheme**

At the special general meeting of the Company held on 15 July 2002, the resolutions relating to the termination of the existing share option scheme and the adoption of the new share option scheme were duly passed by the shareholders of the Company. The new share option scheme fully complies with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **Substantial Shareholders**

Other than the interest disclosed under the heading "Directors' Interests in Shares" above, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance discloses no other person as having an interest representing 10% or more of the issued share capital of the Company as at 30 June 2002.

### **Change of Chairman**

Mr. Shan Shiyong ("Mr. Shan") resigned as the Chairman of the Company with effect from 12 July 2002 and Mr. Jay Chun appointed in his place. Mr. Shan has resigned due to personal reasons and has remained as an executive director of the Company. The board welcomes the appointment of Mr. Jay Chun as the new Chairman and is confident that his leadership will drive the future development and focus of the Group on a healthy track.

## Audit Committee

The Audit Committee has reviewed with management the accounting principles 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 2002 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 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the six months ended 30 June 2002.

## 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 2002.

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

Hong Kong, 12 August 2002