



“ The Group has made great strides in identifying and anchoring a key focus in commercialization of biotech drug products. We believe that the mix of our expertise and creativity will provide the momentum to drive future success.”

# Chairman's Statement

## Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the annual report and audited financial statements of the Company and the Group for the year ended 31 December 2002.

### BUSINESS REVIEW

The Group reported a turnover of HK\$31,009,000 for the year as compared to HK\$22,318,000 for the previous year which respectively comprise HK\$30,979,000 and HK\$11,327,000 being derived from the operations of the Group's subsidiary, Weihai Sinogen Pharmaceutical Co., Ltd. ("Sinogen"). The remaining turnover was derived from the Group's trading subsidiaries which have been significantly wound down pursuant to the Group's adopted long term strategy. The Group's loss for the year significantly reduced from HK\$57,258,000 or 4.9 cents per share in the previous year to HK\$23,318,000 or 1.5 cents per share in current year. This represents an improvement of 59% in absolute terms and a 69% improvement in terms of loss per share compared to that of the previous year.

Both the Group's gross profit margin and loss for the year continued to show significant improvement. Overall gross profit margin for the year rose from 31% to 77% whereas operating loss for the year lowered from HK\$42,236,000 to HK\$14,599,000, representing an improvement of 65% compared to that of the previous year. The improvement has been due to the step rise in sales of Sinogen in the last quarter as a result of the increase in capacity and stock supply after the completion of the new production facilities. Minority interests reported a debit charge of HK\$5,211,000 and a credit of HK\$5,446,000 respectively representing the minority's share of the profit and the loss of Sinogen for the current and the previous year.

#### Biopharmaceuticals Division

Year 2002 was an eventful year filled with encouraging developments. In August, the Group completed the construction of the Sinogen's new production plant which significantly increased its capacity from 2 million vials per annum to approximately 20 million vials per annum. The new production volume is expected to be sufficient to meet the anticipated growth in demand in the coming few years. The new plant passed the Good Manufacturing Practice ("GMP") inspection and formally obtained the GMP certificate in October 2002. The GMP status is a strong quality stamp on Wei Jia's product and the organization and management systems of Sinogen. The improved status will strengthen Wei Jia's position in further penetrating the PRC and the overseas markets.

The turnover of the Division for the year of HK\$30,979,000 represents a 2.7 fold increase from the HK\$11,327,000 level in the previous year. The growth is supported by a corresponding 2.3 fold increase in sales volume between the two years. Due to initial teething-in hiccups of the new plant and the interruptions and distractions caused by the GMP certification process, the production output in the last quarter only managed to achieve a sub-optimal level. All major operational issues have now been resolved and the Division is well-positioned for achieving anticipated growth in 2003.

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### Marketing, Sales and Distribution

Our sales team continued to deliver remarkable performance in penetrating the PRC market. Wei Jia successfully made access to over 500 infectious disease hospitals at the current balance sheet date as compared to around 150 hospitals at the end of the previous year. It is expected that the number of Wei Jia user hospitals will surge to the 1,000 mark by the end of 2003. In order to reduce the level of distribution expenses and increase the direct control over the entire sales operation, Sinogen has decided to adopt the strategy of building its own sales team in regions not yet effectively covered by existing sales agents and gradually phase in the company's own sales team in established regions. In addition to infectious hospitals, the proprietary sales team will also provide strong support for accessing the large number of clinics in the country.

Aggressive marketing activities were initiated in the year to increase the brand awareness of Wei Jia and its recognition in the professional sector. A total of 12 seminars and symposiums were held during the year. Substantial media exposure was also gained through the participation in a number of other exhibitions and trade forums.

For the overseas markets, Sinogen is finalizing arrangements for launching "Wei Jia" in the Vietnam market. Current discussions are also being conducted for licensing Wei Jia to prominent distributors in South Korea. LifeTec will continue to explore the Asian markets as an ongoing strategy.

### Price Increase In Wei Jia

As a Category I drug, Wei Jia is entitled to a once only price increase within the first two years of obtaining the drug certificate from the State Drug Administration. Application has been made to the relevant government unit and approved at the provincial level. Nationwide approval from the central government is in process. Management is confident that the price increase application will go through in the near future. The price increase will provide more ammunition for leveraging the support of sales intermediaries and hospitals that will ultimately benefit the bottom line of Sinogen, though improvement will not be realized immediately due to existing constraints in the distribution channels. The price increase will also help to distinguish Wei Jia as a premium biotech drug in the market.

### Research and Development

The clinical trials for Wei Jia's application on pediatric hepatitis were successfully completed in the year. The clinical trials were conducted by the Beijing 302 Hospital of the People's Liberation Army and the Children's Hospital, Medical Center of Fudan University. The results indicated that Wei Jia is an efficacious drug for pediatric hepatitis with no major side effects. This has helped to open up sales opportunities for Wei Jia in a new market segment. There are approximately two million chronic hepatitis patients between 1 to 14 years old in the PRC. Very few drugs currently in the market are suitable for the treatment of pediatric hepatitis as most of these drugs have strong side effects on children.

Preparations for extended clinical trials of Wei Jia for treating cirrhosis, fatty liver and alcoholic hepatitis are under way. The trials will be conducted by one of the top cirrhosis experts in the PRC and are expected to take over nine months time. The success in the aforementioned areas of application will provide strong support for Wei Jia to access a vast and important market segment.



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Other research and trials for formulating the oral delivery 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 and to improve the competitiveness and reach of Wei Jia.



Joint research of Recombinant DNA version of Wei Jia with local universities

### Recombinant DNA Version of Wei Jia

The research for the Recombinant DNA version of Wei Jia in the PRC has been making satisfactory progress. In March 2003, the development for the Recombinant DNA version of Wei Jia received another strong boost with a 50% paired grant of HK\$1.7 million being obtained from the Innovation and Technology Fund ("ITF") of the Hong Kong Government. The City University of Hong Kong is the lead investigator of the project while a leading professor in the field from the University of Hong Kong will participate as co-

investigator. According to the contract signed between the parties, all the intellectual property rights derived from the research project will belong to LifeTec. The research project is scheduled for completion in July 2004.

LifeTec has also been exploring downstream cooperation opportunities with industry participants in the United States to ensure that the successful outcome of the research by the Hong Kong universities could lead on to clinical trials and market development in the North American market.

### New Product Pipeline

In December, 2002, the Group entered into an agreement to acquire 100% equity interest in Shanghai Youheng Biotechnology Company Limited ("SY") which owns two new drug projects namely, recombinant human Augmenter for Liver Regeneration ("rhALR"), a revolutionary recombinant DNA liver drug, and Pazufloxacin ("Pazu"), a new generation antibiotic. The total consideration paid by the Company for the 100% interest in SY is Rmb42.5 million in cash of which Rmb24 million is attributable to the rhALR project and Rmb18.5 million is attributable to the Pazu project. The independent professional valuations for rhALR and Pazu are HK\$30.7 million and HK\$20.8 million respectively. Due to the fact that certain governmental formalities had yet to be fulfilled at the year end, the HK\$38,186,000 consideration paid has been recorded as a deposit in the accounts as at the balance sheet date. The consideration for the acquisition was financed by internal resources of the Group.

The acquisition is consistent with LifeTec's strategy to gradually build a multi-product portfolio. The two new drugs possess very promising market potential and together form the new driving force for LifeTec. The rhALR acquisition will enable LifeTec to maintain its focus and leading edge in the liver drug market and to tap into the research talents and resources of its research partner, the Institute of Infectious Diseases of the People's Liberation Army (the "Institute").

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### Trading and PVC Division

The Group has significantly wound down the business and activities of this Division and will continue to 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 will result in positive cash flow to the Group.

### Medical Technology Division

Due to the sluggishness of the IT industry in general, the associated company, LT3000 Online Limited ("LT3000") shifted its focus to the development of a ERP system tailored for use by companies engaged in drug distribution operations in the PRC. The development of the new ERP system is approaching completion stage and will be launched in the second half of 2003.

Sales of the Division remained to be mediocre during the year resulting in the Group having to absorb HK\$1,444,000 share of loss of the associated company. The Group is seeking suitable opportunities to sell its interest in LT3000 and is hopeful that the successful development of the new ERP system will improve its position in attracting suitable buyers.

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

### Liquidity and Financial Resources

The Company conducted a share placement in May this year for 280,000,000 shares and raised net proceeds of HK\$78.8 million. The net proceeds have been used for the acquisition of new biotech projects as described above and working capital of the Group.

At the balance sheet date, the Group's aggregate bank borrowings and finance leases stood at HK\$13,480,000 of which HK\$4,821,000 was payable within 12 months, HK\$8,489,000 was payable between 2 and 5 years and HK\$170,000 payable after 5 years. Current liabilities of the Group reduced significantly from HK\$51,410,000 to HK\$23,769,000, representing a drop of 54%. As a result, the Group has reversed from a net current liability position of HK\$2,484,000 to a net current asset position of HK\$15,290,000. The Group's liabilities at the balance sheet date totalled HK\$32,428,000 which represents 21% of total assets as at that date. This compares favorably with the 54% at the balance sheet date of the previous year.

At the date of this report, the Company had unutilized credit facilities amounting to HK\$82,000,000 approximately. The Directors consider the Group's financial resources adequate for supporting its ongoing operations.

The Group's operations are primarily based in the PRC and the income derived and expenses incurred are denominated in Renminbi. On the other hand, the expenses of the headquarters and bank borrowings are denominated in Hong Kong dollars and are financed by Hong Kong dollar capital. Due to the relatively matched position in both Hong Kong and the PRC and the stability of the exchange rates between Renminbi and Hong Kong dollars, the directors consider specific hedges for currency fluctuation being not necessary.

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### Charges on Group Assets

At the current balance sheet date, the assets of the Group which were subjected to charges for securing banking facilities totalled HK\$4,320,000 comprising two properties in Hong Kong.

### 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. The total number of staff at Sinogen has significantly increased from 85 at the end of last year to 177 as at the current year end date. The increase satisfies the staff requirement of the new production line and further strengthens the quality of the middle management at the factory level during the transitional stage bridging the old and the new plant. Certain rationalization is planned as and when the factory operation is stabilized and under control. About 40 new sales and marketing staff have also been recruited after the year end, boosting the sales team to a total of 65 people strong. These additional sales professionals will strengthen our marketing prowess and accelerate the build-up of a proprietary sales and distribution network.

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

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 terms of employment of selected senior executives of the Company.

### Investor Relations

The Company has set up an investor relations team to promote the understanding of the Group's operations to the investment community. We also aim to increase the proportion of institutional investors in the shareholder base of the Company.

During the year, the Company pursued a number of investor road shows in the United States, England, Japan, Singapore and Hong Kong. These road shows were organized by leading international and local investment banks. LifeTec also participated in various biopharmaceutical investment forums organized by reputable brokerage firms. The Company was exposed to prestigious potential investors in these events through which insightful advice and comments had been received.

Management believes that investor relations activities will complement the achievements of the Company in mustering support from the investment community in the long term.

### Prospects

The prospects of LifeTec are improving. We have adequate capacity to produce GMP compliant products to meet market demand in the immediate and medium term. We see the growing recognition of Wei Jia's potential by market participants and technical experts both inside and outside of the PRC. Sales of Wei Jia



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will continue to achieve healthy growth in 2003. The restructuring of our distribution network from an agency dependent operation into a proprietary directed system is under way. This will definitely improve the penetration of Wei Jia and any new products to be launched in the PRC market. At the same time, development of overseas markets has made a headstart so far with ensuing benefits to be reaped in the forthcoming eighteen months. The launch of the research and development of the DNA recombinant version of Wei Jia earlier in the year and follow-up downstream development work are paving way for the future expansion of Wei Jia's market into leading regions of the world.

Management will continue to pursue the strategy of growth through mergers and acquisitions. LifeTec is actively exploring the acquisition of approved or ready to be approved new drugs and diagnostic products in order to provide fuel for the Group's growth in the immediate and intermediate future. Management believes that the strategy will provide a safety bridge for the Group as it transitions into a more mature biopharmaceutical company.

### Appreciation

On behalf of the Board of Directors of the Company, I would like to thank our shareholders, bankers, professional parties and customers for their support. I would also like to thank our executives and staff for their dedication and innovative contributions. I foresee a bright future for the Group as it evolves to become one of the leaders in its chosen field.

By Order of the Board  
**Jay Chun**  
*Chairman*

Hong Kong, 24 April 2003

