



Chairman's Statement



Year 2004 was full of encouraging new developments like research breakthrough, increased penetration of distribution network, launch of new corporate investment arm and the corporate reorganization.

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 2004.

BUSINESS REVIEW

The Group accomplished a number of breakthroughs in 2004. The Group's core business in biopharmaceutical division has made encouraging progress. Sales of the Group's biopharmaceutical product, Wei Jia, in China increased by approximately 119% from about HK\$28,988,000 in 2003 to a record high of about HK\$63,476,000 in 2004. Operating income of HK\$21,259,000 was recorded for operations in China, up 22 times compared with that of the previous year. The sharp increase in the turnover and income for our operations in China was attributable to the successful implementation of the marketing strategy for Wei Jia. At research and development front, the research team of the City University of Hong Kong and the Group have together invented Fibrocorin, a recombinant fusion protein with anti-fibrosis and anti-liver cancer applications. This new drug candidate will soon enter pre-clinical trials. To separately manage the biopharmaceutical and non-biopharmaceutical operations in a more effective and efficient manner, the Group underwent a corporate reorganization to form two business divisions: biopharmaceutical and non-biopharmaceutical divisions. All the existing non-biopharmaceutical assets and operations have been grouped under a new division operated by LT Capital Limited ("LT Capital"), a wholly-owned subsidiary of the Group whereas all the existing biopharmaceutical assets and operations have been grouped under another new division operated by LifeTec Pharmaceutical Limited ("LifeTec Pharmaceutical"), a wholly-owned subsidiary of the Group. The corporate reorganization can better reflect the financial performance of our core biopharmaceutical business versus the performance of other non-core businesses. All these initiatives would transform the Group into a technologically focused enterprise with diverse income streams and growth potential.

Turnover and Profit

The Group reported a turnover of HK\$64,179,000 for the year, representing an increase of approximately 12% as compared to HK\$57,213,000 for the previous year. Sales in China increased by approximately 119% from HK\$28,988,000 in year 2003 to HK\$63,476,000 in the year. There were no overseas sales in the year as compared to HK\$28,080,000 sales to Cambodia, Myanmar and Laos in 2003. Overall gross profit margin for the year dropped slightly from approximately 83% to 80% whereas operating profit for 2003 of HK\$36,543,000 turned to operating loss of about HK\$57,991,000 for the year. The Group reported loss of HK\$60,992,000 or 2.4 Hong Kong cents per share in the year compared to a net profit of HK\$36,848,000 or 1.7 Hong Kong cents earning per share in the previous year.

The loss has been mainly attributed to loss in securities investment and increase in marketing, research and development expenses. The Group has sold all securities portfolio in the year. Combining the securities and biotech investment transactions conducted in 2003 and 2004, the Group managed to post a net gain of about HK\$14,034,000 from such investment transactions over the two years. To set the foundation for the rapid sales growth of existing and new drugs in the years ahead, the Group devoted significant resources to strategic development and marketing activities in 2004.

Minority interests reported debit charges of HK\$208,000 representing the minority's share of the profits and the loss in subsidiaries for the current year. The profit before taxation and minority interests turned from HK\$38,559,000 in the previous year to loss before taxation and minority interests of HK\$58,280,000 for the year. Finance costs of the Group for the period significantly decreased by 60% from about HK\$730,000 to HK\$289,000. The reduction in finance costs was due to the improved financial position after the warrant issue in February 2004.

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Marketing, Sales and Distribution

During the year under review, the Group continued to expand the sales network of Wei Jia in various parts of China. The number of hospitals adopting Wei Jia increased to about 800 by the end of 2004 compared to 700 by the end of 2003. As the Group's distribution network for hospitals grew to a considerable scale, our management hence focused the marketing efforts on boosting the sales of Wei Jia per hospital. Our direct sales team had conducted an intensive hospital visit programme to render maximum support for the physicians on the use of Wei Jia. The Group also frequently updated the physicians on the latest clinical research findings on Wei Jia and organized regular seminars in hospitals to promote the successful clinical cases of Wei Jia. All these efforts helped to enhance the medical community's understanding of the superior efficacy of the drug.

The Group collaborated with major drug distribution groups in China to distribute Wei Jia to small to medium-sized hospitals and clinics. Marketing of Wei Jia to clinics has been making satisfactory progress in various regions in China and the Group's sales agency network expanded ahead of schedule. The Group's fast-growing direct sales force and agency network together have strengthened penetration of Wei Jia in the China market.

Although there were no export sales in the year under review, management are optimistic that Wei Jia would eventually gain strong acceptance in Asian and Western countries. To promote the benefits and latest clinical research findings of Wei Jia to physicians and bio-scientists worldwide, the Group continued its marketing activities to raise the global awareness of the product. The Group sponsored the International Forum on Liver Fibrosis (the "Forum") which was held in Hong Kong in November 2004. The University of Hong Kong and the City University of Hong Kong were the organizers of the Forum. In the Forum, leading liver disease experts presented Wei Jia's clinical studies based on years of extensive applications in China. The objective of the Forum was to discuss the latest breakthrough in the treatment for liver diseases, in particular, hepatitis and fibrosis. The Forum had drawn a wide spectrum of audience from both academic and biopharmaceutical communities.



Prominent speakers of the International Forum on Liver Fibrosis

Research and Development

During the year under review, Fibrocorin, Fibroscutum and rhALR, are the three new genetic drug candidates in the pipeline.

Fibrocorin

The research team of the City University of Hong Kong and the Group together have invented Fibrocorin, a recombinant fusion protein and a potential new drug candidate for anti-cancer and anti-fibrosis applications. Fibrocorin is genetically engineered to possess a longer half-life. As a result, this novel recombinant protein has a more sustainable and profound treatment effect. Patent application was filed by the Group for Fibrocorin in the United States in December 2004. Priority has been given to the research and development of Fibrocorin over other new drug candidates in the pipeline. Pre-clinical trials for Fibrocorin are expected to begin in the first half of 2005 and complete in mid 2007. Once the investigational new drug certificate is issued by the State Food and Drug Administration ("SFDA") of China, the Group would launch clinical trials on Fibrocorin in China. The latest research findings of Fibrocorin were presented to the world's leading liver experts from the United States, Germany, France, China and Hong Kong in the International Forum on Liver Fibrosis held in November 2004.

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Fibroscutum

Fibroscutum is a novel compound possessing anti-cancer and anti-fibrosis applications. Animal tests on Fibroscutum were completed in 2004. All the required supplementary information has been submitted to the U.S. patent authority for the grant of full patent.

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 recombinant human Augmentor for Liver Regeneration (“rhALR”). rhALR is a revolutionary gene therapy for various kinds of liver diseases. Animal tests of this new drug candidate yielded very positive results on rhALR's therapeutic value. Bioactivity and gene sequence of rhALR have been confirmed. The Group is conducting laboratory tests and preparing application documents for clinical trials in China.

Pazufloxacin

The approval for the clinical trials for Pazufloxacin, a new generation antiseptic, was granted by the SFDA in September 2004. The clinical trials are expected to be completed in 2006.

New Projects in Pipeline

At the current stage, the Group aims to focus its resources on developing its existing projects but will also explore different new projects that will contribute and complement the Group's product portfolio.

Prospects

Two wholly-owned subsidiaries, LifeTec Pharmaceutical and LT Capital, were formed in January 2005 for the corporate reorganization. All the existing biopharmaceutical businesses as well as new drug research and development activities are now conducted through LifeTec Pharmaceutical. During the year under review, the Group also appointed a new senior management with strong scientific background to supervise the biopharmaceutical division.

In addition, all the existing non-biopharmaceutical businesses and assets have been transferred to LT Capital. New business or investment projects will be conducted through LT Capital in the future. The corporate reorganization will not only allow the two divisions to expand independently at respective optimal paces, but will also better reflect the individual performance of biopharmaceutical and non-biopharmaceutical operations.

The Group has been making sound progress in broadening the drug portfolio. Management is actively negotiating exclusive or non-exclusive agency for a number of new drugs. Pre-clinical trials on novel genetic drug candidate Fibrocorin are expected to commence in 2005. There are about 400 million people worldwide infected with hepatitis, in which over 120 million hepatitis carriers are from China. Hepatitis carriers have a higher risk of developing liver fibrosis, cirrhosis and liver cancers than non-carriers. Therefore, market potential for anti-fibrosis and anti-liver cancer drugs is huge. LifeTec Pharmaceutical would centre its research and development efforts to Fibrocorin which is potentially the first recombinant drug in the world for the prevention and treatment of fibrosis. Clinical trials on Pazufloxacin are expected to be completed in 2006. Management is optimistic that all these trials will be completed according to schedule. If the clinical trials yield favorable results and these new drug candidates are successfully launched on the market, they are expected to make positive contribution to the Group's future sales and profit.

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The Group will capture new business opportunities through LT Capital which will focus on projects in the fast-growing business sectors. The Group's management is currently reviewing a number of investment opportunities which meet our investment criteria. Leveraging on our management's investment expertise and extensive network, we are optimistic that LT Capital is on the fast track to attain high returns and broaden the revenue streams for the Group.

Liquidity and Financial Resources

The Company raised approximately HK\$24,567,000 net proceeds by means of a warrants issue (the "Warrants Issue") in February 2004. The Company also received subscription moneys of approximately HK\$13,409,000 in total on the exercise of the warrants and share options in 2004. Some of the proceeds were applied for the working capital of the Group. The remaining balance is reserved for potential acquisition of new projects. Details of the Warrants Issue are contained in the Warrants Issue Prospectus sent to shareholders on 17 February 2004. During the year under review, the Company also received cash of HK\$30,779,000 as the consideration for the disposal of Goldstone in July 2003.

At the balance sheet date, the Group's aggregate bank borrowings and finance leases stood at HK\$2,895,000 of which HK\$2,725,000 was payable within 12 months, HK\$35,000 was payable between 2 and 5 years. Current liabilities of the Group increased from HK\$19,633,000 to HK\$21,180,000, representing a rise of 8%. The Group's net current assets decreased from HK\$183,851,000 to HK\$111,286,000 to at the balance sheet date. The Group's liabilities at the balance sheet date totaled HK\$28,262,000. The percentage of total liabilities to total assets as at 31 December 2004 stood at 11% which is same as the corresponding figure of 11% as at 31 December 2003.

As at 31 December 2004, the cash on hand and available credit facilities at the current date are sufficient for financing ongoing activities of the Group.

The Group's operations are primarily based in China and the income derived and expenses incurred are denominated in Renminbi. There were no export sales in the year. 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 China and the stability of the exchange rates between Renminbi and Hong Kong dollars, the directors consider that specific hedges for currency fluctuation are not necessary.

CHANGE OF DIRECTORSHIP

Ms. Ma Shiwei ("Ms. Ma") was appointed as an independent non-executive director of the Company and a member of the audit committee of the Company with effect from 28 September 2004.

Ms. Ma, aged 48, holds a master degree in business administration from Touro University International. She has over 16 years of experience in management of international trading. Ms. Ma is the General Manager of CHINA WORLDBEST GROUP (HONG KONG) CO., LTD., which is a subsidiary of one of the largest pharmaceutical groups in China.

Charges on Group Assets

At 31 December 2004, the Group's bank borrowings were secured by charges over properties of the Group with aggregate net book value of approximately HK\$1,070,000 (2003: HK\$4,295,000).

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Organization and Staff

The Group has 120 staff in total as at the date of this report. Majority of the staff are sales and marketing executives located in China. The Group is actively seeking talent to join the sales and marketing as well as research and development team in order to cope with the fast growing operations.

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 selected senior executives of the Company.

Investor Relations

The Group continues to adopt an active investor relation program to broaden the shareholder base and promote our investment value to the investment community. Two individual strategic investors together became substantial shareholders of the Group in 2004. They are respected community leaders in Macau and would provide valuable advice to the Group on gaming related business. The investor relation team would maintain an active dialogue with the existing international institutional investors to keep them well informed of the Group's new business initiatives.

Appreciation

Year 2004 was full of encouraging new developments like research breakthrough, increased penetration of distribution network, launch of new corporate investment arm and the corporate reorganization. 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 innovation.

By Order of the Board

Jay Chun

Chairman

Hong Kong, 28 April 2005