

LifeTec 生命科技集團有限公司
LIFETEC GROUP LIMITED



Interim Report
2005

RESULTS

The board of directors (the "Board") of LifeTec Group Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 together with comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Turnover	2	30,220	37,149
Cost of sales		(15,308)	(6,399)
Gross profit		14,912	30,750
Other income		895	2,062
Marketing, selling and distribution expenses		(9,867)	(8,521)
Administrative expenses		(12,018)	(14,197)
(Loss) profit from operations	3	(6,078)	10,094
Finance costs		(72)	(169)
Allowance for doubtful debts	4	(416)	–
Loss on disposal of investment in new drug project		–	(400)
Share of profit of an associate		–	2,691
(Loss) profit before taxation		(6,566)	12,216
Income tax expense	5	(1,688)	(3,084)
(Loss) profit for the period		(8,254)	9,132
Attributable to:			
Equity holders of the Company		(8,203)	8,840
Minority interests		(51)	292
(Loss) profit for the period		(8,254)	9,132
		2005 HK Cents	2004 <i>HK Cents</i>
(Loss) earnings per share	6		
– Basic		(0.3)	0.3
– Diluted		N/A	0.3

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2005 HK\$'000	Audited 31 December 2004 HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		3,756	4,164
Investment property		3,480	3,480
Goodwill		555	555
Intangible assets	10	62,282	46,744
Payments for investments	11	73,726	69,955
		143,799	124,898
Current assets			
Inventories		266	–
Debtors and prepayments	7	38,948	66,227
Promissory notes – due within one year		–	10,259
Advances to consulting companies		61,673	48,069
Bank balances and cash		22,249	7,911
		123,136	132,466
Current liabilities			
Creditors and accrued charges	8	23,114	15,581
Amounts due to directors		484	524
Bank borrowings – due within one year		1,450	2,725
Tax payable		3,906	2,350
		28,954	21,180
Net current assets		94,182	111,286
Total assets less current liabilities		237,981	236,184
Non-current liabilities			
Bank borrowings – due after one year		103	170
Deferred tax liability		6,912	6,912
		7,015	7,082
Net assets		230,966	229,102
Capital and reserves			
Share capital	9	26,777	25,745
Reserves		200,448	199,565
Total equity attributable to equity holders of the Company		227,225	225,310
Minority interests		3,741	3,792
Total equity		230,966	229,102

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Net cash from operating activities	28,353	26,885
Net cash (used in) from investing activities	(22,719)	17,447
Net cash from financing activities	8,704	16,583
Increase in cash and cash equivalents	14,338	60,915
Cash and cash equivalents at beginning of period	7,911	13,293
Cash and cash equivalents at end of period	22,249	74,208
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	22,249	74,208

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For six months ended 30 June 2005

	Share capital	Share premium	Special reserve	Warrant reserve	Option reserve	Goodwill reserve	Translation reserve	Deficit	Sub-total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005 (original figure)	25,745	306,214	88,643	20,058	17,461	93	239	(233,143)	225,310	3,792	229,102
Derecognition of negative goodwill (note 1)	-	-	-	-	-	(93)	-	93	-	-	-
At 1 January 2005 (restated)	25,745	306,214	88,643	20,058	17,461	-	239	(233,050)	225,310	3,792	229,102
Issue of shares	1,032	14,463	-	(5,377)	-	-	-	-	10,118	-	10,118
Movement in option reserve on exercise of option	-	2,767	-	-	(2,767)	-	-	-	-	-	-
Movement in equity on expiry of warrants	-	-	-	(14,681)	-	-	-	14,681	-	-	-
Loss for the period	-	-	-	-	-	-	-	(8,203)	(8,203)	(51)	(8,254)
At 30 June 2005	26,777	323,444	88,643	-	14,694	-	239	(226,572)	227,225	3,741	230,966

For six months ended 30 June 2004

	Share capital	Share premium	Special reserve	Warrant reserve	Option reserve	Goodwill reserve	Translation reserve	Deficit	Sub-total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	25,766	313,381	88,643	-	-	93	239	(172,417)	255,705	3,584	259,289
Issue of warrants	-	-	-	25,141	-	-	-	-	25,141	-	25,141
Expenses incurred in connection with the issue of warrants	-	-	-	(574)	-	-	-	-	(574)	-	(574)
Issue of shares	1,213	10,816	-	(1,137)	-	-	-	-	10,892	-	10,892
Repurchase of warrants	-	-	-	(142)	-	-	-	-	(142)	-	(142)
Repurchase of shares	(999)	(14,965)	-	-	-	-	-	-	(15,964)	-	(15,964)
Expenses incurred in connection with the repurchase of shares	-	(73)	-	-	-	-	-	-	(73)	-	(73)
Profit for the period	-	-	-	-	-	-	-	8,840	8,840	292	9,132
At 30 June 2004	25,980	309,159	88,643	23,288	-	93	239	(163,577)	283,825	3,876	287,701

NOTES:

(1) Accounting policies

These financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 2004 except that the Company has changed certain of its accounting policies following its adoption of several new Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Company's accounting policies that have material impacts on this interim report are as follows:

- (a) Presentation of minority interests has been changed with adoption of HKAS 1 "Presentation of Financial Statements". Minority Interests now form part of the total equity as presented in the Group's consolidated balance sheet. In the Group's consolidated income statement, minority interests are now presented as an allocation of profit and loss. This change in presentation has been applied retrospectively.
- (b) The adoption of HKFRS 3 has resulted in a change in the accounting policy relating to goodwill.

Previously, goodwill arising on acquisition of subsidiaries prior to 1 January 2001 was held in reserves, and would be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill was determined to be impaired. Goodwill arising on acquisition of subsidiaries after 1 January 2001 was capitalised and amortised on a straight line basis over its useful economic life.

With effect from 1 January 2005, positive goodwill will not be amortised. Positive goodwill is subject to impairment test and impairment losses are recognized, if any. This new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements in HKFRS 3. As a result, comparative figures have not been restated.

The carrying amount of negative goodwill previously recognized is no longer recognized and is credited to deficit in reserve.

On disposal of a subsidiary, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the gain or loss on disposal.

(1) Accounting policies (continued)

The effect of the changes in the accounting policies described above is a decrease in amortisation of goodwill of approximately HK\$92,500 for the period.

Save as disclosed above, other new HKFRSs and HKASs adopted have no material impact on this interim report.

(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 2005		Six months ended 30 June 2004	
	Turnover HK\$'000	Operating result HK\$'000	Turnover HK\$'000	Operating result HK\$'000
Geographical segments:				
People's Republic of				
China	30,003	3,163	36,570	16,541
Other regions	217	207	579	37
	<u>30,220</u>	<u>3,370</u>	<u>37,149</u>	<u>16,578</u>
Unallocated corporate expenses		<u>(9,448)</u>		<u>(6,484)</u>
(Loss) Profit from operations		<u>(6,078)</u>		<u>10,094</u>

(3) (Loss) profit from operations

(Loss) profit from operations has been arrived at after charging (crediting):

	Unaudited	
	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Amortisation of goodwill	—	94
Amortisation of intangible assets	—	588
Depreciation and amortisation	454	479
Gain on disposal of fixed assets	—	(44)
	<u> </u>	<u> </u>

(4) Allowance for doubtful debts

Allowance for doubtful debts is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Allowance for amount due from an associate	416	—
	<u> </u>	<u> </u>

(5) Income tax expense

	Unaudited	
	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
The charge represents:		
Current taxation		
Profits tax outside Hong Kong	1,688	3,084
	<u> </u>	<u> </u>

There is no movement in provision for deferred tax during the six months ended 30 June 2005. 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) earnings per share

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

	Unaudited	
	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
(Loss) earnings:		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share:		
– (Loss) profit attributable to equity holders of the company for the period	(8,203)	8,840

Number of shares:

	Six months ended 30 June	
	2005	2004
Weighted average number of shares for the purposes of basic (loss) earnings per share:	2,656,511,151	2,575,275,117
Effect of dilutive potential shares in respect of share options and warrants	N/A	130,263,478
Weighted average number of shares for the purposes of diluted earnings per share:	N/A	2,705,538,595

Note: As the exercise of the Company's outstanding share options during the period ended 30 June 2005 would be anti dilutive, no diluted loss per share was presented in that period.

(7) Debtors and prepayments

The aged analysis of trade debtors is as follows :

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Within 30 days	6,728	2,633
31 – 60 days	3,910	1,303
61 – 90 days	2,806	1,915
91 – 180 days	6,646	9,370
181 – 365 days	4,219	36,112
Over 365 days	631	3,052
	24,940	54,385
Amount due from a former subsidiary	10,998	4,330
Loan to an independent third party	–	3,133
Balance of consideration receivable resulting from disposal of beneficial rights to a drug under development	–	943
Other debtors and prepayments	3,010	3,436
	38,948	66,227

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.

(8) Creditors and accrued charges

The aged analysis of trade creditors is as follows :

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Within 30 days	4,207	–
31 – 60 days	71	–
61 – 90 days	–	–
More than 90 days	50	–
	4,328	–
Value added tax payable	7,283	6,611
Other creditors and accrued charges	11,503	8,970
	23,114	15,581

(9) Share capital

	Number of shares	Nominal value HK\$'000
Authorised		
At 1 January 2005 and 30 June 2005	10,000,000,000	100,000
Issued and fully paid		
At 1 January 2005	2,574,552,919	25,746
Issue of shares on exercise of options	28,700,000	287
Issue of shares on exercise of warrants	74,420,000	744
At 30 June 2005	2,677,672,919	26,777

(10) Intangible assets

An agreement for acquisition of a new drug project is completed during the period. In this connection, net increase in intangible assets is about HK\$15,538,000.

(11) 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.

During the period, the Company has also acquired beneficial rights to two drug projects during the period at the cost of about HK\$9,429,000 and about HK\$10,371,000 respectively. Deposits of about HK\$8,486,000 and about HK\$9,429,000 have been paid respectively.

(12) 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. The subscription rights attaching to the warrants might be exercised within the period from 23 February 2004 to 25 February 2005 (both dates inclusive). The net proceeds raised on the issue of warrants was about HK\$24.5 million.

Dealings in the warrants on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") commenced on 27 February 2004. The last day of trading of the warrants was 25 February 2005. After 25 February 2005, the warrants were expired. During the lifetime of the warrants, 21,960,000 warrants were purchased by the Company in 2004, 114,860,000 warrants were exercised and 203,180,000 warrants were expired. On expiry, the balance of warrant reserve in sum of about HK\$14,681,000 were transferred to set off the deficit in reserve.

INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

BUSINESS REVIEW AND PROSPECTS

Turnover and Profit

The turnover of the Group for the six months ended 30 June 2005 reduced from HK\$37.1 million to HK\$30.2 million, representing a period-to-period decline of approximately 19%. Gross profit for the period also decreased by approximately 52% compared to that of the previous period. Both the turnover and the gross profit for the period reduced due to intense market competition.

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 during the period.

The profit before taxation and minority interests turned from HK\$12.2 million in the previous period to a loss before taxation of HK\$6.6 million for the current period. Finance costs of the Group for the period significantly decreased by 57% from approximately HK\$169,000 to approximately HK\$72,000. The reduction in finance costs was due to the continuous reduction in bank loans. The Group reported a loss of HK\$8.2 million or 0.3 Hong Kong cents per share for the period compared to profit of HK\$8.8 million or 0.3 Hong Kong cents per share for previous period.

Marketing, Sales and Distribution

The Group continued to strengthen the resources in marketing activities and provision of quality sales and customers services to agents and customers of the subsidiary. The number of hospitals using “Wei Jia” maintained at about 800 by the end of the period. Increased market competition led to more rebate paid to distributing agents of pharmaceutical products.

Research and Development

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. The Group is formulating the plan for Fibrocorin's pre-clinical trials with a target completion date around mid 2007.

Recombinant Human Augmenter For Liver Regeneration ("rhALR")

Recombinant human augmenter for Liver Regeneration ("rhALR") is a revolutionary gene therapy for various kinds of liver diseases. The Group develops rhALR in conjunction with the research team at the Institute of Infectious Diseases of the People's Liberation Army. The Group is conducting laboratory tests and is formulating the plan for clinical trials in China.

Pazufloxacin

Clinical trials for Pazufloxacin, a new generation antibiotic, have been making good progress towards the target completion in late 2006.

New Pipeline Projects

The Group will focus its resources on developing its existing pipeline projects to broaden the product's portfolio and fully utilize its distribution network in China and overseas.

Prospects for the Current Year

Management is confident that as the Group's direct sales team continues to flourish, the sales performance and profitability of the pharmaceutical division will improve despite the highly competitive market environment. With the direct sales team, the Group can effectively manage the timing and impact of nationwide marketing campaign in China. In addition, less selling costs are associated with sales through the Group's own direct sales channels than sales through third party distributors and agents whose commissions rates have been increasing in last few years. To develop new revenue streams, the Group is actively broadening the pharmaceutical product lines. The Group has also been discussing with major local pharmaceutical importers in Asia and overseas on the sales of the Group's biopharmaceutical products to these countries.

Research and development of new drug candidates have been progressing on schedule. These pipeline projects include Fibrocorin, rhALR and Pazufloxacin. The new drugs under development compliment one another as they vary in their development cost and launch date. Together they form an integral part of intellectual assets of the Group and serve as the foundation for the Group's prosperous future.

LT Capital Limited ("LT Capital"), the Group's subsidiary specialized in non-biopharmaceutical investments, has completed initial preparation for a number of investments related to technology and electronic systems for which patent applications have been filed in the United States and some Asian countries. LT Capital is entering the late stage of discussion with prospective business partners for collaboration in these new high growth projects. Management believes these new projects can generate sound return to the Group in medium term.

FINANCIAL REVIEW AND LIQUIDITY

As at 30 June 2005, the Group had cash on hand of approximately HK\$22.2 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 2005 stood at approximately 13% which is similar to the same percentage of approximately 11% as at 31 December 2004.

EMPLOYEE SCHEME

At the date of this report, the Group employed a total of 111 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) Shares

As at 30 June 2005, 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 shares (other than pursuant to equity derivatives) ⁽¹⁾	Interests in underlying shares pursuant to equity derivatives ⁽¹⁾	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr. Jay Chun	The Company	Beneficial owner/ Personal interest	56,858,000	2,500,000	386,848,000	14.45%
	The Company	Interest of controlled corporation/ Corporate interest	327,490,000 ⁽²⁾	–		
Mr. Shan Shiyong, alias, Sin Sai Yung	The Company	Interest of controlled corporation/ Corporate interest	353,190,000 ⁽³⁾	–	353,190,000	13.19%
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.

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 paragraph (ii) below.

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

(ii) Share options

The following table discloses movements in the Company's share options during the six months ended 30 June 2005 under the Share Option Scheme:

	Date of share options granted	Exercisable period	Exercise price per share	Number of share options		
				Outstanding at beginning of the period	Exercised during the period	Outstanding at end of the period
Category:						
Directors						
Mr. Jay Chun	27.11.2003	27.11.2003 to 26.11.2008	HK\$0.088	2,500,000	—	2,500,000
Dr. Ma Xianming, alias, Ma Yin Ming	27.11.2003	27.11.2003 to 26.11.2008	HK\$0.088	1,000,000	—	1,000,000
Category:	27.11.2003	27.11.2003 to 26.11.2008	HK\$0.088	39,325,000	(28,700,000)	10,625,000
Employees						
	13.08.2004	01.09.2004 to 12.08.2009	HK\$0.081	4,000,000	—	4,000,000
Category:	27.11.2003	27.11.2003 to 26.11.2008	HK\$0.088	23,375,000	—	23,375,000
Consultants						
	13.08.2004	01.09.2004 to 12.08.2009	HK\$0.081	200,000,000	—	200,000,000
	01.11.2004	01.11.2004 to 31.10.2009	HK\$0.086	50,000,000	—	50,000,000
Total for all categories				320,200,000	(28,700,000)	291,500,000

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

Save as disclosed under the heading "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES" above, as at 30 June 2005, 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 LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2005.

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 2005.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2005, save for the following deviations:

Code Provision A.2.1

Under this code provision, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Jay Chun is the Chairman of the Board and the managing director of the Company. In the opinion of the Board, the role of the managing director and the chief executive officer is the same. The Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. Hence, the Board believes that it is in the best interest of the shareholders of the Company that Mr. Jay Chun will continue to assume the roles of the Chairman of the Board and the managing director of the Company. However, the Company will review the current structure as and when it becomes appropriate in future.

Code Provision A.4.1

Under this code provision, the non-executive directors should be appointed for a specific term, subject to re-election.

Currently, only one of the three independent non-executive directors is appointed for a specific term. However, all independent non-executive directors, whether they are appointed for a specific term or not, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Bye-laws of the Company, and their appointment will be reviewed when they are due for re-election. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the Code.

Code Provision A.4.2

Under this code provision, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Under the provisions of the Bye-laws of the Company, at each annual general meeting one-third of the directors for the time being shall retire from office by rotation provided that the Chairman of the Board and the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire each year. The Board considers that the continuity of the Chairman of the Board and the managing director of the Company and his leadership and business network will be essential for the stability of the business and key management of the Company. As such, the Board is of the view that the Chairman of the Board and the managing director of the Company need not subject to retirement by rotation. In addition, as the Board comprises 5 other directors who will be subject to retirement by rotation under the Bye-laws of the Company which rotation cycle roughly equals to once every three years, the Board also considers that the Company's corporate governance practices are no less exacting than those set out in the Code.

Code Provision B.1.1

Under this code provision, the Company should establish a remuneration committee with terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The Company has not established the remuneration committee and will establish one with appropriate terms of reference in the second half of the financial year ending 31 December 2005.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its code of conduct regarding directors’ securities transactions. Having made specific enquiry of all directors, the directors have confirmed that they have complied with the requirements set out in the Model Code during the six months ended 30 June 2005.

By Order of the Board
LifeTec Group Limited
Jay Chun
Chairman

Hong Kong, 29 September 2005

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, Mr. Wang Faqi and Ms. Ma Shiwei.