

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The Directors of LifeTec Group Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2005 as follows:

AUDITED CONSOLIDATED INCOME STATEMENT

For the Year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	3	85,478	64,179
Cost of sales		(59,568)	(12,575)
Gross profit		25,910	51,604
Other operating income		4,714	3,383
Marketing, selling and distribution costs		(19,981)	(24,039)
Administrative expenses		(29,159)	(43,355)
Research and development expenditure		(1,706)	(1,500)
Loss on disposal of beneficial rights to a drug under development		—	(400)
Loss on disposal of investments in securities		—	(41,293)
Impairment loss for doubtful debts		(2,873)	(2,391)
Loss from operations		(23,095)	(57,991)
Finance costs		(108)	(289)
Loss before taxation		(23,203)	(58,280)
Taxation	4	(1,197)	(2,504)
Loss for the year		(24,400)	(60,784)
Attributable to:			
Equity holders of the Company		(24,095)	(60,992)
Minority interests		(305)	208
		(24,400)	(60,784)

Loss per share (<i>HK cents</i>)	5		
– Basic		(0.90)	(2.38)
– Diluted		N/A	N/A

AUDITED CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	2005 HK\$'000	2004 <i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	4,715	4,164
Investment properties	3,480	3,480
Goodwill	–	555
Intangible assets	65,037	46,744
Interests in an associate	–	–
Payments for investments	74,791	69,955
	148,023	124,898
Current assets		
Inventories	37	–
Debtors and prepayments	30,799	66,227
Promissory notes	–	10,259
Advances to consulting companies	51,650	48,069
Bank and cash balances	26,713	7,911
	109,199	132,466
Less: Current liabilities		
Creditors and accrued charges	20,472	15,581
Amounts due to directors	1,124	524
Bank borrowings – due within one year	135	2,725
Taxation payable	3,233	2,350
	24,964	21,180
Net current assets	84,235	111,286
Total assets less current liabilities	232,258	236,184
Non-current liabilities		
Bank borrowings – due after one year	36	170
Deferred tax liabilities	9,654	6,912
	9,690	7,082
NET ASSETS	222,568	229,102

Capital and reserves

Share capital	27,633	25,745
Reserves	191,420	199,565
Equity attributable to equity holders of the Company	219,053	225,310
Minority interests	3,515	3,792
TOTAL EQUITY	222,568	229,102

Notes :

1. QUALIFICATION IN THE AUDITORS' REPORT

The Company's auditors could not obtain sufficient audit evidence to access whether the intangible assets and the payments for investments amounting to HK\$46,744,000 and HK\$69,955,000 respectively were fairly stated on the consolidated balance sheet as at 31 December 2004. The Company's auditors also could not obtain sufficient audit evidence to access whether the intangible assets and the payments for investments amounting to HK\$65,037,000 and HK\$74,791,000 respectively were fairly stated on the consolidated balance sheet as at 31 December 2005. In addition, The Company's auditors could not obtain sufficient audit evidence to access whether the interests in subsidiaries amounting to HK\$220,588,000 and HK\$226,101,000 were fairly stated on the Company's respective balance sheet as at 31 December 2005 and as at 31 December 2004 respectively. Accordingly, the auditors have qualified their report in these respects. The qualified auditors' report is included in the Company's annual report 2005.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

(i) HKAS 1 Presentation of financial statements and HKAS 27 Consolidated and separate financial statements

In previous years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the loss attributable to the equity holders of the Company.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to the presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity holders of the Company. These changes in presentation have been applied retrospectively with comparatives restated as shown in the financial statements.

(ii) HKAS 17 Leases

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

In the opinion of the directors, the leasehold land and buildings of the Group cannot be allocated reliably between the land and buildings elements, therefore, the entire lease payments of land and buildings are still included in property, plant and equipment and are amortised over the lease terms. Save as disclosed above, this change in accounting policy has had no effect on the financial statements.

(iii) HKFRS 3 Business Combinations

In the current year, the Group has applied HKFRS 3 which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. The amortisation of goodwill in year 2004 was HK\$185,000. Comparative figures for year 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss in the year in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves. Negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from

which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill of HK\$93,000 previously recorded in goodwill reserve with a corresponding credit to accumulated losses at 1 January 2005.

At the date of authorisation of these financial statements, HKICPA has issued certain new and revised standards and interpretations that are not yet effective to the financial statements. The directors anticipate that the adoption of these new and revised standards and interpretations in future periods will have no material impact on the financial statements of the Group.

3. 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 of loss from operations by location of customers are presented as follows :

	Turnover		Loss from operations	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
People's Republic of China ("PRC")	83,742	63,476	(5,327)	21,259
Kingdom of Cambodia	—	—	—	—
Hong Kong	1,502	—	58	—
Other regions	234	703	2	(13)
	<u>85,478</u>	<u>64,179</u>	<u>(5,267)</u>	<u>21,246</u>
Other operating income			4,714	3,383
Loss on disposal of beneficial rights to a drug under development			—	(400)
Loss on disposal of investments in securities			—	(41,293)
Unallocated corporate expenses			(22,542)	(40,927)
Loss from operations			<u>(23,095)</u>	<u>(57,991)</u>

4. TAXATION

	2005	2004
	HK\$'000	HK\$'000
The charge represents:		
Profits tax outside Hong Kong		
– current	103	2,504
– underprovision in previous year	1,094	—
	<u>1,197</u>	<u>2,504</u>

No provision for Hong Kong profits tax has been made in the financial statements since the Group has sufficient tax losses brought forward to set off against current year's assessable profits.

Profits tax outside Hong Kong represents PRC Income Tax which is calculated at the rate of 33% (2004: 33%) prevailing in the PRC with certain tax preference.

5. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2005 HK\$'000	2004 HK\$'000
Loss:		
Loss for the purposes of basic and diluted loss per share:		
– Loss for the year	<u>(24,095)</u>	<u>(60,992)</u>
	2005	2004
Number of shares		
Weighted average number of shares for the purposes of basic loss per share	<u>2,679,944,426</u>	<u>2,567,413,269</u>

As the exercise of the Company's outstanding share options and warrants during the year ended 31 December 2004 and 2005 would be anti-dilutive, no diluted loss per share was presented in both years.

DIVIDEND

No dividend has been paid and declared by the Company during the year (2004: HK\$Nil).

CLOSURE OF REGISTER

The register of members of the Company will be closed from 25 May 2006 to 29 May 2006 (both days inclusive) during which period no share transfer will be registered.

BUSINESS REVIEW

The Group's core biopharmaceutical business under LifeTec Pharmaceutical Limited ("LifeTec Pharmaceutical") continued to report strong growth. Sales of LifeTec Pharmaceutical in China increased by 31.9% from about HK\$63,476,000 in 2004 to a record high of about HK\$83,730,000 in 2005. The rise in pharmaceutical sales was the results of successful implementation of our marketing initiatives. Research and development for new drugs have been making good progress. As the world has been under imminent threat of avian flu outbreak, the Group has prioritized research efforts in identifying and developing new drugs for the prevention and cure of infectious respiratory diseases.

Following the Group's corporate reorganization at the end of 2004, LT Capital Limited ("LT Capital") set up a wholly owned subsidiary in Macau to provide support to the development of live baccarat gaming system. Patent application was filed in the United States and Macau for the novel electronic gaming system. The system combines traditional baccarat card dealing by casino staff and digital network of touch screen betting terminals. The system is designed

for mass gaming hall. It has automatic lighting device to guide card dealing process in baccarat games and a computerized payout program to shorten the time for each baccarat game.

Turnover and Profit

The Group reported a turnover of HK\$85,478,000 for the year, representing an increase of 33.2% as compared to HK\$64,179,000 for the previous year. Overall gross profit margin for the year dropped from 80% to 30% whereas operating loss of HK\$57,991,000 for 2004 narrowed to operating loss of about HK\$23,095,000 for the year. The Group reported loss of HK\$24,095,000 or 0.9 Hong Kong cents per share in the year compared to a net loss of HK\$60,992,000 or 2.4 Hong Kong cents per share in the previous year.

The loss has been mainly attributed to increase in sales discounts in response to the intense market competition. Gross margin would inevitably under pressure as the Group strove for a bigger market presence. Despite the highly competitive market environment, the Group successfully expanded its biopharmaceutical sales in 2005. Our sales operation has been progressing towards economy of scale.

The loss before taxation and minority interests reduced from about HK\$58,280,000 in the previous year to about HK\$23,203,000 for the year. Finance costs of the Group for the period significantly decreased by 62.6% from about HK\$289,000 to HK\$108,000. The reduction in finance costs was due to the repayment of bank loans in the year.

Marketing, Sales and Distribution

The Group continued to strengthen the market position of Wei Jia in China through promotion to the medical community. Our medical representatives attended the National Hepatology Congress held in Beijing and promoted the outstanding treatment results of Wei Jia to top liver diseases experts in China. The Group's promotional efforts resulted in 31 articles published in various medical journals in China on Wei Jia.

The marketing campaign of Wei Jia went well outside China. Two manuscripts on the product were accepted for publication in the prestigious World Journal of Gastroenterology which is the official publication of the Asian Pacific Association for the Study of the Liver and the Asian Pacific Association of Gastroenterology. The journal is also an affiliated publication of the Association for the Study of the Liver, Bangladesh, Gastroenterological Society of Australia, the Hong Kong Society of Gastroenterology and the Thailand Gastroenterology Association. The publication is a strong affirmation of research findings of Wei Jia by top international scientists as only first class research on liver cancer and viral hepatitis is admitted for publication in the journal.

In addition, our lead research scientist on Wei Jia was invited to speak at the Asian Pacific Digestive Week Scientific Conference in Seoul, Korea, and The 3rd Congress of International Drug Discovery Science and Technology in Shanghai. The increased awareness of the superior therapeutic value of Wei Jia amongst world's liver diseases experts opens the great gateway for international sales of the product. Last year, we received trade enquiries from Russia, Israel and Africa for the export of Wei Jia to those countries.

Our agency network expanded according to schedule. While strengthening the support to various hospitals throughout over China, we brought in new distributors to boost the sales. The collaboration with key drug distribution groups in China extended the reach of Group's biopharmaceutical products to small to medium sized hospitals and clinics. Our marketing strategy proved to be a success and resulted in the strong rise in our biopharmaceutical sales. The Group would be in a more favourable position in negotiating sales prices with distributors and agents as our market presence strengthens.

Research and Development

Fibrocorin

Fibrocorin is a recombinant fusion protein and a potential new drug candidate for anti-cancer and anti-fibrosis applications. It was invented by the Group together with the research team of the City University of Hong Kong. Fibrocorin is a genetically engineered protein comprising an active component to alleviate fibrosis and a human immunoglobulin Fc region to extend degradation rate. This novel recombinant protein has a more sustainable and profound treatment effect. Patent application has been filed by the Group for Fibrocorin in the United States. Pre-clinical trials for Fibrocorin are expected to be completed in 2008.

Recombinant Human Augmenter for Liver Regeneration ("rhALR")

rhALR is a revolutionary compound for the gene therapy of various kinds of liver diseases. rhALR's therapeutic value has been demonstrated in animal tests. The China patent for the specific production techniques for rhALR was granted in late 2005. The Group is conducting laboratory tests and preparing application documents for clinical trials in China. In addition to the on-going development projects, the Group launched advanced research work on rhALR with the research teams at the Shanghai Fudan University and the Shanghai Changzheng Hospital.

Other Projects in Pipeline

Currently there are a number of generic drugs under development, amongst them are: Pazufloxazin for the treatment of bronchitis, complicated urinary tract infections and gonorrhea; Clindamycin Hydrochloride Injection for the treatment of bacterial infections of the respiratory tract; Compound Dextromethorphan Hydrobromide Buccal Tablets for the treatment of common cold, respiratory

tract infections and bronchitis; Bromhexine Hydrochloride Injection for the treatment of respiratory disorders; Zinc Gluconate Nasal Spray Gel for the treatment of influenza. The commercial production of Clindamycin Hydrochloride Injection and Bromhexine Hydrochloride Injection is expected to take place before the end of 2006.

Prospects

LifeTec Pharmaceutical and LT Capital are two key intermediate holding companies which operate the Group's biopharmaceutical and non-biopharmaceutical businesses respectively. Although these two companies will expand at different pace, their income streams would complement each other.

The Group will dedicate resources to extend the reach of LifeTec Pharmaceutical to different parts of China. We would continue to enhance our existing agency network to drive the sales growth. As the operation of LifeTec Pharmaceutical reaches the critical scale, our biopharmaceutical business operating margin will largely enhanced.

The world has never been free from threat of epidemic and recently the possibility of major outbreak is more alarming. Therefore, we will direct more research resources to develop new cures for respiratory or viral related infectious diseases. Our current focus would be on those generic drugs which can be commercialized and launched to the market in a much shorter timeframe. On the other hand, we will continue our research and development on major genetic drug candidates like rhALR and Fibrocorin which will yield promising return in the medium to long term.

Management expect the new projects of LT Capital will achieve significant breakthroughs in the coming year. Several patent applications for our technological know-how and proprietary designs have been filed in the United States and China and the related patents will be granted in due course. Our live baccarat gaming system has been making sound progress and will soon be installed in Macau casino. This flagship project of LT Capital will be an excellent example of how our management transform innovation and sound business ideas to a viable business.

Liquidity and Financial Resources

As at the balance sheet date, the Group's aggregate bank borrowings stood at HK\$171,000 of which HK\$135,000 was payable within 12 months, HK\$36,000 was payable in the second year. Current liabilities of the Group increased from HK\$21,180,000 to HK\$24,964,000, representing a rise of 17.9%. The Group's net current assets decreased from HK\$111,286,000 to HK\$84,235,000 as at the balance sheet date. The Group's liabilities at the balance sheet date totalled HK\$34,654,000. The percentage of total liabilities to total assets as at 31 December 2005 stood at 13.5% which is slightly higher than the corresponding figure of 11.0% as at 31 December 2004.

As at 31 December 2005, the cash on hand 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 Reminbi. 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 Reminbi and Hong Kong dollars, the directors consider that specific hedges for currency fluctuation are not necessary.

PLEDGE OF ASSETS

As at 31 December 2005, fixed assets with a net book value of approximately HK\$1,044,000 (2004: HK\$1,070,000) were pledged for total borrowing of approximately HK\$171,000 (2004: HK\$2,895,000).

ORGANIZATION AND STAFF

The Group has about 70 staff in total as at the date of this announcement. Majority of the staff are sale and marketing executives located in China. The Group is actively seeking talent to join the sales and marketing team 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.

APPRECIATION

The Group has made significant advancement in 2005 and set a very solid foundation for the strong, sustainable growth for the years to come. Such accomplishment would not be possible without the support from different parties. On behalf of the board of directors of the Company, I would like to thank our shareholders, bankers, professional parties and customers for their continuous support. I would also like to thank our executives and staff for their dedication and professionalism.

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 year ended 31 December 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.

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 Company will amend its bye-laws at its forthcoming annual general meeting to require that all directors (whether appointed for specific terms or not) including the Chairman of the Board and the managing director to retire by rotation at least once every three years.

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 established the remuneration committee with appropriate terms of reference on 30 September 2005. The remuneration committee comprises two independent non-executive directors, namely, Mr. Frank Hu (Chairman) and Ms. Ma Shiwei and one executive director, namely, Mr. Jay Chun.

Code Provision E.1.2

Under the Code, the Chairman of the Board should attend and chair the annual general meeting of the Company.

The Chairman did not attend and chair the 2005 annual general meeting as he was in bad health at that time.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely, Mr. Frank Hu (Chairman of the Audit Committee), Mr. Wang Fanqi and Ms. Ma Shiwei.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and the financial statements for the year ended 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 of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by its directors. Having made specific enquiry of all directors, all directors have confirmed that they have complied with the requirements set out in the Model Code during the year.

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 year.

As at the date of this announcement, the executive directors of the Company 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.

By Order of the Board
Jay Chun
Chairman

Hong Kong, 27 April 2006

* *for identification purposes only*

Please also refer to the published version of this announcement in The Standard.