

# Chairman's Statement

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## 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 its subsidiaries (collectively the "Group") for the year ended 31 December 2005.

### 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.

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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.

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### *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.

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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 report. 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.

By Order of the Board

**Jay Chun**

*Chairman*

Hong Kong, 27 April 2006