

[Press Release]



LifeTec Restructures To Boost New Product Development And National Drug Distribution Operations

- ◆ **Sale of Sinogen plant for HK\$55 million provides new investment and acquisitions funding**
- ◆ **Intellectual property, production management and exclusive worldwide distributorship of Wei Jia are retained by LifeTec**
- ◆ **National drug distribution company acquired to launch drug distribution business**

[6 Aug 2003] LifeTec Group Limited (“LifeTec” or the “Company” or the “Group”, HKEX Stock Code: 1180) announced the restructure of the Group’s operations to boost new product development and national drug distribution operations in China. The Company, through its wholly owned subsidiary, LifeTec (Holdings) Limited, entered into the Disposal Agreement (the “Agreement”) on 30 July 2003 with an independent third party (the “Purchaser”) to sell the entire issued share capital of, and all shareholder's loan to, Goldstone International Holding Limited (“Goldstone”) for a total consideration of RMB58,300,000 (approximately HK\$55,000,000). The Agreement is based on normal commercial terms determined after arm's length negotiations between the parties. The disposal was completed immediately after the signing of the Agreement. LifeTec will retain full management right for the Wei Jia production plant of Sinogen after the disposal. Goldstone is the investment holding company owning 65.7% interest in Sinogen which is principally engaged in the research, development, manufacturing and sale of the biopharmaceutical product namely Wei Jia.

Objectives Of The Restructure

The principal objective of the restructure is to rationalize the Group's investment and operations in the PRC pursuant to its long-term development strategy. The disposal of Sinogen will enable the Group to resolve issues that would constraint the future

growth and development of the plant with its operating base in Weihai, Shandong Province, the PRC. These issues include the logistic costs and efficiency of the manufacturing base in Weihai, and the availability of biotech talents to support future development of this subsidiary. Drug distribution business is a very profitable segment in the whole pharmaceutical business chain in China. By under-weighting the focus on manufacturing, the Group can better utilize its resources in medium term to build up its marketing prowess which is vital for the successful launch of new products in the pipeline.

Three Key Areas Of The Restructure

1. Shifting of Manufacturing Base

The Group will dispose of all of its interest in Goldstone which holds controlling interest in Sinogen while retaining full management right for the Wei Jia production plant after the disposal. Instead of using Sinogen's existing manufacturing base in Weihai, Shandong Province, the PRC for the long term, the Group will acquire or establish suitable alternative manufacturing base in and around the Yangtze delta region for other new products developed and acquired by it in the future. This is considered to be more suitable from a strategic stand point as the Yangtze delta region bears closer proximity to the center of biotech drug development in the country, logistically more efficient and cost-effective, and possessing a more ready supply of biotech talents. All of these factors are crucial for the medium and long-term development of the Group. The Group will in turn restructure its sales and distribution activities to ensure an un-interrupted stock supply for Wei Jia while being able to unlock the funds invested by the Group in Sinogen for other application.

2. Re-structuring of Sales and Distribution Activities

Instead of selling and distributing through Sinogen, which license is restricted to selling and distribution of its own products, the Group has acquired a new wholly owned distribution company (the "Distribution Company") which carries a full national sales and distribution license. This would enable the Group to distribute and sell pharmaceutical products in addition to that of Sinogen. The new distribution company has in turn entered into an exclusive sales and distribution arrangement with Sinogen such that it could maintain the stock supply for Wei Jia. The wholly owned structure will also ensure complete and non-interfered control of the sales operations

and direction of future development by the Group. The Distribution Company has been appointed by Sinogen as its sole distribution agent for Wei Jia in the PRC and the rest of the world. Sinogen has committed not to conduct any direct and indirect selling or competitive activities. The Distribution Company will have exclusive right to use the registered trade name of "Wei Jia". The initial term of the Distribution Agreement is 5 years with an option to extend for a further term of 5 years by the Distribution Company. The intellectual property and production knowhow of Wei Jia will continue to be retained by LifeTec.

3. Pooling of Research and Development Talents

The Group has transferred all of Sinogen's research and development staff to Youheng since the acquisition of this wholly-owned subsidiary in December 2002. This enables a more effective pooling and cross-fertilization of research and development talents in Shanghai where Youheng is based.

The above restructuring is a rationalization process which will enable the Group to evolve into a more mature stage of development in the PRC. The restructured operations will have better utilization of capital and assets while the new sales and distribution structure offers un-restrained reach, improved agility and competitiveness in the market which well prepares the Group for accelerated growth in the future.

Benefits Of The Restructure

The restructure offers an opportunity for the Group to resolve issues that would constraint the future growth and development of Sinogen with its operating base in Weihai, Shandong Province, the PRC. These issues include the logistic costs and efficiency of the manufacturing base in Weihai and the availability of biotech talents to support future development of this subsidiary.

The Group can release and re-deploy the funds already invested in Sinogen to support other operations and investments (including investment in manufacturing facilities in a strategic location) in the PRC. Due to the sub-optimal utilization of Sinogen's production facilities at the current stage, the Sinogen disposal will also help to reduce the overall production cost of Wei Jia to LifeTec through the acquisition of the Distribution Company and execution of the Distribution Agreement.

LifeTec can also eliminate the working capital and fixed overhead burden in running a production plant. This would largely enhance LifeTec's financial strength and flexibility to fulfill new drugs development schedule and to acquire new drug projects with promising commercial value.

The restructure is expected to realize a surplus of approximately HK\$21,200,000 above the net book value of assets attributable to Goldstone (subject to audit) as a result of the Sinogen disposal.

Payment Term Of The Sinogen Disposal

Upon completion of the disposal, RMB14,800,000 (approximately HK\$13,962,264) will be paid in cash. For the remaining RMB43,500,000 (approximately HK\$41,037,736), the Purchaser shall deliver to the Company upon completion of the disposal four promissory notes of RMB10,875,000 (approximately HK\$10,259,434) each payable on the 5th, the 10th, the 15th and the 20th month from the date of completion of the disposal. The promissory notes shall bear interest at 3% per annum and are secured by a first mortgage over the entire issued share capital of Goldstone and an assignment of the benefit of all the shareholder's loan to Goldstone. The Company intends to use the net proceeds of the disposal of approximately HK\$55,000,000 for future working capital and investment of the Group.

Management Comments

Mr. Jay Chun, Chairman of LifeTec, said, "The directors consider the restructure is consistent with the Group's long-term development strategy and that the terms of the agreements involved are fair and reasonable. Effectively, the Group will enjoy 100% of the revenues and profits derived from the worldwide sales of Wei Jia through the Distribution Company after the restructure." He added, "Over the years LifeTec has successfully built up a portfolio of novel biotech drugs under development. These drugs possess the next generation technology for patients suffering liver and/or infectious diseases. The drug distribution operation will help to bring in additional recurring income which helps to support our fast-paced new drugs development schedule."

About LifeTec

LifeTec is a Hong Kong listed company (stock code 1180) engaged in the development,

manufacture and sale of innovative biopharmaceutical products based on original technology. LifeTec owns the intellectual property, production knowhow and worldwide exclusive distributorship for the new generation hepatitis drug Wei Jia.

With 120 million hepatitis B carriers, China is the world's largest market for hepatitis drug. LifeTec targets the 5 million severe hepatitis patients in China and aims to capture 20% of this US\$1.6 billion market. LifeTec has set up a nationwide distribution network covering all regions in China. Since the commercial launch of Wei Jia in mid 2001, the number of hospitals adopting Wei Jia has been soaring. Currently Wei Jia is adopted by over 500 hospitals.

In addition to liver drugs, LifeTec has also been exploring opportunities in new drugs. LifeTec has acquired two new drug projects in Dec 2002, namely the augments for liver regeneration ("ALR") and new generation antiseptic Pazufloxacin. ALR is a revolutionary gene therapy for liver disease including liver cancer and cirrhosis. The Gene Therapy Research Center of the Institute of Infectious Diseases of The Peoples' Liberation Army is the technical partner in the ALR project. At the same time, the Company is developing the recombinant DNA version of Wei Jia and novel anti-fibrosis and anti-cancer compound Fibroscutum in conjunction with the City University of Hong Kong.

LifeTec has well-equipped laboratory facilities in Shanghai. The scientific advisory board of LifeTec consists of top hepatitis experts and renowned scientists in China. LifeTec also has close collaboration with leading medical research institutions in China and overseas. The Company has been holding active dialogues with prominent biopharmaceutical enterprises in Asia, U.S. and China to explore the possibility of forming strategic alliances in areas like marketing, joint product development and strategic investments.

"Biotechnology – from life and for life" is LifeTec's corporate motto which signifies management's dedication to apply biotechnology for the well-being of mankind.

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