

The LifeTec logo features the word "LifeTec" in a bold, blue, sans-serif font. The letter "i" in "Life" is lowercase and has a small red dot above it. The background of the entire page is a lush green forest with sunlight filtering through the trees, creating a bright, airy atmosphere. In the lower half, there are stylized water ripples in shades of blue and green, and a faint, circular graphic with the number "100" is visible in the bottom left corner.

生命科技集團有限公司
LifeTec Group Limited

(Stock Code 1180)

INTERIM REPORT
2006

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 2006 together with comparative figures for the corresponding period in 2005 as follows:

Condensed Consolidated Income Statement

	Notes	Unaudited	
		Six months ended 30 June 2006 HK\$'000	2005 HK\$'000
Turnover	2	35,537	30,220
Cost of sales		(28,031)	(15,308)
Gross profit		7,506	14,912
Other operating income		1,924	895
Marketing, selling and distribution expenses		(5,583)	(9,867)
Allowance for doubtful debts	3	(555)	(416)
Administrative expenses		(22,126)	(12,018)
Loss from operations	4	(18,834)	(6,494)
Finance costs		(48)	(72)
Loss on disposal of a subsidiary	5	(3)	–
Loss before taxation		(18,885)	(6,566)
Taxation	6	72	(1,688)
Loss for the period		(18,813)	(8,254)
Attributable to:			
Equity holders of the Company		(18,687)	(8,203)
Minority interests		(126)	(51)
		(18,813)	(8,254)
		2006	2005
		HK Cents	HK Cents
Loss per share	7		
– Basic		(0.66)	(0.31)
– Diluted		N/A	N/A

Condensed Consolidated Balance Sheet

	Notes	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Non-current assets			
Property, plant and equipment	8	8,103	4,715
Investment properties		3,480	3,480
Intangible assets	13	65,043	65,037
Payments for investments	14	75,323	74,791
		151,949	148,023
Current assets			
Inventories		356	37
Debtors and prepayments	9	36,173	30,799
Advances to consulting companies		54,840	51,650
Bank and cash balances		20,711	26,713
		112,080	109,199
Less: Current liabilities			
Creditors and accrued charges	10	28,193	20,472
Amounts due to directors		916	1,124
Bank borrowings – due within one year		105	135
Obligation under finance leases – due within one year	11	219	–
Taxation payable		3,124	3,233
		32,557	24,964
Net current assets		79,523	84,235
Total assets less current liabilities		231,472	232,258
Non-current liabilities			
Bank borrowings – due after one year		–	36
Obligation under finance leases – due after one year	11	863	–
Deferred tax liabilities		9,654	9,654
		10,517	9,690
Net assets		220,955	222,568
Capital and reserves			
Share capital	12	28,883	27,633
Reserves		188,695	191,420
Equity attributable to equity holders of the Company		217,578	219,053
Minority interests		3,377	3,515
Total equity		220,955	222,568

Condensed Consolidated Cash Flow Statement

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(20,744)	28,353
Net cash used in investing activities	(2,873)	(22,719)
Net cash generated from financing activities	17,839	8,704
Net (decrease)/increase in cash and cash equivalents	(5,778)	14,338
Effect of foreign exchange rate changes, net	(224)	–
Cash and cash equivalents at beginning of period	26,713	7,911
Cash and cash equivalents at end of period	20,711	22,249
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	20,711	22,249

Condensed Consolidated Statement Of Changes In Equity

For six months ended 30 June 2006

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Warrant reserve HK\$'000	Option reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Acc- umulated losses HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006	27,633	334,085	88,643	-	10,207	-	949	(242,464)	219,053	3,515	222,568
Issue of shares	1,250	16,354	-	-	(7,479)	-	-	-	10,125	-	10,125
Recognition of share-based payment	-	-	-	-	6,759	-	-	-	6,759	-	6,759
Exchange differences arising on translation of financial statements of foreign subsidiaries	-	-	-	-	-	-	328	-	328	1	329
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(13)	(13)
Loss for the period	-	-	-	-	-	-	-	(18,687)	(18,687)	(126)	(18,813)
At 30 June 2006	28,883	350,439	88,643	-	9,487	-	1,277	(261,151)	217,578	3,377	220,955

For six months ended 30 June 2005

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Warrant reserve HK\$'000	Option reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Acc- umulated losses HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total 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	-	-	-	-	-	(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	17,230	-	(5,377)	(2,767)	-	-	-	10,118	-	10,118
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

Notes:

(1) Accounting policies

This interim report has 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 2005.

The presentation of the Condensed Consolidated Income Statement has been changed to conform with the presentation of the Consolidated Income Statement in the Annual Report 2005. For this reason, certain comparative figures for the corresponding previous period have been changed.

(2) Turnover and segment information

The Group is principally engaged in research, development and sale of biopharmaceutical products. During the period, the Group has also been engaged in the business of LIVE Baccarat in Macau. Turnover for the LIVE Baccarat is defined as the share of net win receivable from the game operator. For the six months ended 30 June 2006, the turnover for the non-core business is immaterial, accordingly, no separate business segment analysis for non-core business is presented. The Group's turnover and contribution to loss from operations by geographical location are summarized as follows:

	Unaudited			
	Six months ended 30 June			
	2006		2005	
	Turnover	Operating	Turnover	Operating
	HK\$'000	result	HK\$'000	result
		HK\$'000		HK\$'000
Geographical segments:				
People's Republic of China	35,101	(3,491)	30,003	3,163
Other regions	436	(958)	217	207
	35,537	(4,449)	30,220	3,370
Unallocated corporate expenses		(14,385)		(9,864)
Loss from operations		(18,834)		(6,494)

(3) Allowance for doubtful debts

Allowance for doubtful debts is analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Allowance for amount due from an associate	555	416

(4) Loss from operations

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Depreciation and amortisation	628	454
Gain on disposal of property, plant and equipment	(195)	–

(5) Loss on disposal of a subsidiary

During the six months ended 30 June 2006, the Group disposed of the entire interest in the share capital of a subsidiary known as Lone San Enterprise Limited, at a consideration of HK\$17,460. Details of the net assets of the subsidiary disposed of were as follows:

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Net assets (liabilities) disposed of:		
Bank balances	34	–
Minority interests	(14)	–
	<hr/>	<hr/>
Net assets disposed of	20	–
Loss on disposal of a subsidiary	(3)	–
	<hr/>	<hr/>
Total consideration	17	–
	<hr/>	<hr/>
Satisfied by:		
Cash	17	–
	<hr/>	<hr/>
Net cash outflow arising on disposal:		
Cash consideration	17	–
Bank balances disposed of	(34)	–
	<hr/>	<hr/>
	(17)	–
	<hr/>	<hr/>

During the six months ended 30 June 2006, the subsidiary disposed of had no contribution to the Group's turnover (six months ended 30 June 2005: Nil) and sustained a loss of operation of approximately HK\$3,000 (six months ended 30 June 2005: Nil).

(6) Taxation

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
The charge represents:		
Profits tax outside Hong Kong		
Charge for the period	32	1,688
Overprovision for year ended 31 December 2005	(104)	–
	<hr/>	<hr/>
	(72)	1,688
	<hr/>	<hr/>

(6) Taxation (continued)

There is no movement in provision for deferred tax during the six months ended 30 June 2006. No deferred tax asset has been recognised in respect of tax losses as the recoverability of these potential deferred tax assets is uncertain.

(7) Loss per share

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Loss:		
Loss for the purpose of basic and diluted loss per share:		
– Loss attributable to equity holders of the company for the period	(18,687)	(8,203)

	Unaudited	
	Six months ended 30 June	
	2006	2005
Number of shares:		
Weighted average number of shares for the purposes of basic loss per share:	2,832,358,692	2,656,511,151

As the exercise of the Company's outstanding share options during the periods ended 30 June 2006 and 2005 would be anti-dilutive, no diluted loss per share was presented in both period.

(8) Property, plant and equipment

During the period, the Group acquired 20 betting terminals of LIVE Baccarat system at the costs of HK\$2.6 million. In additions, the Group also acquired a motor vehicle at the costs of HK\$1.3 million.

(9) Debtors and prepayments

The ageing analysis of trade debtors is as follows:

	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Within 30 days	6,399	6,105
31 – 60 days	1,999	2,135
61 – 90 days	1,803	1,344
91 – 180 days	2,430	2,964
181 – 365 days	4,831	3,275
Over 365 days	1,249	171
	18,711	15,994
Amount due from a former subsidiary	8,447	10,745
Other debtors and prepayments	9,015	4,060
	36,173	30,799

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.

(10) Creditors and accrued charges

The ageing analysis of trade creditors is as follows:

	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Within 30 days	5,229	2,096
31 – 60 days	2,570	598
61 – 90 days	299	–
More than 90 days	510	205
	8,608	2,899
Value added tax payable	6,971	7,155
Other creditors and accrued charges	12,614	10,418
	28,193	20,472

(11) Obligation under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Amount payable under finance leases:				
Within one year	279	–	219	–
More than one year, but not exceeding two years	279	–	234	–
More than two year, but not exceeding five years	674	–	629	–
	1,232	–		
Less: Future finance charges	(150)	–		
Present value of lease obligations	1,082	–	1,082	–
Less: Amount due within one year shown under current liabilities			(219)	–
Amount due after one year			863	–

The Group's obligation under finance leases is secured by the lessor's charge over the leased assets.

(12) Share capital

	Number of shares	Nominal value HK\$'000
Shares of HK\$0.01 each		
<i>Authorised:</i>		
At 1 January 2006 and 30 June 2006	10,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 1 January 2006	2,763,297,919	27,633
Issue of shares upon exercise of options	125,000,000	1,250
At 30 June 2006	2,888,297,919	28,883

(13) Intangible assets

There is no substantial movement in intangible assets during the six months ended 30 June 2006. The increase in value of intangible assets represents exchange realignment on change of exchange rate.

(14) Payments for investments

There is no substantial movement in payments for investments during the six months ended 30 June 2006. The increase in value of payments for investments represents exchange realignment on change of exchange rate.

(15) Capital and other commitments

	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of the beneficial rights to drugs under development	5,825	5,770
Acquisition of property, plant and equipment	2,409	1,721
	8,234	7,491
Research and development expenditure contracted for but not provided in the financial statements	13,096	13,153

(16) Related party transactions

Trading transactions

During the period, the Group entered into the following related party transactions:

	Directors	Unaudited		Associate
	2006	Six months ended 30 June		
	HK\$'000	2005	2006	2005
		HK\$'000	HK\$'000	HK\$'000
Management fee income from (note a)	-	-	120	120
Maintenance expenses paid to (note a)	-	-	60	60

(16) Related party transactions (continued)

Trading transactions (continued)

	Directors		Associate	
	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000	Unaudited 30 June 2006 HK\$'000	Audited 31 December 2005 HK\$'000
Amounts due from (notes b & c)	-	-	8,297	7,742
Amounts due to (note b)	916	1,124	-	-

Notes:

- The transactions were charged at predetermined amount agreed between the parties involved.
- The amounts are unsecured, interest free and have no fixed terms of repayment. No guarantees have been given or received.
- HK\$555,000 (six months ended 30 June 2005: HK\$416,000) impairment has been made for the period for the loan made to an associate.

Compensation of key management personnel

The remuneration of directors and other key management personnel during the period was as follows:

	Unaudited Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Directors' fee	180	180
Salaries and allowances		
– Directors	2,793	2,791
	2,973	2,971

The remuneration of directors and key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

(17) Equity settled share-based payment

12,000,000 share options and 254,000,000 share options were granted by the Group to the employees and consultants on 3 January 2006 and 20 February 2006 respectively. The fair value of the share options granted were HK\$282,000 and HK\$6,477,000 respectively. An amount of HK\$6,759,000 was credited to option reserve of the Group during six months ended 30 June 2006. In the opinion of the directors, as the future economic benefits in relation to the services to be provided by these employees and consultants are uncertain, the whole amount of HK\$6,759,000 had been charged to the unaudited consolidated income statements for the six months ended 30 June 2006.

The fair values of options granted to the employees and consultants on 3 January 2006 and 20 February 2006 were determined using the Black-Scholes valuation model. The significant inputs into the model were as follows:

	Date of grant of share option	
	3 January 2006	20 February 2006
Closing price of shares at the date of grant	HK\$0.080	HK\$0.080
Exercise price of share option	HK\$0.081	HK\$0.081
Expected volatility based on historical volatility of share prices	23.84%	27.32%
Expected annual dividend yield, based on historical dividend	–	–
Expected life of options	5 years	5 years
Hong Kong Exchange Fund Notes rate for corresponding estimated expected life indicated at the date of grant	4.260%	4.230%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 30 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Total consideration received during the six months ended 30 June 2006 from employees and consultants for the accepting the options granted amounted to HK\$15 (six months ended 30 June 2005: Nil).

(18) Post balance sheet date events

Grant of Share Options

On 31 July 2006, 281,900,000 share options were granted to consultants, employees and a director of the Company at exercise price of HK\$0.091 per share option with expiry date on 30 July 2011.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

BUSINESS REVIEW AND PROSPECTS

Turnover and Profit

The turnover of the Group for the six months ended 30 June 2006 increased from HK\$30.2 million to HK\$35.5 million, representing a period-to-period increase of approximately 17.6%. The Group reported a loss of HK\$18.7 million or 0.66 Hong Kong cents per share for the period compared to loss of HK\$8.2 million or 0.31 Hong Kong cents per share for previous corresponding period.

The loss has been mainly attributed to increase in costs of sales and administrative expenses. Due to competition in China pharmaceutical market, gross margin inevitably narrowed. Nevertheless, the Group continued to expand its biopharmaceutical sales during the period.

LifeTec Pharmaceutical Limited

The Group's biopharmaceutical business is conducted under LifeTec Pharmaceutical Limited ("LifeTec Pharmaceutical"). For the six months ended 30 June 2006, the turnover of LifeTec Pharmaceutical for the period increased from HK\$30.2 million to HK\$35.5 million, representing a period-to-period rise of approximately 17.6%. Gross profit for the period also decreased by 50% approximately as compared with that of the previous corresponding period. Gross profit reduced due to intense market competition.

LifeTec Pharmaceutical introduced a series of cost control measures to improve the operating efficiency of the division. As a results, the marketing, selling and distribution expenses decreased from HK\$9.9 million in previous period to HK\$5.6 million in the current period while recording a sales growth of approximately 17.6%.

Marketing, Sales and Distribution

LifeTec Pharmaceutical adopted new initiatives to consolidate its direct sale team while teaming up with renowned drug distributors. It replaced sales agents in Beijing, Wuhan and Fujian and saw a remarkable rebound in sales following the replacement. As a result of the strong efforts made to conduct more sales on cash basis, the division achieved better use of working capital and avoided impairment for bad debts.

In March 2006, LifeTec Pharmaceutical sponsored and participated in the first Beijing Ditan Infectious Diseases Symposium. Over 300 infectious diseases experts joined the Symposium. A leading liver disease expert delivered an in-depth presentation on the characteristics and efficacy of Wei Jia. The event helped to further strengthen the position of Wei Jia amongst medical professionals. In April 2006, our sales representatives joined the 55th Zhengzhou National Medicine Trade Fair. Through the Trade Fair, we improved the communication with our distribution agents and recruited new sales agents in areas where sales of Wei Jia had been below desirable level. To broaden the sales base, the division introduced wider range of generic drugs for distribution and extended the geographical span of our drug distribution business.

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 us 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 which extends degradation rate. This novel recombinant protein has a more sustainable and profound treatment effect. Patent application has been filed by us 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, LifeTec Pharmaceutical 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: Pazufloxacin for the treatment of bronchitis, complicated urinary tract infections and gonorrhoea; 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; Applications for clinical trials are under review by the State Food and Drug Administration. Production permits are expected to be granted before the end of 2007.

Through LifeTec Pharmaceutical, we will continue to enrich our pharmaceutical product mix and distribution network. Market competition is growing more intense in China. However, we are well prepared for the challenges and opportunities ahead by leveraging on our existing network and client base. As income per capita in China continues to rise, the demand for effective medicine for infectious diseases would only grow stronger and stronger. In near future, LifeTec Pharmaceutical will introduce more generic drugs for the general market. The management believes that the novel drugs under development will eventually render thorough solutions to various liver diseases within next few years.

LT Capital Limited

For the period under review, LT Capital Limited (“LT Capital”) accounted for insignificant share of Group’s sales and operating loss as the key business under LT Capital just began operation in May 2006. Nevertheless, management is encouraged by the good performance of the gaming related business in Macau.

LT Game Limited (“LT Game”), a wholly owned subsidiary of LT Capital, has been set up to provide support and develop the LIVE Baccarat gaming system. LIVE Baccarat is a table baccarat game played under the conventional baccarat rules in Macau. The LIVE Baccarat system, specifically designed for mass gaming hall, combines traditional baccarat card dealing by casino staff and digital network of touch screen betting terminals. Real time images of the card dealing are broadcasted to the screens of the betting terminals. The system can largely enhance the productivity of a casino table as a dealer can serve more players with the system than a dealer at the traditional baccarat table. The patent applications of the novel electronic gaming system have been published in the United States in August 2006 and in Macau in September 2006.

In April 2006, LT Game entered into a gaming income sharing agreement with Sociedade De Jogos De Macau, S.A. ("SJM"), the leading gaming concessionaire in Macau, for the launch of our LIVE Baccarat system in SJM's casinos. Under the agreement with SJM, LT Game shall supply the system to SJM and bear staff costs of card dealers. In return, LT Game is entitled to share 31% of the pretax net win from LIVE Baccarat gambling activities and install LIVE Baccarat system in one or more of the casinos operated by SJM. This agreement is one of the most important agreements in the corporate history of the Group. It would definitely bring the Group to the fast growing lucrative gaming business. In June 2006, LT Game signed an agreement with Gold Faith Development Limited, a wholly owned subsidiary of A-Max Holdings Limited ("A-Max"), a Hong Kong listed company with stock code 959, to install up to 300 sets of our LIVE Baccarat terminals at A-Max's New Century Hotel Greek Mythology Casino in Macau.

LIVE Baccarat system began operation in May 2006 in New Century Greek Mythology Casino. The number of baccarat games dealt by our LIVE Baccarat system each day has been over 1,000, exceeding an average of about 600 games handled by a traditional baccarat table each day. Our customer survey indicates that LIVE Baccarat players like playing LIVE Baccarat for the comfortable betting environment and fast card dealing process. In addition, players are free from disturbance by other players or bystanders as each player places bet through a touch screen on his/her own terminal. Due to strong market demand, the number of terminals was increased to 40 by the end of August 2006. The total net win generated by the system for 4 months ended 31 August 2006 equals to HK\$3.2 million. Average daily net win per terminal reached HK\$1,396 in August 2006. The management is very impressed by the strong results achieved by LIVE Baccarat system despite the short period of operation.

In late September 2006, 40 LIVE Baccarat terminals were launched in Diamond Casino at Holiday Inn Macau. LT Game has already begun the preparatory works for the LIVE Baccarat gaming halls in other SJM casinos.

Prospects

LIVE Baccarat represents a new driver to the future growth of the Group. Following the opening of more new casinos in Macau in 2006, competition of the Macau gaming industry will enter into a new phase. The mass market gaming sector will account for the majority of gaming revenue in the years to come and all casino operators are making new moves to capture these golden opportunities. Casinos are eager to offer new gaming devices to attract the mass market gamblers. At the same time, gaming operators face the mounting labour shortage and surging staff costs.

LIVE Baccarat comes at the right time to address the market needs. Baccarat accounted for over 63% of the mass market gaming revenue in the first half of 2006 and has always been the most popular casino game in Macau. LIVE Baccarat offers a complete new gaming experience to the gamblers and has proved to be well received in Macau despite a short operating history. It can greatly increase the productivity of a card dealer and helps to ease the acute casino labour shortage. Many casino operators have inspected and played LIVE Baccarat at the New Century Greek Mythology Casino and made enquires of the system. The management is optimistic that more gaming concessionaires in Macau will adopt the LIVE Baccarat system. We target to install LIVE Baccarat system in two more casinos in Macau within next few months, bringing the total number of casinos adopting LIVE Baccarat system to four before the end of 2006.

Liquidity and Financial Resources

At the balance sheet date, the Group's aggregate bank borrowings and finance leases stood at HK\$1,187,000 of which HK\$324,000 was payable within 12 months, HK\$863,000 was payable between 2 and 5 years. Current liabilities of the Group increased from HK\$25.0 million to HK\$32.6 million, representing a rise of 30%. The Group's net current assets decreased from HK\$84.2 million to HK\$79.5 million at the balance sheet date. The Group's total liabilities at the balance sheet date were HK\$43.1 million. The percentage of total liabilities to total assets as at 30 June 2006 stood at 16.3% which is slightly higher than the corresponding figure of 13.5% as at 31 December 2005.

As at 30 June 2006, the cash on hand is 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. Export sales are immaterial for the period. 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 specific hedges for currency fluctuation being not necessary.

Charges on Group Assets

At the balance sheet date, the net book value of the assets of the Group which were subjected to charges for securing banking facilities and finance lease comprised HK\$1,031,000 in respect of one property in Hong Kong and HK\$1,260,000 in respect of a motor vehicle in Hong Kong respectively.

Organization and Staff

The Group has 71 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 in China and Macau 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.

Directors' and Chief Executive's Interests in Securities

(i) Shares

As at 30 June 2006, 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		Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
			Interests in shares (other than pursuant to equity derivatives) ⁽¹⁾	Interests in underlying shares pursuant to equity derivatives ⁽¹⁾		
Mr. Jay Chun	The Company	Beneficial owner/ Personal interest	68,568,000	2,500,000	398,558,000	13.80%
	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	12.23%
Dr. Ma Xianming, alias, Ma Yin Ming	The Company	Beneficial owner/ Personal interest	-	1,000,000	1,000,000	0.035%

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 alias, Mr. Sin Sai Yung.

(ii) Share options

The following table discloses movements in the Company's share options during the six months ended 30 June 2006 under the Share Option Scheme:

	Date of share options granted	Exercisable period	Exercise price per share	Outstanding at beginning of the period	Number of share options		
					Granted during 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: Employees							
	13.08.2004	01.09.2004 to 12.08.2009	HK\$0.081	4,000,000	-	-	4,000,000
	03.01.2006	03.01.2006 to 02.01.2011	HK\$0.081	-	12,000,000	-	12,000,000
	20.02.2006	20.02.2006 to 19.02.2011	HK\$0.081	-	4,000,000	-	4,000,000
Category: Consultants							
	27.11.2003	27.11.2003 to 26.11.2008	HK\$0.088	23,375,000	-	-	23,375,000
	13.08.2004	01.09.2004 to 12.08.2009	HK\$0.081	125,000,000	-	(125,000,000)	-
	01.11.2004	01.11.2004 to 31.10.2009	HK\$0.086	50,000,000	-	-	50,000,000
	20.02.2006	20.02.2006 to 19.02.2011	HK\$0.081	-	250,000,000	-	250,000,000
Total				205,875,000	266,000,000	(125,000,000)	346,875,000

Substantial Shareholders' interests in Securities

Save as disclosed under the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES" above, as at 30 June 2006, 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 2006.

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 2006.

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 2006, 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 and the managing director of the Company. In the opinion of the Board, the roles of the managing director and the chief executive officer are 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 least every three years 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 E.1.2

Under this code provision, the chairman of the board should attend the annual general meeting.

The annual general meeting held on 29 May 2006 was chaired by Mr. Frank Hu, one of our independent non-executive directors, instead of Mr. Jay Chun. Mr. Jay Chun did not attend the annual general meeting 2006 as he was engaged in other business of the Company.

Compliance with Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted 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 2006.

By Order of the Board
LifeTec Group Limited
Jay Chun
Chairman

Hong Kong, 28 September 2006

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.