Poised for Promising Growth

CK Life Sciences Int'l., (Holdings) Inc.
長江生命科技集團有限公司

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 8222)

Annual Report 2005

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This document, for which the Directors of CK Life Sciences Int'l., (Holdings) Inc. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this document is accurate and complete in all material respects and is not misleading; (ii) there are no other matters the omission of which would make any statement in this document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

Achievement Highlights	2
Chairman's Statement	8
Business Review	
Agriculture	12
Health	18
Acquisitions	24
Directors and Senior Management	30
Financial Summary	37
Financial Review	38
Corporate Governance Report	40
Report of the Directors	72
Report of the Auditors	89
Consolidated Income Statement	90
Consolidated Balance Sheet	91
Consolidated Statement of Changes in Equity	93
Consolidated Cash Flow Statement	94
Notes to the Financial Statements	96
Principal Subsidiaries	141
Principal Associates	143
Corporate Information	144

Achievement Highlights

Sustained Growth

Sales revenue more than

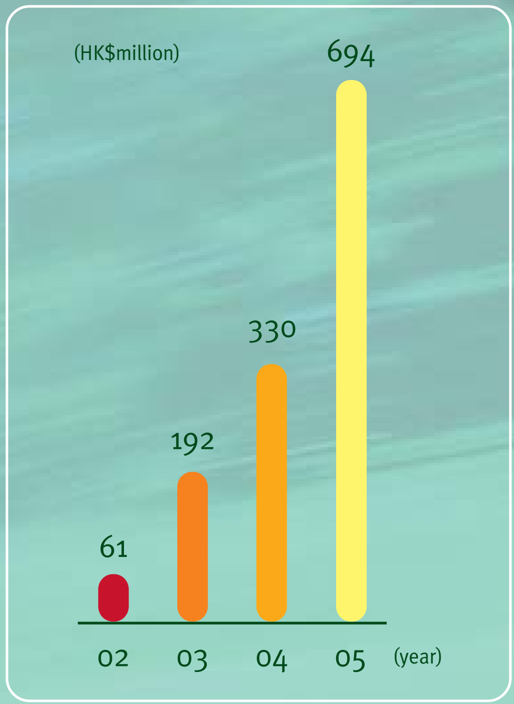
3 times

that of 2004

Total revenue

double

that of 2004



Achievement Highlights

Corporate Expansion

A series of strategic acquisitions since the beginning of 2005 have accelerated the growth of CK Life Sciences.

Acquired 100% of Santé Naturelle A.G. Ltée, the largest natural health products company in Québec, Canada, in May 2005.

Acquired 100% of Envirogreen, the second largest supplier of home garden products and the largest supplier of packaged/ premixed planting materials in Australia, in August 2005.

Fully purchased Nuturf, the largest supplier of turf management products and services in Australia, in August 2005.

Entered into an agreement to purchase 80% of Vitaquest, the largest custom contract nutraceutical manufacturer and a leading manufacturer and marketer of branded nutritional products in the US, in February 2006.

Achievement Highlights

New Products

A number of new products have been launched in 2005 and early 2006, further strengthening the VitaGain® range. Currently there are 22 VitaGain® products in the market.

Chairman's Statement

Poised for Promising Growth

2005 has been a milestone year of growth for CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences" or the "Group"). Through our twin strategies of organic growth and active acquisitions, the scale and reach of our business has been significantly extended. This has resulted in solid growth in sales and profits.

At the same time, a strong foundation has been laid for future development. A series of acquisitions, in both our health and environmental businesses, have had a very positive impact on CK Life Sciences. With the groundwork completed in 2005, the Group looks forward to a year of promising growth in 2006.

To mark the start of this upcoming landmark year, the Group is pleased to announce a major acquisition in the beginning of 2006. Last month, CK Life Sciences signed an agreement to purchase an 80% stake in the largest custom contract nutraceutical manufacturer and a leading manufacturer and marketer of branded nutritional products in the US — Vitaquest International Holdings LLC ("Vitaquest"). This acquisition marks a new development in the Group's acquisition strategy. It strengthens our core business and contributes in accelerating our global expansion pace.

CK Life Sciences is poised to become a global biotechnology company that is able to offer fully vertically-integrated solutions to improve human health and the environment, from R&D to product development to commercialization. Our business has grown in breadth and depth. With an extensive portfolio of products in the pipeline and an increasingly wide-reaching sales and distribution network, we are optimistic about our growth prospects.

Chairman's Statement (cont'd)

Financial Highlights – Sales Revenue Increased More Than 2 Times Last Year

HK$'000	2005	2004 (restated)	Increase/(Decrease) (%)
Sales revenue	542,484	160,510	238
Investment proceeds	151,895	169,117	(10)
Total revenue	694,379	329,627	111
Profit/(loss) attributable to shareholders	12,234	(3,968)	N/A

The audited financial results for the year ended 31 December 2005 demonstrate considerable strides forward for CK Life Sciences. Sales revenue reached HK$542 million, representing more than 3 times over the HK$161 million recorded in 2004. A total revenue of HK$694 million was registered by the Group in 2005, a 111% increase over 2004. For the year under review, profit attributable to shareholders was HK$12 million (as compared to a loss of HK$4 million in 2004, which was restated due to the adoption of the new Hong Kong Financial Reporting Standards).

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2005.

2005 – Review of a Milestone Year

In 2005, our business has grown through a series of strategic acquisitions in Australia and North America. Sales have been boosted by organic growth as well as the addition of new revenue streams. Our global presence has been extended, while our R&D work continues to make solid progress.

(1) Acquisitions Drive Growth

Acquisitions are a major tenet of the Group's expansion strategy, enabling CK Life Sciences to extend its presence into new and existing markets quickly, while also adding new sources of revenue. In 2005, the Group acquired two companies in the Australian turf and home garden industries, as well as a major Canadian natural health product company. These acquisitions were completed in the second and third quarters and as a result, solid sales growth was recorded in the second half of the year. The acquisitions for 2005 were:

May

Santé Naturelle A.G. Ltée ("A.G.") – the largest natural health product company in Québec, Canada. This acquisition marks the Group's first venture into the enormous North American market. A.G.'s extensive range of natural health products will complement and enhance our existing portfolio of nutraceuticals. At the same time, we will leverage on our vast sales and distribution network to bring A.G. products to new markets.

Chairman's Statement (cont'd)

August

Envirogreen Pty Limited ("Envirogreen") – the second largest supplier of home garden products and the largest supplier of packaged/premixed planting materials in Australia. This acquisition will significantly boost CK Life Sciences' fertilizer business in Australia's home garden market.

Nuturf Australia Pty Ltd ("Nuturf") – the leading supplier of products and technical support to the professional turf industry in Australia. Since the acquisition, the Group's sales force in Australia has been strengthened, product portfolio extended and access to a valuable customer base expanded.

(2) Sales Growth Substantial

In addition to the income generated by new acquisitions, CK Life Sciences has recorded substantial sales growth in its existing businesses. Overall, we are pleased to report that sales have increased to HK$542 million, over 3 times that of 2004:

(a) *Agriculture-related Business* – Sales increased by 1.7 times in 2005, with a total of HK$425 million in revenue recorded. This growth was driven mainly by strong sales in China and Australia. Our sales network for the Group's fertilizer business now spans 14 countries and regions.

(b) *Health-related Business* – Global sales grew by an impressive 20 times in 2005, significantly enhanced by the addition of A.G. to the Group's portfolio. As the VitaGain® range of products expanded, the Group's sales base was broadened. The Group now plans to introduce the range of "Adrien Gagnon" products to new markets across the world.

CK Life Sciences has great confidence in all its businesses, especially in regard to health-related products and nutraceuticals. It is expected that performance will excel further.

(3) Pursuit of Research & Development Breakthroughs

In 2005, the Group continued to adopt a prudent and disciplined approach in R&D:

(a) *New Patent Development* – Since the beginning of 2005, the Group was granted 9 patents for its inventions by the US Patent and Trademark Office, with the total up to now amounting to 27.

(b) *Progress in Cancer Research* – Good progress has been made in the area of cancer research by the Group. Of the 18 anti-cancer pharmaceutical patent applications filed to the US Patent and Trademark Office, 4 have been granted patents, including those for colorectal, cervical, lung and testicular cancer.

Conducted in conjunction with some of the leading research institutes in the world, our pre-clinical studies have achieved positive results. We are now proceeding with clinical trials on lung cancer, colorectal cancer, breast cancer, prostate cancer, and liver cancer with The Chinese University of Hong Kong, The University of Hong Kong and the Prince of Wales Hospital respectively.

The Group has now carried out pre-clinical and clinical studies in collaboration with over 20 renowned universities and research institutes across the world, spanning Hong Kong, Mainland China, the United States, Canada and Australia in the areas of cancer, AIDS and immuno-enhancing research.

Chairman's Statement (cont'd)

Prospects – Strong Growth Expected

(1) *Vitaquest – A Growth Platform in North America*

The acquisition of Vitaquest represents a milestone achievement for the Group. Vitaquest has a good strategic fit with CK Life Sciences and offers synergies with our core business by: boosting our product portfolio; enhancing our product offerings and formulations; strengthening our R&D and manufacturing capabilities; and widening our sales and distribution network.

(2) *Acquisition to Drive Growth*

The Group has dedicated special efforts to exploring acquisition opportunities to drive growth over the last few years. CK Life Sciences will continue to consider investments around the globe, including those in North America, Europe, Australia and Asia. Several projects are already at a relatively mature stage.

(3) *More Products to be Launched*

CK Life Sciences will continue to roll out new products to increase global market penetration, as well as introduce new products from our overseas companies and partners. At the same time, we will widen our sales and distribution network to bring our product range to more markets outside of Hong Kong.

(4) *R&D Success to be Achieved*

Our R&D platform is one of the foundations of our business. Continuing efforts will be made based on our immune enhancement platform. As our research studies and clinical trials with various leading institutions reap encouraging results, we look forward to creating breakthrough products for the future.

Looking Ahead

The Group is about to embark on a transformational year of growth in 2006. The Group will continue to strengthen our R&D platform in a prudent and disciplined way, and will accelerate the expansion of our business and widen the geographic reach through overseas acquisitions. The aim is to establish new milestones in revenue and profit growth in the course of a very short period of time. With our defined strategies to speed up business growth and development, we are fully confident of achieving robust growth in the immediate term, as well as sustaining a strong performance in the longer term. We look forward to a bright future, as all of the right ingredients are there to enable us to achieve solid sustainable growth in the years to come.

I would like to take this opportunity to thank our shareholders, Board of Directors, our staff and business partners for their support. Together, we can look forward to a landmark 2006. We are fully committed to making this a promising year for CK Life Sciences.

Li Tzar Kuoi, Victor
Chairman

Hong Kong, 17 March 2006

Business Review

Agriculture

In 2005, significant developments were made to expand the reach of the Group's fertilizer business into both new and existing markets. The Group's eco-fertilizer and related products have been increasingly adopted in 14 countries/regions to date. A series of acquisitions and strategic alliances have greatly strengthened CK Life Sciences' market position.

Business Review

Agriculture

Fertilizer and Related Business

Steady sales growth was registered across the board for the Group's fertilizer and related business. Significant achievements have been recorded in terms of market expansion through stronger alliances with strategic partners, organic growth and new acquisitions.

CK Life Sciences is committed to rapidly expanding the sales network for NutriSmart®, its environmentally-friendly fertilizer product. Progress has been recorded in a number of countries including Australia, China, Vietnam, South Korea and Japan.

The Group has also extended the application of NutriSmart® by developing a technology transfer model as an additional revenue channel to generate increased sales.

The feasibility of a "microbes plus" formula that can be used as an additive product is also being explored.

Greater China

During the year under review, market penetration of the Group's agriculture products was heightened. Sales penetration in Jiangsu and other provinces was deeply strengthened by the sales network provided by the Group's partners – Nanjing Red Sun Co. Ltd and Jiangsu Sunong Agricultural Material Chain Co. Ltd.

Endorsed by a number of organizations, market penetration of NutriSmart® was further heightened in China.

Business Review (cont'd)

A trial conducted by Nanjing Agriculture University and the Organic Food Development Centre ("OFDC") of the State Environmental Protection Administration demonstrated that NutriSmart® effectively reduced costs and increased yield as compared with grower's practice. As a result of these findings, the OFDC has pledged to endorse NutriSmart® as a "recommended" product to its certified organic farms.

The Group has also partnered with the China National Rice Research Institute ("CNRRI") to drum up sales. A NutriSmart® fertilizer formula, endorsed with the CNRRI logo, has been sold at the main markets of Guangxi, Anhui and Jiangsu, garnering much market interest. In tea production, the Chinese Academy of Agricultural Sciences Tea Research Institute has endorsed NutriSmart® as an organic fertilizer suitable for basal application.

In Hong Kong, the Group entered into a joint marketing initiative with the Vegetable Marketing Association ("VMO") and PARKnSHOP, the leading local supermarket chain, to facilitate the sale of local organic vegetables grown using NutriSmart® fertilizer. This cooperative effort has been well received by organic farmers.

The Group's joint initiative with VMO and PARKnSHOP has facilitated sales of local organic vegetables grown using NutriSmart®.

Business Review (cont'd)

South East Asia

In Thailand, a partnership was secured with a leading local company in August 2005 to conduct trials on the efficacy of NutriSmart® technology in the major agricultural segment of sugar cane production.

Three new agents, including Baconco, were appointed in Vietnam to accelerate sales and market penetration by promoting a series of NutriSmart® premium blended products in different parts of the country. Plans are in place to extend the application of NutriSmart® in the country to rice, fruits and vegetables in the coming year.

North Asia

In Japan, CK Life Sciences' partnership with Sumitomo Corporation has proved to be very fruitful. A series of initiatives throughout the country demonstrated that NutriSmart® effectively improved soil fertility and the nutrient utilization efficiency of plants, thereby reducing the need for chemical fertilizers. Looking ahead, the Sumitomo Corporation will continue to foster market acceptance of NutriSmart® in the rice segment.

Significant steps were also made to develop the market in South Korea. In cooperation with Sumitomo Corporation and Chobi Co., Ltd of Korea, a NutriSmart® blended formula was tested in four national research institutes and six local agricultural centres. Results showed a yield increase compared with grower's practice, and a reduction in the amount of chemical fertilizer used. Sales of the NutriSmart® blend will commence in 2006 into South Korea's rice market.

Partnering with leading companies in the region, including Baconco in Vietnam and Sumitomo Corporation in Japan, sales and market penetration of NutriSmart® were strengthened.

Business Review (cont'd)

Australia

CK Life Sciences continued its strong pace of growth in Australia in 2005 with sales of NutriSmart® significantly increased.

Two strategic acquisitions were made during the year to consolidate the Group's position in the Australian turf and home garden industries: Envirogreen Pty Limited is a leading home garden products manufacturer and supplier, representing the second largest supplier of home garden products and the largest supplier of packaged/premixed planting materials in Australia; and Nuturf Australia Pty Ltd is the largest supplier of turf management products and services in Australia. Through these acquisitions, the Group has strengthened its sales force in Australia and widened access to a large customer base, bringing significant synergies to CK Life Sciences' core business.

Sales of NutriSmart® in Australia increased significantly in 2005.

Business Review

Health

CK Life Sciences' health business has recorded satisfactory progress. In the nutraceutical segment, a number of new products were launched in the local market. Two significant acquisitions in North America boosted the Group's expansion in the sector. Exciting results were also attained in pharmaceutical research.

Business Review

Health

Nutraceuticals

Based on the Group's unique immunity enhancement platform, a diverse range of nutraceutical products have been developed and launched in the market. A series of ongoing research studies have demonstrated the efficacy of the Group's nutraceutical products.

Of CK Life Sciences' 10 nutraceutical inventions, 7 have been granted patents by the US Patent and Trademark Office so far. These dietary supplements address the various needs of modern city dwellers.

VitaGain® Product Range

During the course of 2005, the VitaGain® range of nutraceutical products was further extended. Four new products were launched in the local market: "VitaGain® Kidney Health", "VitaGain® Youth Formula", "VitaGain® Fat Formula" and "VitaGain® CNS".

The range of VitaGain® products available in the Hong Kong market was further strengthened in the beginning of 2006 with the launch of many more new products. The range now amounts to 22 products and can be divided along the following sub-categories: Optimal Immunity Series, Bodily Functions Series, Health and Beauty Series, and Special Needs Series.

Expansion into North America

CK Life Sciences has expanded into North America with two acquisitions. They have strengthened the Group's core business, widened profit portfolio, broadened market coverage, extended customer base and enlarged sales and distribution network.

The VitaGain® range was further extended, with a total of 22 products now available in Hong Kong.

Business Review (cont'd)

In 2005, the Group acquired 100% of Santé Naturelle A.G. Ltée ("A.G."), the largest natural health products company in Québec, Canada. With its solid revenue and profit record, it can be expected that A.G. will become an additional steady source of earnings for CK Life Sciences, thus enhancing financial performance.

CK Life Sciences is now working actively to extend the penetration of A.G. into other parts of North America and beyond, including Europe, Hong Kong, and the rest of Asia. Plans are already in place to launch the A.G. product range in Hong Kong during the first half of 2006. Initially, a range of over 40 health supplements will be introduced through the Group's sales network in the territory.

At the start of 2006, the Group also entered into an agreement to purchase an 80% direct interest in Vitaquest International Holdings LLC ("Vitaquest"), the largest custom contract nutraceutical manufacturer and a leading manufacturer and marketer of branded nutritional products in the US.

The acquisition of Vitaquest is a milestone achievement for the Group and will form a powerful springboard for the Group's global development. CK Life Sciences is also poised to benefit from the strong sales and profit contribution from Vitaquest in the future. The acquisition is expected to complete during the first half of 2006.

The newly-acquired nutraceutical companies, A.G. and Vitaquest, offer synergies with the Group's core business and will accelerate expansion in North America.

Business Review (cont'd)

Pharmaceuticals

In the pharmaceutical segment, the Group has continued to conduct extensive studies to demonstrate the efficacy of its product range. Significant milestones have been achieved in cancer R&D and the Group looks forward to bringing its inventions to fruition.

To date, the Group has been granted 9 patents for its pharmaceutical inventions by the US Patent and Trademark Office. In the Group's portfolio, 21 pharmaceutical inventions are now pending patent approval.

Milestones in Cancer R&D

Extensive studies have been carried out in the field of cancer treatment. Significant progress has been made by CK Life Sciences in this important area of study. Of the 18 anti-cancer pharmaceutical patent applications filed to the US Patent and Trademark Office by the Group, 4 have been granted patents, including those for colorectal cancer, cervical cancer, lung cancer and testicular cancer.

In vitro and *in vivo* studies, conducted in collaboration with some of the leading research institutes in the world, have been very successful. Results indicate that the Group's anti-cancer products are capable of inhibiting the proliferation of cancer cells and reducing the volume of tumours.

As a result of the positive findings from pre-clinical research, clinical trials are now underway with The Royal Adelaide Hospital in Australia, The Chinese University of Hong Kong, The University of Hong Kong and the Prince of Wales Hospital on various types of cancers, including prostate, colorectal, lung, breast and liver cancer. Further clinical studies have been lined up with other distinguished universities from around the world.

The Group has also been collaborating with research institutes in Hong Kong and Mainland China to compile a cancer patient genetic profile. This research will be highly important in helping to characterize the sensitivities of cancer cells to drug treatment.

Significant progress was made in the Group's cancer R&D; of the 18 anti-cancer pharmaceutical patent applications, 4 have been granted patents.

Business Review (cont'd)

CK Cancer Institute

The CK Cancer Institute was established to conduct cancer-related R&D and community services. It has initiated several research partnerships during the year. It also continues to act as an important channel of information for people whose lives have been affected by cancer through seminars, hotlines and other means of communication.

AIDS/ HIV+ Research

CK Life Sciences' invention has been shown to have a positive effect on HIV+ patients. The product has effectively slowed down the pace of immunity deterioration and improved the quality of life for HIV+ individuals. As a result of these indications, the Group will continue to study the efficacy of its immune enhancement platform in immuno-deficient patients.

Commitment to R&D Success

The Group is fully committed to realizing its R&D potential. The development of both nutraceutical and pharmaceutical products will be accelerated by concentrated R&D efforts. CK Life Sciences is looking forward to commercializing more of its product portfolio and bringing more effective health solutions to the community.

Expansion of Global Footprint in Health Industry

CK Life Sciences has its sights on becoming a key player in the global health arena. Through the organic growth of its business and continued strategic acquisitions, the Group is focused on expanding the scope of its operations around the world.

Community and academic seminars, as well as research partnerships, were initiated by CK Cancer Institute in 2005.

Business Review

Acquisitions - A Strategy for Growth

CK Life Sciences is committed to rapidly expanding the scope of its health and agriculture businesses. In addition to facilitating organic growth, strategic acquisitions are an important tenet of the Group's development plans.

Through acquisitions, the Group can strengthen its core business, tap quickly into new markets, enhance its R&D capability, extend its product range, broaden its sales capabilities, widen its customer base, and develop its manufacturing capability.

Business Review

Acquisitions - A Strategy for Growth

The acquisition of A.G. is expected to be a springboard for the Group's businesses in North America.

2005 was an important year for CK Life Sciences in terms of acquisitions:

Santé Naturelle A.G. Ltée ("A.G.")

In May 2005, the Group acquired 100% of A.G. for a consideration of CN$53.95 million (approximately HK$347 million).

A.G. is the fifth largest provider of natural health products in Canada, and the largest in Québec. Its product range includes dietary supplements, vitamins, minerals and herbal extracts in the form of tablets, capsules, soft gels etc.

With a strong distribution network, A.G. sells its "Adrien Gagnon" brand of vitamins, minerals, herbs and health supplements through mass-market retailers and pharmacies. Sales growth for A.G. has been in the mid-teens each year for the last five years. In 2005, sales of A.G. branded products was about CN$32 million (approximately HK$205 million).

The acquisition of A.G. is expected to be a springboard for the development of the Group's businesses in North America. With A.G. as the foothold into this major nutraceutical market, the commercialization and sales expansion of health-related products can be accelerated. A.G.'s extensive product range will also greatly augment CK Life Sciences' portfolio of nutraceuticals. Increased new product development can be realized by combining the R&D strengths of the two companies. In addition, with its solid revenue and profit record, it can be expected that A.G. will become

Business Review (cont'd)

Envirogreen is the second largest supplier in Australia's home garden products industry.

an additional steady source of earnings for CK Life Sciences, thus enhancing financial performance.

Envirogreen Pty Limited ("Envirogreen")

In August 2005, the Group acquired 100% of Envirogreen for a consideration of A$18.3 million (approximately HK$108.6 million).

Envirogreen is the second largest supplier in Australia's home garden products industry with an estimated market share of 16%. In the packaged/pre-mixed planting materials segment, Envirogreen is the clear market leader with a significant market share of approximately 30%.

The acquisition is poised to boost sales and revenue growth for CK Life Sciences by adding distribution channels and expanding the sales network in Australia. The Group's customer base will be strengthened by the addition of retail customers and the product line will be extended via the addition of pre-mixed planting materials, plant nutrition products and plant protection products. A comprehensive and integrated operation network will be formed, equipped with new manufacturing, warehouse and distribution facilities.

Business Review (cont'd)

Nuturf is Australia's largest supplier of turf management products and services.

Nuturf Australia Pty Ltd ("Nuturf")

Also in August 2005, the Group acquired 100% of Nuturf for a consideration of A$7.2 million (approximately HK$42 million).

Nuturf is Australia's largest supplier of turf management products and services, accounting for about 25% of the Australian turf management product market. Its distribution network covers all states in the country, except Northern Territory which is made up of vast areas of desert. It supplies around 1,000 turf management products and services to customers.

The acquisition is poised to bring immediate returns to the Group, expand its distribution network, add new sales channels and strengthen its customer base. Golf courses and turf are one of the Group's key markets for development and the market knowledge from Nuturf will be invaluable to CK Life Sciences' penetration in this area.

Groundwork for Future Acquisitions

During 2005, the Group carried out extensive groundwork and paved the way for future acquisitions. Coming up, a number of possible new deals are in the pipeline.

In the begining of 2006, CK Life Sciences announced a major deal which was the culmination of the hard work done in 2005:

Vitaquest International Holdings LLC ("Vitaquest")

In February 2006, the Group entered into an agreement to purchase 80% of Vitaquest for a consideration of

Business Review (cont'd)

Vitaquest has a good strategic fit, offering synergies to the Group's core business.

about US$166 million (approximately HK$1,291.5 million). The acquisition is expected to complete in the first half of 2006.

Vitaquest is the largest custom contract nutraceutical manufacturer and a leading manufacturer and marketer of branded nutritional products in the US. It is engaged in the business of supplying and manufacturing nutritional supplements worldwide. Vitaquest represents the only US-based nutraceutical company that can provide fully integrated services to its customers. At present, Vitaquest manufactures over 800 products, including liquids, creams and lotions, tablets, capsules, effervescents and powders, across all human conditions.

Vitaquest has a good strategic fit for CK Life Sciences, offering synergies to the Group's core business. The acquisition is poised to boost the Group's product portfolio, enhance its product offerings and formulations, strengthen its R&D and manufacturing capabilities, and widen its sales and distribution network. It will also enable the Group to speed up the development of its global business via the US, the world's largest nutraceutical market.

Directors and Senior Management

Directors' Biographical Information

LI Tzar Kuoi, Victor

aged 41, is the Chairman of the Group since April 2002 and the Chairman of the Remuneration Committee of the Company. He is the Managing Director and Deputy Chairman of Cheung Kong (Holdings) Limited. He is also the Chairman of Cheung Kong Infrastructure Holdings Limited, Deputy Chairman of Hutchison Whampoa Limited, an Executive Director of Hongkong Electric Holdings Limited, Co-Chairman of Husky Energy Inc. and a Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Li serves as a member of the Standing Committee of the 10th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is also a member of the Executive Committee of the Commission on Strategic Development of the Hong Kong Special Administrative Region. Mr. Li holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Structural Engineering. Mr. Victor Li is son of Mr. Li Ka-shing, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), and nephew of Mr. Kam Hing Lam, President and Chief Executive Officer of the Company. Mr. Victor Li is also a Director of each of (i) Triluck Assets Limited, a management shareholder of the Company, and (ii) Trueway International Limited, (iii) Tangiers Enterprises Limited, (iv) Gold Rainbow Int'l Limited, (v) Gotak Limited and (vi) Cheung Kong (Holdings) Limited, all being substantial shareholders of the Company within the meaning of Part XV of the SFO.

KAM Hing Lam

aged 59, is the President and Chief Executive Officer of the Group responsible for overall strategic direction and key operating decisions. He has been instrumental in the formation of the Group. He has been with the Group since its establishment in December 1999 and has played a leading role in developing the Group's corporate direction and strategic vision and in guiding the Group in pursuit of its corporate business and operational objectives. Mr. Kam is also a Deputy Managing Director of Cheung Kong (Holdings) Limited, the Group Managing Director of Cheung Kong Infrastructure Holdings Limited, an Executive Director of Hutchison Whampoa Limited and Hongkong Electric Holdings Limited, and a Non-executive Director of Spark Infrastructure Group. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration. Mr. Kam is uncle of Mr. Li Tzar Kuoi, Victor, the Chairman of the Company. Mr. Kam is also a Director of each of (i) Gold Rainbow Int'l Limited, (ii) Gotak Limited and (iii) Cheung Kong (Holdings) Limited, all being substantial shareholders of the Company within the meaning of Part XV of the SFO.

IP Tak Chuen, Edmond

aged 53, is the Senior Vice President and Chief Investment Officer responsible for the investment activities of the Group. He joined the Cheung Kong Group in 1993 and the Group in December 1999. He is also a Deputy Managing Director of Cheung Kong (Holdings) Limited, Executive Director and Deputy Chairman of Cheung Kong Infrastructure Holdings Limited and a Non-executive Director of TOM Group Limited. He holds a Bachelor of Arts degree in Economics and a Master of Science degree in Business Administration. Mr. Ip is also a Director of each of (i) Triluck Assets Limited, a management shareholder of the Company, and (ii) Trueway International Limited, (iii) Tangiers Enterprises Limited, (iv) Gold Rainbow Int'l Limited, (v) Gotak Limited and (vi) Cheung Kong (Holdings) Limited, all being substantial shareholders of the Company within the meaning of Part XV of the SFO.

Directors and Senior Management (cont'd)

YU Ying Choi, Alan Abel

aged 50, is the Vice President and Chief Operating Officer of the Group responsible for the commercial activities of the Group, including manufacturing and marketing of all product applications. Mr. Yu holds a Bachelor of Arts degree and a Master's degree in Business Administration. Mr. Yu has held a number of positions in multinational corporations, including Standard Chartered Bank, Dairy Farm and American Express, in Hong Kong and overseas. Prior to joining the Group in January 2000, he was a Worldwide Vice President with Johnson & Johnson.

PANG Shiu Fun

aged 61, is the Vice President and Chief Technology Officer of the Group responsible for the overall strategic direction regarding technology and product development. Dr. Pang holds a Bachelor of Science degree from The Chinese University of Hong Kong, a Master of Arts degree from The California State University and a Doctorate in Biology from The University of Pittsburgh. Dr. Pang has been lecturing and conducting research in Canada and Hong Kong. He joined the Cheung Kong Group in March 2000 and the Group in April 2000. Prior to joining the Group, he was Head of the Department of Physiology, Faculty of Medicine, The University of Hong Kong. He has published numerous articles and books in biological sciences. He has been the Founding Editor and Editor-in-Chief of Biological Signals and Biological Signals and Receptors, Founding President of The Hong Kong Society of Neurosciences, Adjunct Professor of The University of Toronto and The Clarke Institute of Psychiatry, Toronto, and is Honorary or Visiting Professor of over ten universities.

CHU Kee Hung

aged 61, is the Vice President, Technology and Product Development, of the Group responsible for the technology and product development activities of the Group. Dr. Chu holds a Bachelor of Science degree in Physics from The Chinese University of Hong Kong, a Master of Science degree and a Doctor of Philosophy degree both in Engineering Science from The University of California at Berkeley. He began working for the Group in January 2001. Prior to joining the Group, he has held a variety of senior positions in major corporations such as General Electric and the Cheung Kong Group, and has over 20 years' experience in project management, design, construction, operations and management of power plants in the United States, Mainland China and Hong Kong.

TULLOCH, Peter Peace

aged 62, serves as the Chairman and Non-executive Director of each of Paton Fertilizers Pty Limited, a wholly owned subsidiary of the Company, Powercor Australia Limited, CitiPower Pty, ETSA Utilities and CrossCity Motorway Pty Limited, and a Non-executive Director of Lane Cove Tunnel Company Pty Limited and CIBC Australia Holdings Limited. He is also a Director of each of (i) Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust and (ii) Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust, both being substantial shareholders of the Company within the meaning of Part XV of the SFO. Mr. Tulloch is a Fellow of the Institute of Canadian Bankers and has spent more than 30 years in Asia. He was appointed a Non-executive Director of the Group in April 2002.

Directors and Senior Management (cont'd)

WONG Yue-chim, Richard, SBS, JP

aged 53, currently serves as Deputy Vice-Chancellor of The University of Hong Kong. Professor Wong has been active in advancing economic research on policy issues in Hong Kong and Mainland China through his work as founding Director of both The Hong Kong Centre for Economic Research and Hong Kong Institute of Economics and Business Strategy. He was awarded the Silver Bauhinia Star in 1999 by the Government of the Hong Kong Special Administrative Region for his contributions in education, housing, industry and technology development. In addition, he was appointed Justice of the Peace in July 2000. Professor Wong studied Economics at the University of Chicago and graduated with a Doctorate in Philosophy. He was appointed an Independent Non-executive Director of the Group in June 2002 and is the Chairman of the Audit Committee of the Company.

KWOK Eva Lee

aged 63, currently serves as the Chair and Chief Executive Officer of Amara International Investment Corporation. Mrs. Kwok also acts as an Independent Director for Husky Energy Inc., Bank of Montreal and Shoppers Drug Mart Corporation. She is also an Independent Non-executive Director of Cheung Kong Infrastructure Holdings Limited and a Director of Li Ka Shing (Canada) Foundation. Mrs. Kwok currently sits on the Audit Committee and Conduct Review Committee of the Bank of Montreal, the Compensation Committee and Corporate Governance Committee of Husky Energy Inc., the Nominating and Governance Committee of Shoppers Drug Mart Corporation, and the Audit Committee of Cheung Kong Infrastructure Holdings Limited. She is also a member of the Conference Board of Canada's Advisory Board for the National Awards in Governance. In addition, she previously sat on the Independent Committee of Directors and Human Resources Committee of Telesystems International Wireless (TIW) Inc., the Independent Committee of Directors and the Corporate Governance Committee of Fletcher Challenge Canada Ltd., the Audit and Corporate Governance Committees of Clarica Life Insurance Company and the Corporate Governance Committee of Air Canada. Mrs. Kwok was appointed an Independent Non-executive Director of the Group in June 2002 and is a member of the Audit Committee and the Remuneration Committee of the Company.

RUSSEL, Colin Stevens

aged 65, is the founder and Managing Director of Emerging Markets Advisory Services Ltd., a company which provides advisory services to organizations on business strategy and planning, market development, competitive positioning and risk management. He was the Canadian Ambassador to Venezuela, Consul General for Canada in Hong Kong, Director for China of the Department of Foreign Affairs, Ottawa, Director for East Asia Trade in Ottawa, Senior Trade Commissioner for Canada in Hong Kong, Director for Japan Trade in Ottawa, and was in the Trade Commissioner Service for Canada in Spain, Hong Kong, Morocco, the Philippines, London and India. He was Project Manager for RCA Ltd in Liberia, Nigeria, Mexico and India and electronic equipment development engineer in Canada with RCA Ltd and in Britain with Associated Electrical Industries. Mr. Russel is a Professional Engineer and Qualified Commercial Mediator. He received his Master's degree in Business Administration and a degree in electronics engineering from McGill University, Canada. Mr. Russel is an Independent Non-executive Director of Cheung Kong Infrastructure Holdings Limited. He was appointed an Independent Non-executive Director of the Group in January 2005 and is a member of the Audit Committee and the Remuneration Committee of the Company.

Directors and Senior Management (cont'd)

Senior Management's Biographical Information

CHEUNG Ling Yuk, Larry

aged 51, Chief Scientist of CK Biotech Laboratory Limited, is responsible for leading a team of scientists in the research and development of new applications for the Group. He has over 20 years of scientific research experience in the field of biotechnology. Mr. Cheung has experience in many scientific fields including immunology, oncology, AIDS research, agriculture, animal husbandry, ecology and microbiology. Before joining the Cheung Kong Group in December 1999, he operated a research laboratory and a number of associated commercial entities in Mainland China. He joined the Group in May 2002. He has authored many publications, journal articles and abstracts in the area of biotechnology, such as bioremediation and fertilizers.

CHAN Peter Wing Kwong

aged 57, is a Nutraceuticals Franchise Director of the Group. Dr. Chan holds a Doctor of Pharmacy degree from the University of Southern California School of Pharmacy. He is also an Adjunct Assistant Professor, School of Pharmacy, of The Chinese University of Hong Kong. Dr. Chan has over 25 years of experience in sales, marketing and general management in multinational corporations in the United States, with extensive exposure to a variety of pharmaceutical and nutraceutical products. Dr. Chan has held a number of senior management positions in NeXstar Pharmaceuticals, Inc., Iolab Corporation (a Johnson & Johnson company) and Alcon Laboratories, Inc. Prior to joining the Group in January 2003, he was Managing Director, Pacific Rim Region for Leiner Health Products, Inc., in California.

CHEN Yuguang

aged 47, is the Technical Services Director of the Group. He holds a Doctor of Philosophy degree in Plant Physiology from The Iowa State University. He has 15 years' experience in technology and product development of the agribusiness, seed technology research and basic plant biochemistry and physiology research in the United States. He has held a number of management positions at Syngenta and Novartis in North America. Prior to joining the Group in April 2002, he was the Manager, Seed Treatment Technology Platform, with Syngenta AG (NAFTA Region), where he contributed to the discovery of a new seed and agrochemicals technology.

LAM Hak Loong, Daniel

aged 52, is a Business Development Director of the Group. He holds a Doctor of Business Administration from the University of South Australia. He has over 25 years' experience in sales, marketing and general management in major multinational and local organizations and with extensive management exposure to marketing and development of various products including food, beverage and innovation technology. Dr. Lam has held a number of senior positions in H.J. Heinz, Hop Hing Holdings Ltd., Kentucky Fried Chicken and Coca-Cola. Prior to joining the Group in March 2002, he was the General Manager, Marketing & Promotions, with Hong Kong Science & Technology Parks Corporation responsible for marketing the Hong Kong Science Park to innovation technology corporations.

TAM Pan, Mary

aged 39, is the Controller, Laboratory Operations, of the Group. She graduated from China Technology and Operation Management University in Mainland China with 13 years' experience in laboratory research and management in both Mainland China and Hong Kong. Prior to joining the Group in April 2001, she was with Beijing TLB Institute in the capacity of Deputy Head (Administration).

Directors and Senior Management (cont'd)

YEUNG, Eirene

aged 45, the Company Secretary, has been with the Cheung Kong Group since August 1994 and she joined the Group in January 2002. She is also Director, Corporate Strategy Unit and Company Secretary of Cheung Kong (Holdings) Limited and the Company Secretary of Cheung Kong Infrastructure Holdings Limited. Ms. Yeung is a solicitor of the High Court of the Hong Kong Special Administrative Region ("HKSAR") and of the Supreme Court of Judicature in England and Wales. She holds a Bachelor's degree in Laws, a Master's degree in Business Administration and a Master of Science degree in Finance. Ms. Yeung is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators, and a Part-time Member of the Central Policy Unit of the HKSAR Government (for 2005 and 2006).

TONG BARNES Wai Che, Wendy

aged 45, is the Chief Corporate Affairs Officer responsible for the overall corporate activities of the Group including public relations and communications management. She is also the Chief Corporate Affairs Officer of Cheung Kong (Holdings) Limited and Cheung Kong Infrastructure Holdings Limited. She holds a Bachelor's degree in Business Administration from The University of Hawaii and has had experience in a number of industries, including hotel, property, telecommunications, media, infrastructure, retail and energy and held a number of senior positions with major corporations including Wharf Holdings Limited, Hong Kong Cable Communications Ltd. and Mass Transit Railway Corporation. Prior to joining the Cheung Kong Group, she was the Managing Director of Bozell Tong Barnes PR. Ms. Tong Barnes joined the Group in January 2002.

LIN Jian-er

aged 50, is the Director, Microbe Production and Process Development of the Group. He holds a Doctor of Philosophy degree in Chemical Engineering from the University of Michigan with over 10 years' experience in research and development on biochemical/chemical processes and products. Dr. Lin has extensive experience in biotechnology and process optimization, scale-up and validation for agricultural, environmental, industrial and household products. He has held a number of senior positions in leading corporations in the United States including Celgene Corporation, Technical Resources Inc., and Novozymes Biologicals (formerly known as Sybron Biochemicals). Prior to joining the Group in December 2003, he was Director, Process Development & Product Scale-Up with AgraQuest Inc., U.S.

ZHANG Shifu

aged 54, is the Controller, Medical Research of the Group. She holds a Master's degree in Cell Biology from the Peking Union Medical College. Ms. Zhang has extensive experience in laboratory research in both Mainland China and Hong Kong. Prior to joining the Group in November 2003, she was with Institute of Basic Medical Sciences, The Chinese Academy of Medical Sciences, The Peking Union Medical College for over 20 years.
Ms. Zhang is a very skilled research scientist with demonstrated practical experience in cellular biology and oncology and she has participated in research in Duke University Medical Center and North Carolina State University, U.S., and The Croucher Foundation, Hong Kong. She is also the author of over 40 publications, journal articles and abstracts in the area of cancer and molecular biology.

Directors and Senior Management (cont'd)

MO Yiu Leung, Jerry

aged 46, is the Vice President, Finance, of the Group responsible for all finance and administration functions of the Group. Mr. Mo holds a Bachelor's degree in Accounting and Data Processing from Leeds University in the United Kingdom. He is a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate of the Institute of Chartered Accountants in Australia and the Hong Kong Institute of Certified Public Accountants. He has over 20 years' experience in financial management, accounting and auditing in the manufacturing sector. He has held a variety of senior management positions in major corporations including Peak International, Pacific Dunlop (Australia) and Price Waterhouse (now known as PricewaterhouseCoopers) (United Kingdom & Hong Kong). Prior to joining the Group in October 2005, Mr. Mo was Chief Financial Officer of Fong's Industries Company Limited.

AU YEUNG Fai

aged 40, is the Vice President, Business Development, of the Group responsible for the mergers and acquisitions activities of the Group. He holds a Master's degree in Mathematics from St. Catharine's College, the University of Cambridge. Prior to joining the Group in April 2005, he was Vice President, and latterly Managing Director, Investment Banking, of JP Morgan for more than 10 years where he headed the coverage of clients in the power, energy and infrastructure sectors, providing services on M&A advisory, financing, private equity placement, and privatization of public assets. Before his appointment at JP Morgan, he was with Barclays Bank Plc/BZW (now known as Barclays Capital) in London and held a number of positions in various divisions, including consumer banking, strategic planning, global structured finance and merchant banking.

HON King Sang, Dennis

aged 51, is the Legal Counsel of the Group and has been with the Group since June 2002. He holds a Master of Laws degree from The University of London and a Master of Science degree in Electronic Commerce and Internet Computing from The University of Hong Kong. He is a solicitor of the High Court of the Hong Kong Special Administrative Region and of the Supreme Court of Judicature in England and Wales. He has over 20 years of legal and acquisition experience and has held a number of senior positions with a variety of corporations including Jardine Matheson, and CEF Holdings Ltd.

KAN Ying Che, Ruth

aged 49, is the General Manager of Vital Care Hong Kong Limited. She holds a Master's degree in Business Administration from the University of Hull, U.K., and a Bachelor's degree in French and German from the University of Manchester, U.K. She has over 20 years' experience in strategic marketing, brand building, retail market research, and event management. She has held a number of senior management positions in major corporations including the Vocational Training Council, NBC Asia, TVB International and Survey Research Group (now known as AC Nielson). Prior to joining the Group in October 2005, she was Vice President, Marketing of Galaxy Satellite Broadcasting Ltd. (a joint venture of TVB and Intelsat) from 2003 to 2004.

Directors and Senior Management (cont'd)

LOK Ngar Tat

aged 39, is the Business Development Director of the Group. He holds a Bachelor of Business Administration degree from the Chinese University of Hong Kong, and has over 17 years' experience. He has held marketing and sales positions of increasing responsibility in blue chip fast moving consumer goods companies, including Proctor & Gamble, A.S. Watson & Co. Ltd., Unilever Hong Kong, Mars China and British American Tobacco China. Prior to joining the Group in March 2006, he was Marketing Director, North East Asia, of Jebsen & Co Ltd. assigned to the Red Bull brand, a health and energy product from Austria.

MAK Kam Wing, Kevin

aged 57, is the Technology Development Director of the Group. He holds a Doctor of Philosophy degree in Pharmacology from Monash University, Australia and a Master's degree in Business Administration from the University of Warwick, U.K. He has over 20 years' experience in general management and project management and has held a variety of senior management positions in corporations including Weihai Lotus Pharma Co. Ltd., China Grand Enterprises Co. Ltd., Pharma Pacific Management Ltd. and Xian-Janssen Pharmaceutical Co. Ltd. Prior to joining the Group in September 2005, he was Executive Vice President of Chongqing Holley Holdings Ltd. overseeing the company's general and departmental performance.

MAN Hon Wan

aged 53, is the Sales Director of Vital Care Hong Kong Limited and has been with the Cheung Kong Group since September 2000. He holds a Master's degree of Business Administration from Hong Kong Baptist University and has over 20 years' experience in marketing and sales. He has worked in major corporations including G2000 (Apparel) Ltd., American Express International, Inc., and J. Walter Thompson Co. Ltd. Prior to joining the Group in January 2005, he was Senior Project Manager of Cheung Kong Infrastructure Holdings Ltd.

XIE Weidong

aged 51, is the Director, Microbe Quality Control & Method Development, of the Group. He holds a Doctor of Philosophy degree in Biology from Imperial College, the University of London. He has over 20 years' experience in research and development and is specialized in molecular biology and protein chemistry. He performed his post-doctoral fellowship in Microbiology at the University of Guelph, Canada. He also served at the Biotech Center at Zhongshan University, China, and Novopharm (now known as Viventia Biotech Ltd.) in Canada. Prior to joining the Group in September 2005, he was Director, Tetramer Facility of St. Jude Children's Research Hospital, Tennessee, U.S.

Financial Summary

	Year ended 31 December				
	2001	2002	2003	2004	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Consolidated results summary					
Turnover	148	61,447	192,268	329,627	694,379
Profit/(loss) attributable to equity holders of the Company*	(57,934)	(88,895)	(738)	(3,968)	12,234

	As at 31 December				
	2001	2002	2003	2004	2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Consolidated balance sheet summary					
Non-current assets	232,293	2,469,723	2,515,897	2,310,811	2,830,045
Current assets	13,412	349,634	343,832	751,996	850,838
Current liabilities	(20,116)	(24,922)	(46,292)	(149,596)	(365,333)
Non-current liabilities	(421,014)	–	–	(68,223)	(531,463)
Total net assets	(195,425)	2,794,435	2,813,437	2,844,988	2,784,087
Equity attributable to equity holders of the Company	(195,425)	2,794,084	2,813,316	2,795,705	2,736,260
Minority interests	–	351	121	49,283	47,827
Total equity	(195,425)	2,794,435	2,813,437	2,844,988	2,784,087

* Figures have been restated to reflect the change in accounting policy for the adoption of HKFRS2 as described in note 2 to the financial statements.

Financial Review

Financial Resources, Liquidity and Treasury Policies

The Group continued to maintain a sound liquidity position in 2005. It derived its financial resources mainly from internal resources and bank borrowings. As at 31 December 2005, the total assets amounted to HK$3,680,883,000 of which marketable securities were HK$1,773,082,000 and total bank balances and cash were HK$372,433,000. The marketable securities generated a total investment income of HK$215,038,000 while the total bank balances and cash generated a total interest income of HK$14,200,000 for the year under review.

At the balance sheet date, the total liabilities were HK$896,796,000, comprising bank loans amounted to HK$554,280,000. The bank loans were obtained to finance the acquisitions of the three overseas subsidiaries during the year as well as to fund the daily operation of some overseas subsidiaries. Most of these loans are principally on a floating interest rate basis and were granted by the banks based on the guarantees of and/or some committed terms by the Company. Other than such guarantees/commitments, an overseas subsidiary had also pledged to a bank all its assets which had a carrying value of HK$160,627,000 as at 31 December 2005 for the bank loans of approximately HK$373,650,000. As a result of these bank loans, the gearing ratio of the Group, which is based on total bank borrowings over total equity, was increased from 0.03 in 2004 to 0.2 in 2005. The net asset value of the Group was HK$0.43 per share.

In view of the quick globalization of its business, the Group has centralized its treasury functions at the head office for better management of foreign exchange risk as well as more cost effectiveness in funding arrangement. The Group would monitor regularly and closely its funding requirements locally and overseas in order to reduce its exposures on currency and interest rate fluctuations. In addition, each operating entity within the Group would borrow in local currencies, wherever necessary and possible, in order to minimize its currency risk.

Material Acquisitions/Disposals and Significant Investments

During the year under review, the Group completed the acquisitions of three overseas companies: Développement Santé Naturelle A.G. Ltée, a Canadian nutraceutical company in May; Envirogreen Pty Limited, an Australian company specializing in horticultural products and Nuturf Australia Pty Ltd, an Australian company engaging in the distribution of turf management products, both in August. The total consideration for these acquisitions amounted to approximately HK$513,262,000.

Financial Review (cont'd)

On 3 February 2006, the Company made an announcement regarding the acquisition of Vitaquest International Holdings LLC. ("Vitaquest"), a US company engaged in the business of supplying and manufacturing nutritional supplements worldwide. The consideration for the acquisition of Vitaquest which had an enterprise value of US$345,000,000 is approximately US$166,000,000. As Vitaquest has a bank loan currently estimated to be US$143,000,000, the Company will also arrange for an equivalent amount to be funded to Vitaquest upon completion of the acquisition. The acquisition has constituted a very substantial acquisition under the GEM Listing Rules. A circular providing detailed information of the acquisition and its impact on the Group will be dispatched to shareholders shortly. An extraordinary general meeting will be held for shareholders to approve the acquisition.

Other than aforementioned, there were no other material acquisitions which would have been required to be disclosed under the GEM Listing Rules.

The Group has always been investing significantly in research and development activities. Such investment amounted to about HK$94,286,000 for the year under review.

Capital Commitments and Future Plans for Material Investments or Capital Assets

As of 31 December 2005, the total capital commitments by the Group amounted to HK$2,481,000 which were mainly made up of contracted commitments in respect of the acquisition of laboratory, instrument, plant and equipment.

Information on Employees

With the continuous growth of the existing business and the acquisition of three more overseas subsidiaries in 2005, the number of full-time employee of the Group was increased to 775 at the end of the year, an 89 % more or 364 additional headcount as compared to the year end of 2004. These employees were stationed in various locations – 230 employees in Hong Kong, 315 in China, 159 in Australia and 71 in Canada. The total staff costs, including directors' emoluments, amounted to approximately HK$172,579,000 for the year under review.

The Group's remuneration policies and fringe benefits remained basically the same as before. The Group would ensure the pay levels of its employees are competitive and are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2005 (2004: Nil).

Corporate Governance Report

The Board of Directors ("Board") and the management of the Company are committed to the establishment of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, successful business growth and enhancing shareholders' value. The corporate governance principles of the Company emphasise a quality Board, sound internal controls, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices ("Code on CG Practices") as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("GEM Listing Rules") throughout the year ended 31 December 2005.

Key corporate governance principles and corporate governance practices of the Company are summarized below:

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.	**DIRECTORS**		
A.1	**The Board** *Corporate Governance Principle* *The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.*		

Corporate Governance Report (cont'd)

<table>
<tr><th>Code Ref.</th><th>Code Provisions</th><th>Compliance</th><th>Corporate Governance Practices</th></tr>
<tr><td>A.1.1</td><td>Regular board meetings at least four times a year involving active participation, either in person or through other electronic means of communication, of majority of directors.</td><td>✓</td><td>

• The Board meets regularly and held meetings in March, May, August and November 2005.
• Details of Directors' attendance records in 2005:

<table>
<tr><th>Members of the Board</th><th>Attendance</th></tr>
<tr><td colspan="2">Executive Directors</td></tr>
<tr><td>LI Tzar Kuoi, Victor (Chairman)</td><td>4/4</td></tr>
<tr><td>KAM Hing Lam (President and Chief Executive Officer)</td><td>4/4</td></tr>
<tr><td>IP Tak Chuen, Edmond</td><td>3/4</td></tr>
<tr><td>YU Ying Choi, Alan Abel</td><td>4/4</td></tr>
<tr><td>PANG Shiu Fun</td><td>3/4</td></tr>
<tr><td>CHU Kee Hung</td><td>4/4</td></tr>
<tr><td colspan="2">Non-executive Directors</td></tr>
<tr><td>Peter Peace TULLOCH (Non-executive Director)</td><td>4/4</td></tr>
<tr><td>WONG Yue-chim, Richard (Independent Non-executive Director)</td><td>3/4</td></tr>
<tr><td>KWOK Eva Lee (Independent Non-executive Director)</td><td>4/4</td></tr>
<tr><td>Colin Stevens RUSSEL (Independent Non-executive Director)</td><td>4/4</td></tr>
</table>

• The Directors can attend meetings in person, by phone or through other means of electronic communication or by their alternate directors (if applicable) in accordance with the Company's Articles of Association.
</td></tr>
</table>

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.2	All directors are given an opportunity to include matters in the agenda for regular board meetings.	✓	• All Directors are consulted as to whether they may want to include any matter in the agenda before the agenda for each regular Board meeting is issued.
A.1.3	– At least 14 days notice for regular board meetings – Reasonable notice for other board meetings	✓ ✓	• Regular Board meetings of a particular year are usually scheduled towards the end of the preceding year to give all Directors adequate time to plan their schedules to attend. • At least 14 days formal notice would be given before each regular meeting.
A.1.4	All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	✓	• Directors have access to the Company Secretary and key officers of the Company Secretarial Department who are responsible to the Board for ensuring that Board procedures are followed. • Memos are issued to Directors from time to time on updating of legal and regulatory changes and matters of relevance to Directors in the discharge of their duties.
A.1.5	– Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting. – Such minutes should be open for inspection at any reasonable time on reasonable notice by any director.	✓ ✓	• The Company Secretary prepares written resolutions or minutes and keeps records of matters discussed and decisions resolved at all Board and Board Committee meetings. • Board minutes/resolutions are sent to all Directors within a reasonable time (generally within 14 days) after each Board and Board Committee meeting. • Board minutes/resolutions are available for inspection by Directors/Committee members.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.6	– Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached. – Draft and final versions of board minutes for all directors to comment and to keep records within a reasonable time after the board meeting.	✓ ✓	• Minutes record in sufficient details the matters considered by the Board/Board Committees and decisions reached. • Directors are given an opportunity to comment on draft Board minutes. • Final version of Board minutes are placed on record within a reasonable time after the Board meeting.
A.1.7	– A procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the company's expense. – The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the company.	✓ ✓	• Directors have been advised that the Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.8	– If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee but a board meeting should be held. – Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	✓ ✓	• Important matters are usually dealt with by way of written resolutions so that all Directors (including Independent Non-executive Directors) can note and comment, as appropriate, the matters before approval is granted. • Director must declare his/her interest in the matters to be passed in the resolution, if applicable. • If a substantial shareholder or a Director has a conflict of interest in a matter to be considered material by the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter.
A.2	**Chairman and Chief Executive Officer** *Corporate Governance Principle* *There should be a clear division of responsibilities between the Chairman and Chief Executive Officer to ensure a balance of power and authority.*		
A.2.1	– Separate roles of chairman and CEO not to be performed by the same individual – Division of responsibilities between the chairman and CEO should be clearly established and set out in writing.	✓ ✓	• The positions of the Chairman of the Board and the Chief Executive Officer are currently held by separate individuals. • The Chairman determines the broad strategic direction of the Group in consultation with the full Board and is responsible for macro high-level oversight of management. • The Chief Executive Officer, with the support of the Executive Directors, is responsible for strategic planning of different business functions and day-to-day management and operation of the Group.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.2.2	The chairman should ensure that all directors are properly briefed on issues arising at board meetings	✓	• With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information on a timely basis. • In addition to regular Board meetings, the Chairman has meetings with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of Executive Directors at least once every year.
A.2.3	The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.	✓	• The Board papers including supporting analysis and related background information are normally sent to the Board members at least three days before Board meetings. • Communications between Non-executive Directors (including Independent Non-executive Directors) on the one hand, and the Company Secretary as co-ordinator for the other business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and further supporting information and/or documentation is provided if appropriate.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.3	**Board composition**		
	Corporate Governance Principle *The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company and should include a balanced composition of Executive and Non-executive Directors so that independent judgement can effectively be exercised.*		
A.3.1	Independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the company.	✓	• The composition of the Board, by category and position of Directors including names of Chairman, Executive Directors, Non-executive Directors and Independent Non-executive Directors, is disclosed in all corporate communications. • The Board consists of a total of ten Directors, comprising six Executive Directors, one Non-executive Director and three Independent Non-executive Directors. At least one of the Independent Non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise. • Details of the composition of the Board are set out on page 144. • The Directors' biographical information and the relationships among the members of the Board are set out on pages 30 to 32. • Review of the Board composition is made regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.4	**Appointments, re-election and removal** *Corporate Governance Principle* *There should be a formal, considered and transparent procedure for the appointment of new Directors and plans in place for orderly succession for appointments to the Board. All Directors should be subject to re-election at regular intervals.*		
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	✓	• All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Articles of Association and the Code on CG Practices.
A.4.2	– All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. – Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	✓ ✓	• In accordance with the Company's Articles of Association, newly appointed Directors are required to offer themselves for re-election at the first annual general meeting following their appointment. • The Board as a whole is responsible for the appointment of new Directors and Directors' nomination for re-election by shareholders at the annual general meeting of the Company. Under the Company's Articles of Association, the Board may from time to time appoint a Director either to fill a vacancy or as an addition to the Board. Any such new Director shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at the same annual general meeting.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			• All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years and are subject to re-election in accordance with the Company's Articles of Association and the Code on CG Practices. • The structure, size and composition of the Board are reviewed from time to time to ensure the Board has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company. The independence of the Independent Non-executive Directors is assessed according to the relevant rules and requirements under the GEM Listing Rules. • Each of the Independent Non-executive Directors makes an annual confirmation of independence pursuant to the requirements of the GEM Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in the relevant requirements of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5	**Responsibilities of directors**		
	Corporate Governance Principle *Every Director is required to keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.*		
A.5.1	– Every newly appointed director of the company should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary. – To ensure that he has a proper understanding of the operations and business of the company and that he is fully aware of his responsibilities under statute and common law, the GEM Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the company.	✓ ✓	• The Company Secretary and key officers of the Company Secretarial Department liaise closely with newly appointed Directors both immediately before and after his/her appointment to acquaint the newly appointed Directors with the duties and responsibilities as a Director of the Company and the business operation of the Company. • A package compiled and reviewed by the Company's legal advisers setting out such duties and responsibilities under the GEM Listing Rules, Companies Ordinance and other related ordinances and relevant regulatory requirements of Hong Kong is also provided to each newly appointed Director. • Regular memo is issued to the Directors on updating of legal and regulatory changes and matters of relevance to the Directors in the discharge of their duties.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5.2	The functions of non-executive directors include: – independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct at board meetings – take the lead on potential conflicts of interests – serve on the audit, remuneration, nomination and other governance committees, if invited – scrutinize the company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance	✓ ✓ ✓ ✓	• Non-executive Directors seek guidance and direction from the Chairman and Executive Directors on the future business direction and strategic plan so as to better understand the business of the Company and to exercise their independent judgement. • Non-executive Directors review the financial information and operational performance of the Company on a regular basis. • Independent Non-executive Directors are invited to serve on the Audit and Remuneration Committees of the Company.
A.5.3	Every director should ensure that he can give sufficient time and attention to the affairs of the company and should not accept the appointment if he cannot do so.	✓	• There is satisfactory attendance at Board meetings in 2005. • Every Executive Director has hands-on knowledge and expertise in the areas and operation in which he/she is charged with. Appropriate attention to the affairs of the Company is measured in terms of time as well as the quality of such attention and the ability of the Directors to contribute with reference to his/her necessary knowledge and expertise.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.5.4	– Directors must comply with the Model Code. – Board should establish written guidelines on no less exacting terms than the Model Code for relevant employees.	✓ ✓	• The Company has adopted the model code on securities transactions by directors of listed issuers ("Model Code") set out in Chapter 5 of the GEM Listing Rules as its own code of conduct regarding Directors' securities transactions, effective 31 March 2004. • Confirmation has been sought from all Directors that they have complied with the required standards set out in the Model Code for the year ended 31 December 2005. • Written guidelines of no less exacting terms than the Model Code relating to securities transactions for employees are set out in the Personnel Manual of the Company.
A.6	**Supply of and access to information** *Corporate Governance Principle* *Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.*		
A.6.1	– Send agenda and full board papers to all directors at least 3 days before regular board or board committee meeting – So far as practicable for other board or board committee meetings	✓ ✓	• Board papers are circulated not less than three days before the regular Board/Committee meetings to enable the Directors to make informed decisions on matters to be raised at the Board/Committee meetings.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.6.2	– Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. – The board and each director should have separate and independent access to the company's senior management for making further enquiries where necessary.	✓ ✓	• The Company Secretary and the Qualified Accountant attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters. • Communications between Directors on the one hand, and the Company Secretary, who acts as co-ordinator for the other business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate.
A.6.3	– All directors are entitled to have access to board papers and related materials. – Steps must be taken to respond as promptly and fully as possible to queries raised by directors.	✓ ✓	• Same as A.6.2 above.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B.	**REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT**		
B.1	**The level and make-up of remuneration and disclosure** *Corporate Governance Principle* *There should be a formal and transparent procedure for setting policy on Executive Directors' remuneration and for fixing the remuneration packages for all Directors.*		
B.1.1	Establish a remuneration committee with specific written terms of reference comprising a majority of independent non-executive directors	✓	• In accordance with the Code on CG Practices, the Company has set up a remuneration committee ("Remuneration Committee") with a majority of the members being independent non-executive directors. • The Company established its Remuneration Committee on 1 January 2005. • The existing Remuneration Committee comprises the Chairman of the Board, Mr. Li Tzar Kuoi, Victor (Chairman of the Remuneration Committee), and two Independent Non-executive Directors, namely, Mrs. Kwok Eva Lee and Mr. Colin Stevens Russel. • Since the setting up of the Remuneration Committee on 1 January 2005, an orientation meeting and two meetings of the Remuneration Committee were held in May 2005, November 2005 and January 2006 respectively. Details of the attendance of the members of the Remuneration Committee are as follows:

Members of the Remuneration Committee	Attendance
LI Tzar Kuoi, Victor *(Chairman of the Remuneration Committee)*	3/3
KWOK Eva Lee	3/3
Colin Stevens RUSSEL	3/3

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			Note: The members of the Remuneration Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternate (if applicable) in accordance with the Company's Articles of Association. • The following is a summary of the work for the Remuneration Committee during the said meetings: 1. Review of the remuneration policy for 2005/2006; 2. Review of the remuneration of Non-executive Directors; 3. Review of the annual performance bonus policy; 4. Review of the annual share option policy; and 5. Review of the accounting treatment and financial implications of the employees' share options under the newly issued Hong Kong Financial Reporting Standards.
B.1.2	The remuneration committee should consult the chairman and/or CEO about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	✓	• The Remuneration Committee has consulted the Chairman and/or the Chief Executive Officer of the Company about proposals relating to the remuneration packages and other human resources issues of the Directors and senior management of the Company. • The emoluments of Directors are based on the skill, knowledge, involvement in the Company's affairs and the performance of each Director, together with reference to the profitability of the Company, remuneration benchmarks in the industry, and prevailing market conditions.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B.1.3	Terms of reference of the remuneration committee include: – determine specific remuneration packages of all executive directors and senior management – review and approve performance-based remuneration and the compensation payable on loss or termination of office or appointment – ensure that no director or any of his associates is involved in deciding his own remuneration	✓	• The terms of reference of the Remuneration Committee, which follow closely the requirements of the Code Provisions and have been adopted by the Board, are posted on the Company's website.
B.1.4	The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	✓	• The terms of reference of the Remuneration Committee are posted on the Company's website. • The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management, and reviewing the specific remuneration packages of all Executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.
B.1.5	The remuneration committee should be provided with sufficient resources to discharge its duties.	✓	• The Personnel Department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.	**ACCOUNTABILITY AND AUDIT**		
C.1	**Financial reporting** *Corporate Governance Principle* *The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.*		
C.1.1	Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	✓	• Directors are provided with a review of the Group's major business activities and detailed financial information on a quarterly basis.
C.1.2	– The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts. – There should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements. – Unless it is inappropriate to assume that the company will continue in business, the directors should prepare the accounts on a going concern basis, with supporting assumptions or qualifications as necessary.	✓ ✓ ✓	• The Directors annually acknowledge in writing their responsibility for preparing the financial statements of the Group. • Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in C.1.2 of the Code on CG Practices. • With the assistance of the Finance Department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
	– When the directors are aware of material uncertainties relating to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern, such uncertainties should be clearly and prominently set out and discussed at length in the Corporate Governance Report.	N/A	• The Directors also ensure the publication of the financial statements of the Group is in a timely manner. • The statement by the auditors of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 89.
C.1.3	The board's responsibility to present a balanced, clear and understandable assessment extends to annual, half-year and quarterly reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	✓	• The Board aims to present a clear, balanced and understandable assessment of the Group's performance and position in all shareholder communications. • The Board is aware of the requirements under the applicable rules and regulations about timely disclosure of price sensitive information or matters regarding the Company and will authorize the publication of such announcements as and when the occasion arises. The Company Secretary and key officers of the Company Secretarial Department work closely and in consultation with legal advisers to review the materiality and sensitivity of transactions and proposed transactions and advise the Board accordingly.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.2	**Internal controls**		
	Corporate Governance Principle *The Board should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment and the Company's assets.*		
C.2.1	– Directors to review effectiveness of system of internal control of the company and its subsidiaries at least annually and to report that they have done so in the Corporate Governance Report. – The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	✓ ✓	• The Directors, through the audit committee of the Company ("Audit Committee"), have conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries. The review covers all material controls, including financial, operational and compliance controls and risk management functions. • The Board has overall responsibility for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			Organizational Structure An organizational structure with operating policies and procedures, lines of responsibility and delegated authority has been established. *Authority and Control* The relevant Executive Directors and senior management are delegated with respective levels of authorities with regard to key corporate strategy and policy and contractual commitments. *Budgetary Control and Financial Reporting* Budgets are prepared and are subject to the approval of the Executive Directors prior to being adopted. There are procedures for the appraisal, review and approval of major capital and recurrent expenditure. Results of operations against budgets are reported regularly to the Executive Directors. Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group's accounting policies and applicable laws and regulations.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			Internal Audit The Internal Audit Department provides an independent appraisal of the Group's financial and operational activities, and makes constructive recommendations to the relevant management for necessary actions. The results of internal audit reviews and corresponding remedial actions taken are reported to the senior management and Audit Committee periodically. The annual work plan of the Internal Audit Department focuses on those areas of the Group's activities with the greatest perceived risk and the plan is reviewed and endorsed by the Audit Committee.
C.3	**Audit Committee** *Corporate Governance Principle* *The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.*		
C.3.1	– Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. – Draft and final versions of minutes for all members of the audit committee to comment and to keep records within a reasonable time after the meeting.	✓ ✓	• Minutes drafted by the Company Secretary are circulated to members of the Audit Committee within a reasonable time after each meeting. • Audit Committee meetings were held in March, May, August and November 2005. Details of the attendance record of members of the Audit Committee are as follows:

Members of the Audit Committee	Attendance
WONG Yue-chim, Richard *(Chairman of the Audit Committee)*	4/4
KWOK Eva Lee	4/4
Colin Stevens RUSSEL	4/4

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			Note: The members of the Audit Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternate (if applicable) in accordance with the Company's Articles of Association. • The following is a summary of the work of the Audit Committee during 2005: 1. Review of the financial reports for 2004 annual results and 2005 first quarter, half-year and third quarter results; 2. Review of the findings and recommendations of the Internal Audit Department on the work of various divisions/departments and related companies; 3. Review of the effectiveness of the internal control system; 4. Review of the external auditors' audit plan; and 5. Consideration and approval of the 2004 audit fees. • After due and careful consideration of reports from management and the internal and external auditors, the Audit Committee was of the view that no suspected fraud or irregularities, internal control deficiencies, or suspected infringement of laws, rules, or regulations had been found, and concluded at the meeting held on 13 March 2006 that the system of internal controls was adequate and effective. • On 13 March 2006, the Audit Committee met to review the Group's 2005 consolidated financial statements, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			auditors. After review and discussions with the management, internal auditors, and external auditors, the Audit Committee endorsed the accounting treatment adopted by the Company, and the Audit Committee had to the best of its ability assured itself that the disclosure of the financial information in the 2005 Annual Report complies with the applicable accounting standards and Chapter 18 of the GEM Listing Rules. The Audit Committee therefore recommended the Board's approval of the consolidated financial statements for the year ended 31 December 2005. • The Audit Committee also recommended to the Board the re-appointment of Messrs. Deloitte Touche Tohmatsu ("Deloitte") as the Company's external auditor for 2006 and that the related resolution shall be put forth for shareholders' consideration and approval at the 2006 annual general meeting. • The Group's Annual Report for the year ended 31 December 2005 has been reviewed by the Audit Committee.
C.3.2	A former partner of existing auditing firm shall not act as a member of the committee for 1 year after he ceases to be a partner of or to have any financial interest in, the firm, whichever is the later.	✓	• No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.3	Terms of reference of the audit committee include: – recommendation to the board on the appointment and removal of external auditors and approval of their terms of engagement – review and monitor external auditors' independence and effectiveness of audit process – review of financial information of the company – oversight of the company's financial reporting system and internal control procedures	✓	• Terms of reference of the Audit Committee, which follow closely the requirements of the Code Provisions and have been adopted by the Board, are posted on the Company's website.
C.3.4	The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	✓	• The GEM Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established the Audit Committee on 26 June 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). • In accordance with the requirements of the Code on CG Practices, the terms of reference of the Audit Committee were revised on 1 January 2005 in terms substantially the same

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
			as the provisions set out in the Code on CG Practices. The revised terms of reference of the Audit Committee are available on the Company's website. • The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditors of the Company. Regular meetings have been held by the Audit Committee since its establishment. • The existing Audit Committee of the Company comprises three Independent Non-executive Directors, namely, Professor Wong Yue-chim, Richard (Chairman of the Audit Committee), Mrs. Kwok Eva Lee and Mr. Colin Stevens Russel. The Audit Committee held four meetings in 2005.
C.3.5	Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the company should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.	N/A	• The Audit Committee recommended to the Board that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte be re-appointed as the Company's external auditors for 2006. • For the year ended 31 December 2005, the external auditors of the Company received approximately HK$0.5 million for audit services and approximately HK$10 million for non-audit services, comprising reporting accountants on acquisitions of various businesses of approximately HK$4.7 million, tax compliance and advisory services of approximately HK$1.3 million and consultancy services of approximately HK$3.8 million.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.6	The audit committee should be provided with sufficient resources to discharge its duties.	✓	• The Audit Committee has been advised that the Company Secretary can arrange independent professional advice at the expense of the Company should the seeking of such advice be considered necessary by such Directors.
D.	**DELEGATION BY THE BOARD**		
D.1	**Management functions** *Corporate Governance Principle* *The Company should have a formal schedule of matters specifically reserved to the Board and those delegated to management.*		
D.1.1	When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the company.	✓	• Executive Directors are in charge of different businesses and functional divisions in accordance with their respective areas of expertise. • Refer to Management Structure Chart set out on page 71.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
D.1.2	Formalize functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the company.	✓	• The Board, led by the Chairman, is responsible for the Group's future development directions; overall strategies and policies; evaluation of the performance of the Group and the management; and approval of matters that are of a material or substantial nature. • Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.
D.2	**Board Committees** *Corporate Governance Principle* *Board Committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.*		
D.2.1	Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.	✓	• Two Board Committees, i.e. Audit Committee and Remuneration Committee have been established with specific terms of reference as mentioned in C.3.3 and B.1.3 above.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
D.2.2	The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).	✓	• Each Board Committee reports to the Board after each meeting.
E.	**COMMUNICATION WITH SHAREHOLDERS**		
E.1	**Effective communication** *Corporate Governance Principle* *The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.*		
E.1.1	In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	✓	• Separate resolutions are proposed at the general meeting on each substantially separate issue, including the election of individual directors.

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.1.2	– The chairman of the board should attend the AGM and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee to be available to answer questions at the AGM. – The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	✓ ✓	• In 2005, the Chairman of the Board, Chairman of the Audit Committee and Chairman of the Remuneration Committee attended the annual general meeting and were available to answer questions. • The Company establishes different communication channels with shareholders and investors, including (i) printed copies of financial reports, circulars, notices of general meetings and proxy forms required under the GEM Listing Rules, and shareholders can select to receive such documents by electronic means, (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) updated and key information on the Group is available on the website of the Company, (iv) the Company's website offers a main communication channel between the Company and its shareholders and investors, (v) regular press conferences and briefing meetings with analysts from the investment sectors are set up from time to time on updated performance information of the Group, and (vi) the Company's Branch Share Registrar deals with shareholders for share registration matters.

E.2 **Voting by Poll**

Corporate Governance Principle
The Company should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in GEM Listing Rules and the constitutional documents of the Company.

Corporate Governance Report (cont'd)

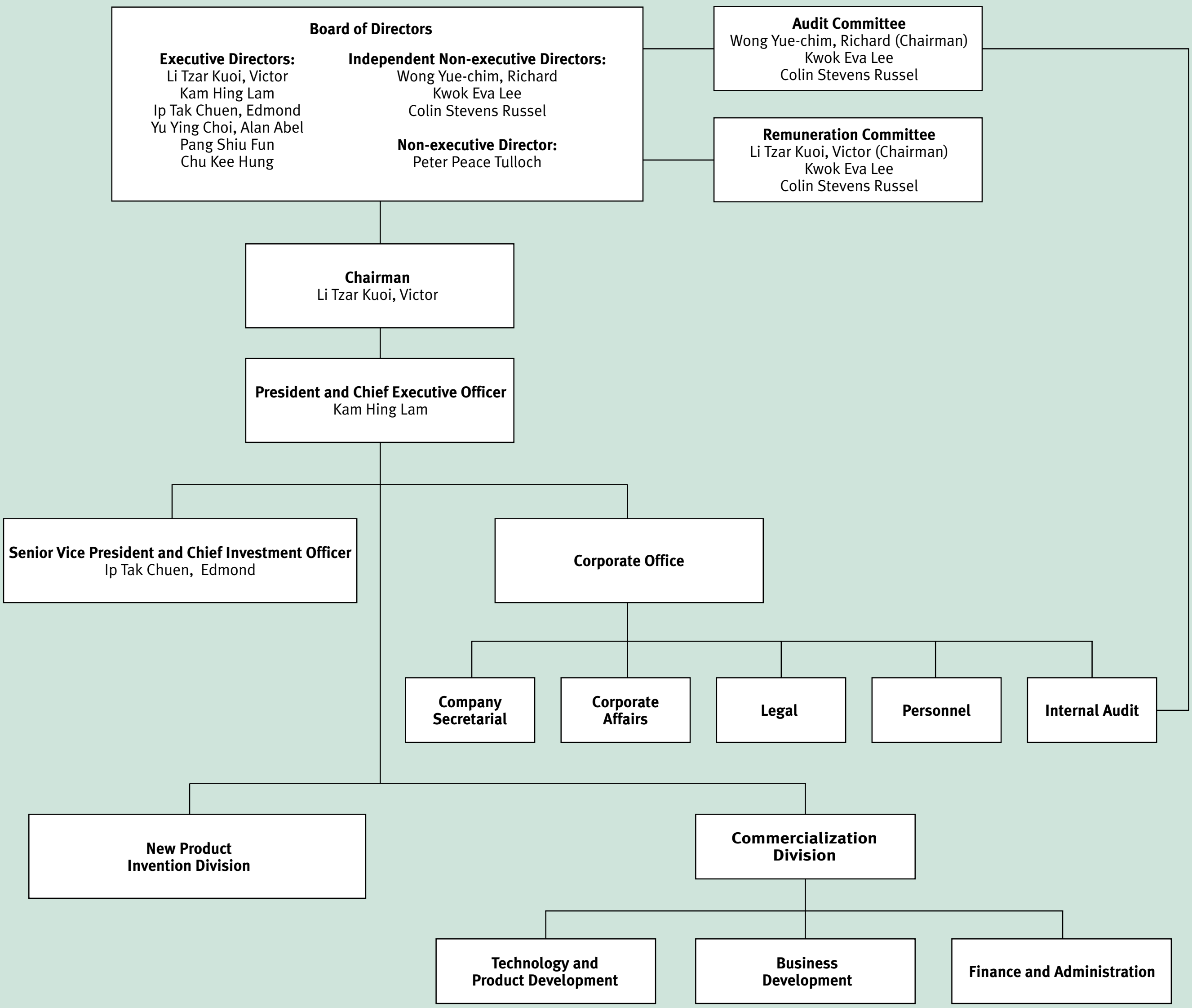
Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.2.1	– The chairman of a meeting should ensure disclosure in the circulars of the procedures for and the rights of shareholders to demand a poll.	✓	• In 2005, the right to demand a poll was set out in all the circulars issued during the year. • In 2005, the Chairman of the general meeting exercised his power under the Articles of Association of the Company to put each resolution set out in the notice to be voted by way of a poll.
	– The chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies.	✓	
	– If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.	✓	

Corporate Governance Report (cont'd)

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
E.2.2	– The company should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. – The company should ensure that votes cast are properly counted and recorded.	✓ ✓	• Representatives of the Branch Share Registrar of the Company were appointed as scrutineers to monitor and count the poll votes casted at the annual general meeting. • Poll results were announced at the adjourned meeting and were posted on the websites of the Company and the Stock Exchange.
E.2.3	The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of: – the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and – the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.	✓ ✓	• At the 2005 annual general meeting, the Chairman of the meeting explained the detailed procedures for conducting a poll, which had also been set out in the circular containing the notice of annual general meeting, and then answered any questions from shareholders. • At the 2005 annual general meeting, the Chairman of the meeting exercised his power under the Articles of Association of the Company to put each resolution set out in the notice to be voted by way of a poll.

Corporate Governance Report (cont'd)

Management Structure Chart



Report of the Directors

The Directors have pleasure in presenting to shareholders their annual report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2005.

Principal Activities

The principal activities of the Company are investment holding and the activities of its subsidiaries are research and development, manufacturing, commercialization, marketing and selling of environmental and human health products, as well as investment in various financial and investment products.

Results and Appropriations

Results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 90.

The Directors do not recommend the payment of a final dividend.

Fixed Assets

Movements in fixed assets of the Group during the year are set out in note 14 to the financial statements.

Share Capital

Movements in share capital of the Company during the year are set out in note 31 to the financial statements.

Reserves

Movements in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on page 93.

Directors

The Directors of the Company in office at the date of this report are listed on page 144 and their biographical information is set out on pages 30 to 32.

On 1 January 2005, Mr. Colin Stevens Russel was appointed as an Independent Non-executive Director of the Company. In accordance with the Company's Articles of Association, Mr. Colin Stevens Russel retired and was re-elected as an Independent Non-executive Director of the Company at the Company's annual general meeting held on 12 May 2005.

On 7 April 2005, Mr. Kwan Chiu Yin, Robert resigned as an Independent Non-executive Director of the Company whereas Mr. Lam Hing Chau, Leon resigned as an Executive Director of the Company on 16 November 2005.

In accordance with the Company's Articles of Association and the Code on Corporate Governance Practices, the Directors of the Company (including Non-executive Directors) are subject to retirement by rotation once every three years. Mr. Peter Peace Tulloch, Professor Wong Yue-chim, Richard and Mrs. Kwok Eva Lee will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

Directors' Service Contracts

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Report of the Directors (cont'd)

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2005, the interests or short positions of the Directors and 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 ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code on Securities Transactions by Directors adopted by the Company ("Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

(1) Long positions in the shares of the Company

		Number of Ordinary Shares					
Name of Director	Capacity	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Approximate % of Shareholding
Li Tzar Kuoi, Victor	Beneficial owner & beneficiary of trusts	1,500,000	–	–	2,820,008,571 (Note 1)	2,821,508,571	44.04%
Kam Hing Lam	Interest of child or spouse	–	4,150,000	–	–	4,150,000	0.06%
Ip Tak Chuen, Edmond	Beneficial owner	1,500,000	–	–	–	1,500,000	0.02%
Yu Ying Choi, Alan Abel	Beneficial owner	1,500,000	–	–	–	1,500,000	0.02%
Pang Shiu Fun	Beneficial owner & interest of child or spouse	1,500,700 (Note 2)	700 (Note 2)	–	–	1,500,700	0.02%
Chu Kee Hung	Beneficial owner	1,500,000	–	–	–	1,500,000	0.02%
Peter Peace Tulloch	Beneficial owner	700,000	–	–	–	700,000	0.01%
Wong Yue-chim, Richard	Beneficial owner	250,000	–	–	–	250,000	0.004%
Kwok Eva Lee	Beneficial owner	200,000	–	–	–	200,000	0.003%

Report of the Directors (cont'd)

Notes:

1. Such 2,820,008,571 shares are held by a subsidiary of Cheung Kong (Holdings) Limited ("Cheung Kong Holdings"). Li Ka-Shing Unity Trustee Company Limited ("TUT") as trustee of The Li Ka-Shing Unity Trust (the "LKS Unity Trust") and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings. Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust hold all issued and outstanding units in the LKS Unity Trust but are not entitled to any interest or share in any particular property comprising the trust assets of the LKS Unity Trust. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Mr. Li Tzar Kuoi, Victor, as a discretionary beneficiary of such discretionary trusts and a Director of the Company, is taken to be interested in those shares of Cheung Kong Holdings and thus is taken to be interested in those 2,820,008,571 shares held by the subsidiary of Cheung Kong Holdings under the SFO.

2. Such interests comprise the same block of 700 shares jointly held by Dr. Pang Shiu Fun and his wife.

Report of the Directors (cont'd)

(2) Long positions in the underlying shares of the Company

Pursuant to the share option scheme adopted by the Company on 26 June 2002 (the "Scheme"), certain Directors in the capacity as beneficial owners were granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 31 December 2005 were as follows:

		Number of share options						
Name of Director	Date of grant	Outstanding as at 1 January 2005	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding as at 31 December 2005	Option period	Subscription price per share HK$
Yu Ying Choi, Alan Abel	30/9/2002	310,000	–	–	–	310,000	30/9/2003 – 29/9/2012	1.598
	27/1/2003	690,000	–	–	–	690,000	27/1/2004 – 26/1/2013	1.446
	19/1/2004	690,000	–	–	–	690,000	19/1/2005 – 18/1/2014	1.762
Pang Shiu Fun	30/9/2002	310,000	–	–	–	310,000	30/9/2003 – 29/9/2012	1.598
	27/1/2003	690,000	–	–	–	690,000	27/1/2004 – 26/1/2013	1.446
	19/1/2004	690,000	–	–	–	690,000	19/1/2005 – 18/1/2014	1.762
Chu Kee Hung	30/9/2002	310,000	–	–	–	310,000	30/9/2003 – 29/9/2012	1.598
	27/1/2003	690,000	–	–	–	690,000	27/1/2004 – 26/1/2013	1.446
	19/1/2004	690,000	–	–	–	690,000	19/1/2005 – 18/1/2014	1.762

Save as disclosed above, during the year ended 31 December 2005, none of the Directors or their respective associates was granted share options to subscribe for shares of the Company, nor had exercised such rights.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31 December 2005, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

The Company has adopted the Scheme under which the Directors or employees of the Company or its subsidiaries or certain other persons may be granted share options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Scheme.

(1) Summary of the Scheme

(a) Purpose of the Scheme

The purpose of the Scheme is to provide the people and the parties working for the interest of the Group with an opportunity to obtain equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an incentive to work better for the interest of the Group.

(b) Participants of the Scheme

Pursuant to the Scheme, the Company may grant share options to (i) employees of the Company (whether full-time or part-time) or any of its subsidiaries or associated companies; (ii) Directors (whether Executive Directors, Non-executive Directors or Independent Non-executive Directors) of the Company or any of its subsidiaries or associated companies; (iii) suppliers of goods and/or services to the Company or any of its subsidiaries or associated companies; and (iv) biotechnological, scientific, technical, financial and legal professional advisers engaged by the Company or any of its subsidiaries or associated companies.

(c) Total number of shares available for issue under the Scheme

Pursuant to the letter issued by the Stock Exchange on 15 July 2002, the total number of shares of the Company available for issue upon exercise of the options which may be granted pursuant to the Scheme and any other share option schemes of the Company is 640,700,000 shares, being 9.9% of the total number of shares of the Company in issue as at the date of this annual report and the same must not exceed 30% of the total number of shares of the Company in issue from time to time pursuant to the Scheme.

Report of the Directors (cont'd)

(d) *Maximum entitlement of each participant*

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted pursuant to the Scheme and any other share option schemes of the Company to each participant in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of shares of the Company in issue.

(e) *Time of exercise of options*

An option may be exercised in accordance with the terms of the Scheme at any time during a period of not more than ten years to be notified by the Board of Directors of the Company (the "Board") to each participant which period of time shall commence on the date on which an offer of the grant of an option is accepted or deemed to have been accepted in accordance with the Scheme and expire on the last day of such period as determined by the Board. There is no minimum period for which an option must be held before it can be exercised.

(f) *Payment on acceptance of option offer*

HK$1.00 is payable by the participant to the Company on acceptance of the option offer as consideration for the grant and received by the Company within 14 days from the offer date or within such other period of time as may be determined by the Board pursuant to the GEM Listing Rules.

(g) *Basis of determining the subscription price*

The subscription price per share of the Company under the Scheme is a price determined by the Board and notified to each participant and shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of offer, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for the business of dealing in securities (a "Trading Day"), (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five consecutive Trading Days immediately preceding the date of offer, and (iii) the nominal value of a share of the Company.

(h) *Remaining life of the Scheme*

The Scheme will remain valid until 25 June 2012 after which no further options will be granted but in respect of all options which remain exercisable on such date, the provisions of the Scheme shall remain in full force and effect.

The other principal terms of the Scheme are set out in the Company's prospectus dated 4 July 2002.

Report of the Directors (cont'd)

(2) Details of options granted by the Company

As at 31 December 2005, options to subscribe for an aggregate of 18,470,700 shares of the Company granted to certain continuous contract employees (including the Executive Directors of the Company as disclosed above and the management shareholder as disclosed below) pursuant to the Scheme were outstanding, details of which were as follows:

	Number of share options							
Date of grant	Outstanding as at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2005	Option period	Subscription price per share HK$
30/9/2002	3,660,500	–	–	472,000	–	3,188,500	30/9/2003 – 29/9/2012 (Note 1)	1.598
27/1/2003	8,185,500	–	–	1,057,300	–	7,128,200	27/1/2004 – 26/1/2013 (Note 2)	1.446
19/1/2004	9,404,000	–	–	1,250,000	–	8,154,000	19/1/2005 – 18/1/2014 (Note 3)	1.762

Details of the share options granted to Mr. Cheung Ling Yuk, Larry, a management shareholder of the Company, pursuant to the Scheme as at 31 December 2005 were as follows:

	Number of share options							
Date of grant	Outstanding as at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2005	Option period	Subscription price per share HK$
30/9/2002	316,000	–	–	–	–	316,000	30/9/2003 – 29/9/2012 (Note 1)	1.598
27/1/2003	580,000	–	–	–	–	580,000	27/1/2004 – 26/1/2013 (Note 2)	1.446
19/1/2004	580,000	–	–	–	–	580,000	19/1/2005 – 18/1/2014 (Note 3)	1.762

Report of the Directors (cont'd)

Notes:

1. The options are exercisable from 30 September 2003 to 29 September 2012 (both days inclusive) subject to the following vesting period:

   (i) up to 35% of the options commencing on 30 September 2003;

   (ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 30 September 2004; and

   (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 30 September 2005.

2. The options are exercisable from 27 January 2004 to 26 January 2013 (both days inclusive) subject to the following vesting period:

   (i) up to 35% of the options commencing on 27 January 2004;

   (ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 27 January 2005; and

   (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 27 January 2006.

3. The options are exercisable from 19 January 2005 to 18 January 2014 (both days inclusive) subject to the following vesting period:

   (i) up to 35% of the options commencing on 19 January 2005;

   (ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 19 January 2006; and

   (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 19 January 2007.

Report of the Directors (cont'd)

Interests and Short Positions of Shareholders

So far as is known to any Director or chief executive of the Company, as at 31 December 2005, shareholders (other than Directors or chief executive of the Company) who had interests or short positions 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, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

(1) Long positions of substantial shareholders in the shares of the Company

Name	Capacity	Number of Ordinary Shares	Approximate % of Shareholding
Gold Rainbow Int'l Limited	Beneficial owner	2,820,008,571	44.01%
Gotak Limited	Interest of a controlled corporation	2,820,008,571 (Note i)	44.01%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	2,820,008,571 (Note ii)	44.01%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	2,820,008,571 (Note iii)	44.01%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	2,820,008,571 (Note iii)	44.01%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	2,820,008,571 (Note iii)	44.01%
Trueway International Limited	Beneficial owner	1,410,004,286	22.01%
Tangiers Enterprises Limited	Interest of controlled corporations	1,880,005,715 (Note iv)	29.34%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	4,700,014,286 (Note v)	73.35%

Report of the Directors (cont'd)

(2) Long positions of other persons in the shares of the Company

Name	Capacity	Number of Ordinary Shares	Approximate % of Shareholding
Triluck Assets Limited	Beneficial owner	470,001,429	7.34%
Cheung Ling Yuk, Larry	Beneficial owner	401,585,714 (Note vi)	6.27%

Notes:

i. This represents the same block of shares in the Company as shown against the name of Gold Rainbow Int'l Limited ("Gold Rainbow") above. Since Gold Rainbow is wholly-owned by Gotak Limited, Gotak Limited is deemed to be interested in the same number of shares in which Gold Rainbow was interested under the SFO.

ii. As Gotak Limited is wholly-owned by Cheung Kong Holdings, Cheung Kong Holdings is deemed to be interested in the same number of shares which Gotak Limited is deemed to be interested under the SFO.

iii. TUT as trustee of the LKS Unity Trust and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings. TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust and TDT2 as trustee of another discretionary trust hold all issued and outstanding units in the LKS Unity Trust but are not entitled to any interest or share in any particular property comprising the trust assets of the LKS Unity Trust. Under the SFO, each of TUT as trustee of the LKS Unity Trust, TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust and TDT2 as trustee of another discretionary trust is deemed to be interested in the same block of shares as Cheung Kong Holdings is deemed to be interested as disclosed in Note ii above.

iv. Trueway International Limited ("Trueway") and Triluck Assets Limited ("Triluck") are wholly-owned by Tangiers Enterprises Limited ("Tangiers") and Tangiers is deemed to be interested in a total of 1,880,005,715 shares under the SFO, being the aggregate of the shares in which Trueway and Triluck were interested as shown against the names Trueway and Triluck above.

v. This represents the aggregate of the blocks of shares in the Company in which Tangiers and Cheung Kong Holdings are respectively deemed to be interested under the SFO. As Mr. Li Ka-shing owns the entire issued share capital of Tangiers and one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited which in turn holds the entire issued share capital of TUT, TDT1 and TDT2, under the SFO, Mr. Li Ka-shing is deemed to be interested in the same number of shares in which both Tangiers and Cheung Kong Holdings are deemed to be interested as mentioned above.

vi. The interests of Mr. Cheung Ling Yuk, Larry in the share options granted by the Company are separately disclosed in the paragraphs headed "Details of options granted by the Company" of the section headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2005, the Company has not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions 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, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Competing Interests

During the year, the interests of Directors, management shareholders of the Company or their respective associates as defined in the GEM Listing Rules (the "Associates") in the businesses which compete or may compete, either directly or indirectly, with the businesses of the Group (the "Competing Business") as required to be disclosed pursuant to the GEM Listing Rules were as follows:

(1) Core business activities of the Group

(i) Research and development, manufacturing, commercialization, marketing and selling of environmental and human health products.

(ii) Investment in various financial and investment products.

(2) Interests in Competing Business

Name of Director	Name of Company	Nature of Interest	Competing Business (Note 2)
Li Tzar Kuoi, Victor	Cheung Kong (Holdings) Limited	Managing Director and Deputy Chairman (Note 1)	(ii)
	Hutchison Whampoa Limited	Executive Director and Deputy Chairman (Note 1)	(i) & (ii)
	Cheung Kong Infrastructure Holdings Limited	Chairman (Note 1)	(i) & (ii)
	Hongkong Electric Holdings Limited	Executive Director (Note 1)	(ii)
Kam Hing Lam	Cheung Kong (Holdings) Limited	Deputy Managing Director (Note 1)	(ii)
	Hutchison Whampoa Limited	Executive Director (Note 1)	(i) & (ii)
	Cheung Kong Infrastructure Holdings Limited	Group Managing Director (Note 1)	(i) & (ii)
	Hongkong Electric Holdings Limited	Executive Director	(ii)

Report of the Directors (cont'd)

Name of Director	Name of Company	Nature of Interest	Competing Business (Note 2)
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited	Deputy Managing Director	(ii)
	Cheung Kong Infrastructure Holdings Limited	Executive Director and Deputy Chairman	(i) & (ii)
	TOM Group Limited	Non-executive Director	(ii)
	CATIC International Holdings Limited	Non-executive Director	(ii)
	Excel Technology International Holdings Limited	Non-executive Director	(ii)
	Shougang Concord International Enterprises Company Limited	Non-executive Director	(ii)
	Hanny Holdings Limited	Non-executive Director (retired on 1 September 2005)	(ii)
Pang Shiu Fun	Cheung Kong (Holdings) Limited	Holder of listed shares	(ii)
	Hutchison Whampoa Limited	Holder of listed shares	(i) & (ii)
	Cheung Kong Infrastructure Holdings Limited	Holder of listed shares	(i) & (ii)
	TOM Group Limited	Holder of listed shares	(ii)
Wong Yue-chim, Richard	Great Eagle Holdings Limited	Independent Non-executive Director	(ii)
	Orient Overseas (International) Limited	Independent Non-executive Director	(ii)
Kwok Eva Lee	Cheung Kong Infrastructure Holdings Limited	Independent Non-executive Director	(i) & (ii)
	Shoppers Drug Mart Corporation	Independent Director	(i)
Colin Stevens Russel	Cheung Kong Infrastructure Holdings Limited	Independent Non-executive Director	(i) & (ii)

Report of the Directors (cont'd)

Name of Management Shareholder	Name of Company	Nature of Interest	Competing Business (Note 2)
Li Ka-shing	Cheung Kong (Holdings) Limited	Chairman (Note 1)	(ii)
	Hutchison Whampoa Limited	Chairman (Note 1)	(i) & (ii)

Notes:

1. Apart from holding the directorships, Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Kam Hing Lam and/or their respective family members have direct and/or indirect interests in the shares of such companies where appropriate.

2. Such businesses may be made through subsidiaries, associated companies or by way of other forms of investments.

Save as disclosed above, none of the Directors, the management shareholders of the Company or their respective Associates have any interests in a business which competes or may compete, either directly or indirectly, with the businesses of the Group.

Connected Transactions

Continuing connected transactions of the Group during the year ended 31 December 2005 under the GEM Listing Rules are as follows:

(1) Supply Agreements

On 29 August 2003, the Group entered into a Cheung Kong Supply Agreement and an HIL Supply Agreement (both as defined and more particularly described in the circular of the Company dated 10 September 2003 (the "Circular I")) with Cheung Kong Holdings, a substantial shareholder of the Company, and Hutchison International Limited ("HIL"), an associate of Cheung Kong Holdings under the GEM Listing Rules, respectively, under which, the Company agreed to provide and/or procure to be provided certain products including (i) health food and dietary supplements; (ii) eco-agricultural products; (iii) bioremediation products; and (iv) skin care products (collectively the "Products" as defined in Circular I) to members of the Cheung Kong Group (as defined in Circular I) for use or consumption and/or for sale and distribution on a non-exclusive basis and to members of the HIL Group (as defined in Circular I) for sale and distribution on a non-exclusive basis. In connection with the supply of the Products by the Group to the HIL Group for sale and distribution, relevant members of the HIL Group and the Group may include arrangement for the making of the Sales Related Payments (as defined in Circular I) by relevant members of the Group to those of the HIL Group (all transactions mentioned above being collectively referred to as the "Continuing Connected Transactions I"). The Cheung Kong Supply Agreement and the HIL Supply Agreement were deemed to have commenced on 1 January 2003 and 1 May 2003 respectively and both expired on 31 December 2005.

Report of the Directors (cont'd)

The Continuing Connected Transactions I cannot exceed the relevant annual caps set out below:

Category of the Continuing Connected Transactions I	Caps (in HK$) For the year ended 31 December 2003	For the year ended 31 December 2004	For the year ended 31 December 2005
1. Cheung Kong Supply Agreement:			
the value of the Products provided or to be provided to the Cheung Kong Group	7,000,000	18,000,000	42,000,000
2. HIL Supply Agreement:			
(a) the value of the Products provided or to be provided to the HIL Group	16,000,000	98,000,000	235,000,000
(b) the value of the Sales Related Payments payable by the Group to the HIL Group	5,000,000	19,000,000	43,000,000

Details of the Continuing Connected Transactions I were disclosed in Circular I and the Continuing Connected Transactions I have been approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 26 September 2003.

The Continuing Connected Transactions I were renewed for a further three years up to 31 December 2008, the approval of which has been obtained from the independent shareholders of the Company at the Company's annual general meeting held on 12 May 2005.

(2) Framework Agreement

On 20 September 2004, the Company entered into a framework agreement ("Framework Agreement") (as defined and more particularly described in the circular of the Company dated 11 October 2004 (the "Circular II")) with 南京紅太陽股份有限公司 (Nanjing Red Sun Stock Co Ltd) ("Red Sun"), a connected person of the Company under the GEM Listing Rules, under which the Company agreed to sell, and/or procure members of the Group to sell, fertilizers to Red Sun, its subsidiary companies and its Associates (as defined in Circular II) by entering into individual sales contracts (hereinafter referred to as the "Continuing Connected Transactions II"). The Framework Agreement was deemed to have commenced on 17 January 2004 and will expire on 31 December 2006.

Report of the Directors (cont'd)

The Continuing Connected Transactions II cannot exceed the relevant annual caps set out below:

	For the year ended 31 December 2004	For the year ended 31 December 2005	For the year ending 31 December 2006
Caps	HK$79,000,000	HK$270,000,000	HK$431,000,000

Details of the Continuing Connected Transactions II were disclosed in Circular II and the Continuing Connected Transactions II have been approved on 20 September 2004 pursuant to the GEM Listing Rules by means of written shareholders' approval from a closely allied group of shareholders of the Company, namely Gold Rainbow, Trueway and Triluck which have no interests in the Continuing Connected Transactions II other than through their equity interests in the Company.

(3) Loan Agreement

On 18 March 2005, Hofine Investment Limited ("Hofine"), an indirect wholly-owned subsidiary of the Company, entered into the AquaTower Loan Agreement (as defined in the announcement of the Company dated 18 March 2005 (the "Announcement")) with AquaTower Pty Ltd ("AquaTower"), a company owned as to 51% by the Company indirectly, for the provision of shareholder's loan to AquaTower in the amount of up to A$5,225,635.02 (approximately HK$31,353,810) at an interest rate equivalent to the sum of the Base Rate (as defined in the Announcement) plus a margin ranging from 0.9% to 1.1%, or at such other rate as the parties shall agree from time to time. The principal amount outstanding will be repayable on 31 December 2014 or such other date as mutually agreed between Hofine and AquaTower. AquaTower is a non wholly-owned subsidiary of the Company and hence a connected person of the Company under Rule 20.11 of the GEM Listing Rules. The granting of the shareholder's loan by Hofine to AquaTower constituted a connected transaction for the Company under Chapter 20 of the GEM Listing Rules.

Both the Continuing Connected Transactions I and the Continuing Connected Transactions II (collectively referred to as "Continuing Connected Transactions") have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors have confirmed that for the year 2005 the Continuing Connected Transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable than those available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Report of the Directors (cont'd)

Pursuant to Rule 20.38 of the GEM Listing Rules, the Company has engaged the auditors of the Company to perform certain factual finding procedures in respect of the Continuing Connected Transactions of the Group in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have performed these procedures and reported to the Board their factual findings which confirmed that for the year 2005 the Continuing Connected Transactions (i) have received the approval of the Board and (ii) have not exceeded the relevant caps set out above; and the samples that the auditors selected for the Continuing Connected Transactions were entered into in accordance with the relevant agreements governing such transactions and were in accordance with the Group's pricing policies.

Directors' Interests in Contracts

Save as disclosed under the section headed "Connected Transactions", no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Major Customers and Suppliers

During the year, 35.05% of the Group's turnover were attributable to the Group's five largest customers with the largest customer accounting for 18.02% of the Group's turnover. The Group's purchases attributable to the Group's five largest suppliers were less than 30%.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Donations

Donations made by the Group during the year amounted to HK$39,000.

Auditors

The financial statements for the year have been audited by Messrs. Deloitte Touche Tohmatsu who retire and offer themselves for re-appointment.

On behalf of the Board

Li Tzar Kuoi, Victor

Chairman

Hong Kong, 17 March 2006

Report of the Auditors

Deloitte.
德勤

TO THE SHAREHOLDERS OF
CK LIFE SCIENCES INT'L., (HOLDINGS) INC.
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 90 to 143 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
Turnover	6	694,379	329,627
Cost of sales		(386,536)	(134,506)
		307,843	195,121
Other income	7	80,412	47,881
Staff costs	8	(142,711)	(111,533)
Depreciation		(28,836)	(23,515)
Amortization of intangible assets		(4,758)	(2,829)
Fair value change of financial instruments		(28,165)	–
Other operating expenses		(151,482)	(109,764)
Finance costs	9	(19,494)	(4,438)
Gain on disposal of an associate		–	4,179
Share of results of associates		3,337	2,279
Profit/(loss) before taxation		16,146	(2,619)
Taxation	10	(5,368)	(2,548)
Profit/(loss) for the year	11	10,778	(5,167)
Attributable to:			
Equity holders of the Company		12,234	(3,968)
Minority interests		(1,456)	(1,199)
		10,778	(5,167)
Earnings/(loss) per share	12		
– Basic		0.19 cent	(0.062 cent)
– Diluted		0.19 cent	(0.062 cent)

Consolidated Balance Sheet

As at 31 December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
Non-current assets			
Property, plant and equipment	14	359,953	348,335
Prepaid lease for land	15	27,827	27,918
Intangible assets	16	738,738	171,967
Interests in associates	17	30,922	27,585
Debt investment	18	174,179	–
Available-for-sale investments	19	210,879	–
Investments at fair value through profit and loss	20	1,280,331	–
Investments in securities	22	–	1,523,840
Other investments		–	211,166
Deferred taxation	30	7,216	–
		2,830,045	2,310,811
Current assets			
Debt investment	18	36,986	–
Investments at fair value through profit and loss	20	48,346	–
Derivative financial instruments	21	22,361	–
Investments in securities	22	–	97,795
Other investments		–	29,387
Inventories	23	127,914	41,484
Receivables and prepayments	24	202,990	140,480
Taxation		808	–
Deposit with financial institution		39,000	–
Bank balances and deposits		372,433	442,850
		850,838	751,996
Current liabilities			
Payables and accruals	25	(216,958)	(112,946)
Bank loans	26	(93,080)	(20,368)
Other loan	27	–	(13,737)
Finance lease obligations	28	(559)	(371)
Derivative financial instruments	21	(54,736)	–
Taxation		–	(2,174)
		(365,333)	(149,596)
Net current assets		485,505	602,400
Total assets less current liabilities		3,315,550	2,913,211
Non-current liabilities			
Bank loans	26	(461,200)	(60,217)
Loan from a minority shareholder	29	(34,252)	(7,239)
Finance lease obligations	28	(1,741)	(621)
Deferred taxation	30	(34,270)	(146)
		(531,463)	(68,223)
Total net assets		2,784,087	2,844,988

Consolidated Balance Sheet (cont'd)

As at 31 December 2005

	Notes	2005 HK$'000	Restated 2004 HK$'000
Capital and reserves			
Share capital	31	640,738	640,738
Share premium and reserves		2,095,522	2,154,967
Equity attributable to equity holders of the Company		2,736,260	2,795,705
Minority interests		47,827	49,283
Total equity		2,784,087	2,844,988

Li Tzar Kuoi, Victor
Director

Ip Tak Chuen, Edmond
Director

17 March 2006

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Employee share-based compensation reserve HK$'000	Accumulated losses HK$'000	Equity attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2004	640,703	2,391,707	63,948	350	–	(283,392)	2,813,316	121	2,813,437
Effect of changes in accounting policies (note 2)	–	–	–	–	1,666	(1,666)	–	–	–
At 1 January 2004 restated	640,703	2,391,707	63,948	350	1,666	(285,058)	2,813,316	121	2,813,437
Surplus on revaluation of investments in securities	–	–	49,058	–	–	–	49,058	–	49,058
Exchange difference on translation of financial statements of overseas operations	–	–	–	1,600	–	–	1,600	–	1,600
Net gain recognized directly in equity	–	–	49,058	1,600	–	–	50,658	–	50,658
Realized on disposal/redemption of financial instruments	–	–	(70,711)	–	–	–	(70,711)	–	(70,711)
Loss for the year	–	–	–	–	–	(3,968)	(3,968)	(1,199)	(5,167)
Total recognized income and expenses for the year	–	–	(21,653)	1,600	–	(3,968)	(24,021)	(1,199)	(25,220)
Shares issued under share option scheme	35	478	–	–	–	–	513	–	513
Arising from acquisition of subsidiaries	–	–	–	–	–	–	–	50,361	50,361
Employees' share options benefits	–	–	–	–	5,897	–	5,897	–	5,897
At 31 December 2004	640,738	2,392,185	42,295	1,950	7,563	(289,026)	2,795,705	49,283	2,844,988
Effect of initial adoption of HKAS 39	–	–	–	–	–	(420)	(420)	–	(420)
At 1 January 2005 restated	640,738	2,392,185	42,295	1,950	7,563	(289,446)	2,795,285	49,283	2,844,568
Loss on fair value changes of available-for-sale investments	–	–	(25,807)	–	–	–	(25,807)	–	(25,807)
Exchange difference on translation of financial statements of overseas operations	–	–	–	(1,985)	–	–	(1,985)	–	(1,985)
Net loss recognized directly in equity	–	–	(25,807)	(1,985)	–	–	(27,792)	–	(27,792)
Realized on disposal/redemption of financial instruments	–	–	(44,090)	–	–	–	(44,090)	–	(44,090)
Profit for the year	–	–	–	–	–	12,234	12,234	(1,456)	10,778
Total recognized income and expenses for the year	–	–	(69,897)	(1,985)	–	12,234	(59,648)	(1,456)	(61,104)
Employees' share options benefits	–	–	–	–	623	–	623	–	623
At 31 December 2005	640,738	2,392,185	(27,602)	(35)	8,186	(277,212)	2,736,260	47,827	2,784,087

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	restated 2004 HK$'000
Operating activities			
Profit/(loss) before taxation		16,146	(2,619)
Share of results of associates		(3,337)	(2,279)
Gain on disposal of an associate		–	(4,179)
Finance costs		19,494	4,438
Depreciation		28,836	23,515
Amortization of prepaid lease for land		401	314
Discount on acquisition of subsidiary		–	(3,288)
Gain on disposal/redemption of investments in securities		–	(23,559)
Gain on disposal/redemption of available-for-sale investments		(33,794)	–
Gain on disposal/redemption of investments at fair value through profit and loss		(29,349)	–
Loss on disposal of property, plant and equipment		115	52
Interest income		(14,200)	(3,455)
Amortization of intangible assets		4,758	2,829
Amortization of discount on other investments		–	(11,676)
Costs of intangible assets written off		–	14,674
Allowance for bad debts		1,166	–
Stock written off		843	–
Fair value changes of financial instruments		28,165	–
Share-based payment		623	5,897
Operating profit before working capital changes		19,867	664
Decrease in investments in securities		–	5,244
Increase in inventories		(31,200)	(9,495)
Increase in receivables and prepayments		(48,882)	(68,123)
Increase/(decrease) in payables and accruals		84,030	(2,954)
Profits tax paid		(6,557)	(228)
Net cash from/(used in) operating activities		17,258	(74,892)
Investing activities			
Purchases of property, plant and equipment		(57,059)	(88,780)
Proceeds from disposal of property, plant and equipment		850	397
Purchase of subsidiaries	38	(514,760)	(43,552)
Capital contribution to associates		–	(16,177)
Proceeds from disposal of an associate		–	6,500
Purchases of financial instruments		(1,195,847)	(1,383,720)
Proceeds from disposal/redemption of investments in securities		1,275,015	1,728,907
Expenditure on intangible assets		(44,820)	(44,218)
Increase in deposit with financial institution		(39,000)	–
Repayment of debt investment		39,439	39,439
Interest received		14,232	21,759
Net cash (used in)/ from investing activities		(521,950)	220,555

Consolidated Cash Flow Statement (cont'd)

For the year ended 31 December 2005

	Note	2005 HK$'000	restated 2004 HK$'000
Financing activities			
Issue of shares		–	513
New bank loans		519,565	18,800
Repayment of bank loans		(80,585)	(4,824)
Repayment of other loan		(13,737)	–
Finance leases obligations repaid		(324)	(155)
Interest paid		(19,531)	(4,400)
Loan from a minority shareholder of a subsidiary		29,482	46,995
Net cash from financing activities		434,870	56,929
Net (decrease)/increase in cash and cash equivalents		(69,822)	202,592
Cash and cash equivalents at beginning of the year		442,850	240,258
Effect of foreign exchange rate changes		(595)	–
Cash and cash equivalents at end of the year		372,433	442,850
Represented by:			
Bank balances and deposits		372,433	442,850

Notes to the Financial Statements

1. Organization and Operations

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate Information" of the Group's Annual Report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in research and development, manufacturing, commercialization, marketing and selling of environmental and human health products, as well as investment in various financial and investment products. Particulars regarding the principal subsidiaries are set out in Appendix I.

2. Application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "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 except for HKFRS 3 "Business Combination", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" which had been early applied by the Group in the preparation of its financial statements for the year ended 31 December 2004. The application of the remaining HKFRSs has resulted in the following material changes in the presentation of financial statements for the year as well as the Group's accounting policies:

(a) Presentation of Financial Statements

The major changes under HKAS 1 "Presentation of Financial Statements" are the presentation of minority interest and share of taxation of associates. Minority interest now forms part of the equity in the Group's consolidated balance sheet and is shown as an allocation of profit and loss in the Group's consolidated income statement and the share of taxation of associates previously included under taxation in the consolidated income statement is now netted off against the share of results of associates. The changes in presentation have been applied retrospectively.

(b) Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were classified as property, plant and equipment and stated at valuation less accumulated depreciation. The adoption of HKAS 17 "Leases" has resulted in the reclassification of leasehold land from property, plant and equipment to prepaid lease under operating leases which are carried at cost and charged as operating leases expenses on a straight-line basis over the lease term and where there is impairment, the impairment is expensed in the income statement immediately. This change in accounting policy has been applied retrospectively but has no impact on the results of the Group for the year and the prior periods.

Notes to the Financial Statements (cont'd)

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

(c) Financial Instruments

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods.

The principal effects resulting from the implementation of HKAS 39 are summarised below:

(i) Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities" or "non-trading securities". Both "trading securities" and "non-trading securities" are measured at fair value. Unrealized gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealized gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities as "investments at fair value through profit and loss"or "available-for-sale investments" in accordance with HKAS 39. "Investments at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognized in profit or loss and equity respectively.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. For "non-trading securities" that are classified or designated as "investments at fair value through profit and loss", the cumulative unrealized gains or losses previously reported in equity at 1 January 2005 continue to be held in equity. On subsequent derecognition or impairment of the investment, the unrealized gain or loss remaining in equity will be transferred to profit or loss.

Notes to the Financial Statements (cont'd)

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

(c) Financial Instruments (Cont'd)

(ii) Derivatives

Up to 31 December 2004, the derivative financial instruments had not been recognized on the balance sheet. The net interest expenses or income arising from the derivative financial instruments were included in the income statement on an accrual basis. From 1 January 2005 onwards, all derivatives financial instruments that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognized in profit or loss for the period in which they arise.

(d) Share-based Payment

Starting from 1 January 2005, the Group has applied HKFRS 2 "Share-based payments" which requires the fair value of share options granted to employees after 7 November 2002 and had not vested on 1 January 2005 to be recognized at the date of grant as an expense in the income statement over the vesting period with the corresponding credit to an employee share-based compensation reserve under equity. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised. This change in accounting policy has been applied retrospectively.

(e) Translation of foreign operations

In the current year, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operations and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisition of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provision in HKAS 21, goodwill arising on acquisition prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current year, the Group acquired a number of foreign operation and goodwill arose on the acquisition of those foreign operation was translated at the closing rate at 31 December 2005, which has resulted in an increase of HK$11,119,000 in the balance of the exchange reserve at 31 December 2005.

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

The effects of changes in the accounting policies described above on the results for the current and prior years are as follows:

	HKAS 1 HK$'000	HKAS 17 HK$'000	HKAS 39 HK$'000	HKFRS 2 HK$'000	Total HK$'000
Year 2005					
Increase in staff costs	–	–	–	(623)	(623)
Decrease in depreciation	–	401	–	–	401
Increase in fair value change of financial instruments	–	–	(28,165)	–	(28,165)
Increase in other operating expenses	–	(401)	–	–	(401)
Decrease in share of results of associates	(1,634)	–	–	–	(1,634)
Decrease in taxation	1,634	–	–	–	1,634
Decrease in profit for the year attributable to the equity holders of the Company	–	–	(28,165)	(623)	(28,788)
Decrease in basic earnings per share					(0.45 cent)
Year 2004					
Increase in staff costs	–	–	–	(5,897)	(5,897)
Decrease in depreciation	–	314	–	–	314
Increase in other operating expenses	–	(314)	–	–	(314)
Decrease in share of results of associates	(1,003)	–	–	–	(1,003)
Decrease in taxation	1,003	–	–	–	1,003
Increase in loss for the year attributable to the equity holders of the Company	–	–	–	(5,897)	(5,897)
Decrease in basic and diluted earnings per share					(0.09 cent)

Notes to the Financial Statements (cont'd)

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarized below:

Balance Sheet items

	As at 31 December 2004 (originally stated) HK$'000	Adjustment HK$'000	As at 31 December 2004 (restated) HK$'000	Adjustment HK$'000	As at 1 January 2005 HK$'000
Impact of HKAS 17					
Property, plant and equipment	376,253	(27,918)	348,335	–	348,335
Prepaid lease for land	–	27,918	27,918	–	27,918
Impact of HKAS 39					
Debt investment	–	–	–	240,553	240,553
Available-for-sale investments	–	–	–	293,809	293,809
Investments at fair value through profit and loss	–	–	–	1,327,826	1,327,826
Derivative financial instruments	–	–	–	(420)	(420)
Investments in securities	1,621,635	–	1,621,635	(1,621,635)	–
Other investments	240,553	–	240,553	(240,553)	–
Total effects on assets and liabilities	2,238,441	–	2,238,441	(420)	2,238,021
Impact of HKFRS 2 and HKAS 39					
Accumulated losses	(281,463)	(7,563)	(289,026)	(420)	(289,446)
Employee share-based compensation reserve	–	7,563	7,563	–	7,563
Total effect on equity	(281,463)	–	(281,463)	(420)	(281,883)

Notes to the Financial Statements (cont'd)

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

The financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004 are summarized below:

	As originally stated HK$'000	Adjustment HK$'000	As restated HK$'000
Impact of HKFRS 2			
Accumulated losses	(283,392)	(1,666)	(285,058)
Employee share-based compensation reserve	–	1,666	1,666
Total effect on equity	(283,392)	–	(283,392)

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]

Notes to the Financial Statements (cont'd)

2. Application of Hong Kong Financial Reporting Standards (Cont'd)

HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflatinary Economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

The Directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention, except for certain properties and financial instruments which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA as well as the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

(a) Consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries made up to 31 December 2005.

Results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from their effective dates of acquisition to the end of the year or up to the effective dates of disposal as the case may be.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. Significant Accounting Policies (Cont'd)

(b) Property, plant and equipment

Property, plant and equipment, other than building under construction, are stated at cost or fair value less accumulated depreciation and impairment loss. Building held for use in the supply of goods or services, or for administrative purpose are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

Any revaluation increase arising on revaluation of building is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits/accumulated losses.

Depreciation is provided to write off the cost or fair value of an item of property, plant and equipment over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Building	4% to 10% or over the terms of the lease, whichever is shorter
Laboratory instruments, plant and equipment	6% – $33^1/_3$%
Furniture, fixtures and other assets	4% – 50%

Assets held under finance leases are depreciated on the same basis as owned assets, or, where shorter, the term of the relevant lease.

No depreciation is provided on assets under construction. Depreciation will commence on the same basis as other assets of the same category when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the income statement in the year in which the item is de-recognized.

Notes to the Financial Statements (cont'd)

3. Significant Accounting Policies (Cont'd)

(c) Prepaid lease for land

Leasehold land premiums are up-front payments to acquire interests in leasehold properties. The premiums are stated at cost and are charged to the income statement over the period of the lease on a straight-line basis.

(d) Intangible assets

i. Development costs

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognized only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activities. Capitalized development costs are stated at cost less amortization and impairment losses. Amortization of development costs is charged to the income statement on a straight line basis over the estimated useful lives of the underlying products of 10 years.

ii. Patents

On initial recognition, patents acquired separately and from business combinations are recognized at cost. After initial recognition, patents are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is provided on a straight-line basis over the estimated useful lives of the relevant products of 10 years.

iii. Goodwill

Goodwill arising from business combination represents the excess of costs of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Such goodwill is carried at cost less any accumulated impairment losses.

A discount on acquisition arising from business combination represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognized immediately in the income statement.

Notes to the Financial Statements (cont'd)

3. Significant Accounting Policies (Cont'd)

(d) Intangible assets (Cont'd)

iii. Goodwill (Cont'd)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the unit may be impaired. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

iv. Trademarks

On initial recognition, trademarks acquired from business combinations are recognized at cost. Trademarks with indefinite useful lives are not amortized but are tested for impairment annually by comparing their carrying amounts with their recoverable amounts. An impairment loss is recognized immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

v. Other intangible assets

On initial recognition, other intangible assets acquired from business combinations are recognized at cost. After initial recognition, other intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is provided on a straight-line basis over the estimated useful lives of the relevant products of 10 years.

Notes to the Financial Statements (cont'd)

3. Significant Accounting Policies (Cont'd)

(e) Impairment

At the relevant reporting date, the Group reviews the carrying amounts of its tangible and intangible assets (other than goodwill and intangible assets with indefinite useful lives which are disclosed in note (d) above) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset/cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset/cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as expenses immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss is subsequently reversed, the carrying amount of an asset/cash-generating unit is increased to the revised estimate of its recoverable amount, but such reversal cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the assets/cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(f) Investments in associates

Investments in associates are carried in the balance sheet at cost plus the Group's share of their aggregate post-acquisition results and reserves less dividends received and provision for any identified impairment loss. Results of associates are incorporated in the income statement to the extent of the Group's share of the post-acquisition profits or losses calculated from their financial statements made up to the financial year end of the Group. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the Group has incurred legal or constructive obligations or made payment on behalf of that associate.

3. Significant Accounting Policies (Cont'd)

(g) Financial instruments

Financial assets and liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value.

i. Investments at fair value through profit and loss

The financial assets/liabilities at fair value through profit and loss held by the Group are debt securities with embedded derivative not separated, derivative financial instruments or securities held for trading purpose. They are carried at fair value, with any changes in fair value being recognized in the income statement.

ii. Available-for-sale investments

Available-for-sale investments are non-derivative instruments or instruments not held for trading purpose. They are carried at fair value, with any changes in fair value being recognized in investment revaluation reserve. Upon disposal or when these financial assets are determined to be impaired, the cumulative gain or loss previously recognized in investment revaluation reserve is removed from the reserve and recognized in the income statement.

iii. Loans and receivables

Loans and receivables (including debt investment and receivables) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method, less any identified impairment losses.

iv. Cash and cash equivalent

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

v. Other financial liabilities

Other financial liabilities including bank loans, other loans and payables are measured at amortised cost, using the effective interest method.

vi. Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Notes to the Financial Statements (cont'd)

3. Significant Accounting Policies (Cont'd)

(h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

(i) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Sales of goods are recognized when goods are delivered and title has passed. Interest income is accrued on a time basis by reference to the principal outstanding using the effective interest method. Disposal and trading of investments is recognized on a trade-date basis.

(j) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalized finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms or the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement as so to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the risks and rewards of ownership remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

(k) Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

3. Significant Accounting Policies (Cont'd)

(l) Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

Transactions in foreign currencies are translated at the prevailing rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the prevailing rates on the relevant reporting date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, assets and liabilities of the Group's operations with financial records maintained in the functional currency that is different from the presentation currency are translated into the presentation currency at the prevailing rates on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are dealt with in the Group's exchange reserve.

Goodwill arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising therefrom are recognized in the exchange reserve.

(m) Share-based payment

The fair value of the share options granted by the Company is determined by reference to the fair value of the share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in employee share-based compensation reserve.

At the time when the share options are exercised, the amount previously recognized in employee share-based compensation reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognized in employee share-based compensation reserve will be transferred to retained earnings or set off against accumulated losses where appropriate.

Notes to the Financial Statements (cont'd)

3. Significant Accounting Policies (Cont'd)

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. Critical Accounting Estimates and Assumptions

In the process of applying the Group's accounting policies described in note 2, management has made estimates and assumptions concerning the future. The estimates and assumptions that have a significant impact on changes in value of the carrying amounts of the most significant amounts of assets/liabilities include goodwill and development costs.

In determining whether goodwill has been impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires an estimate of the future cash flow expected to arise from the cash generating units and a suitable discount rate in order to calculate the present value of subsidiaries where the goodwill arises. Where the actual future cash flows are less than the expected future cash flows, impairment losses may arise. As at 31 December 2005, no impairment loss has been identified.

Determining whether capitalized development cost is impaired requires an estimation of the recoverable amount through future commercial activity which requires the Group to estimate the future cash flows expected to arise from the developed products. Impairment losses may arise when actual cash flows are less than expected. As at 31 December 2005, no impairment loss has been identified.

Details of the impairment test on goodwill and capitalized development costs are set out in note 16.

As at 31 December 2005, a deferred tax assets of HK$7,216,000 in relation to unused tax losses has been recognized in the Group's balance sheet. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in the income statement for the period in which such a reversal takes place.

Notes to the Financial Statements (cont'd)

5. Financial Risk Management

The Group's activities expose itself to different kinds of financial risks. The management has been monitoring these risk exposures to ensure appropriate measures are implemented on a timely and effective manner so as to mitigate or reduce such risks.

Currency risk

The Group has some assets and liabilities and transactions denominated in foreign currency and is exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the needs arise.

Interest rate risk

The Group's bank borrowings are floating rate borrowings based on market rates and is therefore exposed to cash flow interest rate risk. The Group currently does not use interest rate swap to swap its borrowings from floating rates to fixed rates. However, the management monitors interest rate risk and will consider using interest rate swap should the needs arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's available-for-sale investments and financial assets/liabilities at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Notes to the Financial Statements (cont'd)

6. Turnover

Turnover represents net invoiced value of goods sold, after allowance for returns and trade discount as well as income from investments, and is analysed as follows:

	2005 HK$'000	2004 HK$'000
Environment	425,317	155,032
Health	117,167	5,478
Investment income	151,895	169,117
	694,379	329,627

7. Other Income

	2005 HK$'000	2004 HK$'000
Included in other income are:		
Interest income from bank deposits	14,200	3,455
Amortization of discount of other investment	–	11,676
Discount on acquisition of subsidiary	–	3,288
Gain on disposal/redemption of investment in securities	–	23,559
Gain on disposal/redemption of available-for-sale investments	33,794	–
Gain on disposal/redemption of investments at fair value through profit and loss	29,349	–

Notes to the Financial Statements (cont'd)

8. Staff Costs

Staff costs which include salaries, bonuses, retirement benefit scheme contributions and recruitment costs for the year amounted to HK$172,579,000 (2004: HK$135,386,000) of which HK$25,092,000 (2004: HK$23,853,000) relating to development activities was capitalized and HK$4,776,000 (2004: Nil) relating to direct labour costs was allocated to cost of sales.

Staff costs also include operating lease rentals of HK$923,000 (2004: HK$793,000) in respect of accommodation provided to staff.

9. Finance Costs

	2005 HK$'000	2004 HK$'000
Interest on:		
Bank loans	17,226	3,904
Other loan	692	492
Loan from a minority shareholder	1,470	–
Finance leases	106	42
	19,494	4,438

10. Taxation

	2005 HK$'000	2004 HK$'000
Current tax		
Hong Kong	–	2,174
Other jurisdictions	6,501	228
Deferred tax (Note 30)		
Hong Kong	(843)	146
Other jurisdictions	(290)	–
	5,368	2,548

Notes to the Financial Statements (cont'd)

10. Taxation (Cont'd)

Hong Kong profits tax has been provided at the rate of 17.5%. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The charge for the year can be reconciled to the profit/(loss) before taxation as follows:

	2005 HK$'000	2004 HK$'000
Profit/(loss) before taxation	16,146	(2,619)
Notional tax at tax rate of 17.5%	2,826	(458)
Tax effect of share of results of associates	(584)	(399)
Tax effect of non-deductible expenses	9,912	3,890
Tax effect of non-taxable income	(38,360)	(33,289)
Tax effect of tax losses not recognized	28,724	31,878
Utilization of tax losses previously not recognized	(20)	(217)
Effect of different tax rates of subsidiaries operating in other jurisdictions	2,935	120
Others	(65)	1,023
Tax expenses	5,368	2,548

Notes to the Financial Statements (cont'd)

11. Profit/(Loss) for the Year

	2005 HK$'000	2004 HK$'000
Profit/(loss) for the year has been arrived at after charging:		
Auditors' remuneration	2,310	806
Depreciation of property, plant and equipment		
Owned assets	44,691	32,016
Assets held under finance leases	754	153
	45,445	32,169
Amount included in production overheads	(3,052)	–
Amount capitalized as development costs	(13,557)	(8,654)
	28,836	23,515
Research and development expenditure	72,933	82,730
Amount capitalized as development costs	(42,014)	(42,037)
	30,919	40,693
Amortization of development costs	2,860	2,481
	33,779	43,174
Development cost written off	–	12,204
Patents written off	–	2,470
Loss on disposal of property, plant and equipment	115	52
Allowance for bad debts	1,166	–
Inventories written off	843	2,107
Exchange loss	1,144	456
Share-based payment	623	5,897
Operating lease		
– Land	401	314
– Other properties	4,833	2,433
and after crediting:		
Interest income from available-for-sale investments		
– Listed	7,228	–
– Unlisted	19,952	–
Interest income from investments at fair value through profit and loss		
– Unlisted	99,442	–
Interest income from debt investment		
– Unlisted	21,899	–
Unrealized holding gain on trading securities	–	6,868
Interest income from investment in securities		
– Listed	–	29,524
– Unlisted	–	99,871
Interest income from other investment		
– Unlisted	–	21,594

Notes to the Financial Statements (cont'd)

12. Earnings/(Loss) Per Share

The calculations of the basic and diluted earnings/(loss) per share attributable to the equity holders of the Company are based on the following data:

	2005 HK$'000	2004 HK$'000
Profit/(loss) for the year		
Profit/(loss) for calculating basic and diluted earnings/(loss) per share	12,234	(3,968)
Number of shares		
Number of ordinary shares (2004: weighted average) used in the calculation of basic earnings/(loss) per share	6,407,381,600	6,407,316,727
Effect of dilutive potential ordinary shares	–	546,091
Number of ordinary shares (2004: weighted average) used in the calculation of diluted earnings/(loss) per share	6,407,381,600	6,407,862,818

No diluted earnings per share is presented for the year ended 31 December 2005 because the exercise prices for the Company's outstanding share options were higher than the average market price of the shares of the Company and therefore the conversion of the share options would not have any dilutive effect on the earnings per share.

13. Dividends

The Directors do not recommend the payment of any dividend for the year ended 31 December 2005 (2004: Nil).

Notes to the Financial Statements (cont'd)

14. Property, Plant and Equipment

	Building HK$'000	Building under construction in Mainland China HK$'000	Laboratory instruments, plant and equipment HK$'000	Furniture, fixtures and other assets HK$'000	Total HK$'000
Cost or valuation					
At 1 January 2004	101,044	–	81,031	40,788	222,863
Additions	–	463	112,010	7,568	120,041
Acquired on acquisition of subsidiaries	–	–	84,936	1,799	86,735
Disposals	–	–	(203)	(1,354)	(1,557)
Exchange difference	–	–	3,926	363	4,289
At 1 January 2005	101,044	463	281,700	49,164	432,371
Additions	39	15,420	19,788	5,719	40,966
Acquired on acquisition of subsidiaries	4,387	–	12,645	2,989	20,021
Disposals	–	–	(1,382)	(1,518)	(2,900)
Transfer	–	(463)	463	–	–
Exchange difference	96	–	(3,964)	(12)	(3,880)
At 31 December 2005	105,566	15,420	309,250	56,342	486,578
Comprising:					
Cost	4,522	15,420	309,250	56,342	385,534
Valuation	101,044	–	–	–	101,044
	105,566	15,420	309,250	56,342	486,578
Depreciation					
At 1 January 2004	2,271	–	29,299	20,052	51,622
Provided for the year	2,270	–	20,911	8,988	32,169
Eliminated upon disposals	–	–	(170)	(938)	(1,108)
Exchange difference	–	–	991	362	1,353
At 1 January 2005	4,541	–	51,031	28,464	84,036
Provided for the year	2,849	–	31,327	11,269	45,445
Eliminated upon disposals	–	–	(801)	(1,134)	(1,935)
Exchange difference	111	–	(1,141)	109	(921)
At 31 December 2005	7,501	–	80,416	38,708	126,625
Net book value					
31 December 2005	98,065	15,420	228,834	17,634	359,953
31 December 2004	96,503	463	230,669	20,700	348,335

14. Property, Plant and Equipment (Cont'd)

The building in Hong Kong was revalued at HK$101,000,000 on 31 December 2002 by the Directors on an open market value basis with reference to valuation at 30 April 2002 by DTZ Debenham Tie Leung, an independent professional valuer. The Directors considered that, as at 31 December 2005, the fair value of this building did not differ materially from that of 31 December 2002. Had the building been carried at the historical cost less depreciation, their aggregate carrying amount would have been stated at approximately HK$120,889,000 (2004: HK$123,806,000).

The net book value of the Group's property, plant and equipment held under finance leases included in furniture, fixtures and other assets amounted to HK$2,581,000 (2004: HK$1,469,000).

15. Prepaid Lease for Land

Prepaid lease for land represents prepaid lease for land in Hong Kong leased from Hong Kong Science and Technology Parks Corporation for a term up to 27 June 2047 and land use rights paid to the Mainland China Land Bureau for the use of land for a period for 50 years.

	2005 HK$'000	2004 HK$'000
The Group's prepaid lease comprised:		
Leasehold land in Hong Kong under medium term lease	13,015	13,329
Leasehold land outside Hong Kong	14,812	14,589
	27,827	27,918

Notes to the Financial Statements (cont'd)

16. Intangible Assets

	Development costs HK$'000	Patents HK$'000	Goodwill HK$'000	Trade-mark HK$'000	Other Intangible assets HK$'000	Total HK$'000
Cost						
At 1 January 2004	95,389	10,471	–	–	–	105,860
Additions	50,691	2,181	–	–	–	52,872
Arising on acquisition of subsidiaries	–	56	34,215	–	–	34,271
Amount written off	(12,204)	(2,470)	–	–	–	(14,674)
Exchange difference	–	4	–	–	–	4
At 1 January 2005	133,876	10,242	34,215	–	–	178,333
Additions	56,299	2,086	–	–	–	58,385
Arising on acquisition of subsidiaries	–	–	395,769	79,830	22,205	497,804
Exchange difference	–	(9)	11,119	3,021	1,202	15,333
At 31 December 2005	190,175	12,319	441,103	82,851	23,407	749,855
Amortization						
At 1 January 2004	3,059	477	–	–	–	3,536
Provided for the year	2,481	348	–	–	–	2,829
Exchange difference	–	1	–	–	–	1
At 1 January 2005	5,540	826	–	–	–	6,366
Provided for the year	2,860	428	–	–	1,470	4,758
Exchange difference	–	(7)	–	–	–	(7)
At 31 December 2005	8,400	1,247	–	–	1,470	11,117
Net book value						
At 31 December 2005	181,775	11,072	441,103	82,851	21,937	738,738
At 31 December 2004	128,336	9,416	34,215	–	–	171,967

Notes to the Financial Statements (cont'd)

16. Intangible Assets (Cont'd)

Goodwill arises from acquisition of 100% interest in Développement Santé Naturelle A.G. Ltée ("AG"), Nuturf Australia Pty Ltd ("Nuturf") and Envirogreen Pty Limited ("Envirogreen") on 15 May 2005, 4 August 2005 and 5 August 2005 respectively. Details of the acquirees are set out in Appendix I.

The total cost of acquisition of the subsidiaries during the year amounted to HK$513,262,000 (2004: HK$47,632,000) which comprises purchase consideration of HK$497,318,000 (2004: HK$44,748,000) and direct attributable acquisition costs of HK$15,944,000 (2004: HK$2,884,000).

Pursuant to the agreement for the acquisition of the interests in Fertico Pty Limited ("Fertico") in 2004, the purchase consideration, of which AU$4,000,000 was paid, is based on the net profits of Fertico and is in the range from AU$4,000,000 to AU$14,400,000. However, the Directors' best estimate of the consideration would not be higher than AU$4,000,000. Goodwill on acquisition of Fertico is calculated based on this amount.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired, by accessing the coming 5-year cash flow forecasts and the profit forecasts of the cash generating units which generate the goodwill.

The Group also tests the impairment of capitalized development cost by accessing, where appropriate, the cash flow forecasts, the profit forecasts and the progress of the research activities of the relevant product groups.

Other intangibles assets include customer base and non-competition agreement.

17. Interests in Associates

	2005 HK$'000	2004 HK$'000
Cost of investment in associates, unlisted	25,497	25,497
Share of post-acquisition profits	5,425	2,088
	30,922	27,585

Particulars regarding the principal associates are set out in Appendix II.

Notes to the Financial Statements (cont'd)

17. Interests in Associates (Cont'd)

The summarized financial information in respect of the Group's associates is set out below:

	2005 HK$'000	2004 HK$'000
Total assets	796,429	285,409
Total liabilities	(686,491)	(186,517)
Net assets	109,938	98,892
Group's share of net assets of associates	30,922	27,585
Revenue	1,653,789	946,330
Profit for the year	7,735	4,188
Group's share of results of associates for the year	3,337	2,279

18. Debt Investment

The investment represents the Group's sub-participation right in certain financial instrument issued by a financial institution with face value of approximately HK$229,738,000. The amount carries interest at prevailing market rate with maturity date on 31 March 2009.

Notes to the Financial Statements (cont'd)

19. Available-for-sale-investments

	2005 HK$'000
Debt securities – unlisted	210,879

The above investments represent investments in unlisted debt securities that offer the Group the opportunity for return through interest income or fair value gain. Majority of the investments have no fixed coupon rate.

As at the balance sheet date, all available-for-sale investments were stated at fair value. Their fair values were determined based on the market prices provided by the relevant financial institutions or based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date.

20. Investments at Fair Value through Profit and Loss

	2005 HK$'000
Equity securities held for trading – listed in Hong Kong at market value	1,746
Debt securities – unlisted	1,326,931
	1,328,677
Carrying amount analysed for reporting purpose as:	
Current	48,346
Non-current	1,280,331

The fair value of the above securities are determined based the market price provided by the relevant financial institutions.

Notes to the Financial Statements (cont'd)

21. Derivative Financial Instruments

	2005 Assets HK$'000	2005 Liabilities HK$'000
Derivative financial instruments (deemed as held for trading) at fair value:		
Interest rate swap	12,478	(43,430)
Credit default swap	9,883	(11,306)
	22,361	(54,736)

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the market prices provided by the relevant financial institutions at the balance sheet date.

22. Investments in Securities

Investments in securities as at 31 December 2004 are set out below. Upon application of HKAS 39 on 1 January 2005, these investments were reclassified to appropriate categories under HKAS 39 as detailed in note 2.

	2004 HK$'000
Non-trading:	
Debt securities – unlisted	1,273,810
Debt securities – listed overseas at market value	278,260
Equity securities – unlisted	59,809
Trading:	
Equity securities – listed in Hong Kong at market value	9,756
	1,621,635
Carrying amount analysed for reporting purpose as:	
Current	97,795
Non-current	1,523,840

Notes to the Financial Statements (cont'd)

23. Inventories

	2005 HK$'000	2004 HK$'000
Raw materials	47,787	15,299
Work in progress	3,665	1,110
Finished goods	76,462	25,075
	127,914	41,484

The cost of inventories recognized as an expense during the year was HK$360,904,000 (2004: HK$128,989,000).

24. Receivables and Prepayments

	2005 HK$'000	2004 HK$'000
Trade receivables	122,021	45,772
Other receivables, deposits and prepayments	80,969	94,708
	202,990	140,480
Trade receivables		
Aged 0 to 90 days	116,640	44,121
Aged more than 90 days	5,381	1,651

The Group has a policy of allowing an average credit period of 30 to 90 days to its customers.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

Notes to the Financial Statements (cont'd)

25. Payables and Accruals

	2005 HK$'000	2004 HK$'000
Trade payables	79,989	23,954
Other payables and accrued charges	136,969	88,992
	216,958	112,946
Trade payables		
Aged 0 to 90 days	78,342	22,673
Aged more than 90 days	1,647	1,281

The Directors consider that the carrying amount of trade and other payable approximates their fair value.

26. Bank Loans

	2005 HK$'000	2004 HK$'000
Bank loans repayable		
within 1 year	93,080	20,368
2 to 5 years	461,200	60,217
	554,280	80,585
Analysed as:		
Secured	373,650	61,785
Unsecured	180,630	18,800
	554,280	80,585
Carrying amount analysed for reporting purpose as:		
Current	93,080	20,368
Non-current	461,200	60,217

26. Bank Loans (Cont'd)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2005 HK$'000	2004 HK$'000
Canadian dollars (note (a))	373,650	–
Australian dollars (note (b))	108,630	61,785
Renminbi (note (c))	72,000	18,800
	554,280	80,585

Note:

(a) The bank loans are secured by a charge over the assets of a subsidiary and carries interest with reference to the Banker's Acceptance Rate plus a stamping fee of 0.5%. One of the loans is a demand operating facility and the other loan is for a period of three years from May 2005 to May 2008.

(b) The bank loans are unsecured and bear a floating interest with reference to the Bill Swap Reference Rate (Bid) plus 0.45% for a period of three years from August 2005 to August 2008.

(c) The bank loans are unsecured and bear a floating interest with reference to The People's Bank of China plus a margin ranging from 0% – 1.023% and repayable within one year.

The bank loans are arranged at floating rates and the Directors consider that the carrying amount of the bank loans approximates their fair value.

27. Other Loan

Other loan in 2004 represented amount due by a subsidiary (the "Subsidiary") to a former fellow subsidiary before the Group acquired the Subsidiary. The amount was fully repaid during the year.

Notes to the Financial Statements (cont'd)

28. Finance Lease Obligations

	Minimum leases payment		Present value of minimum lease payments	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Finance leases obligations payable				
within one year	1,719	437	559	371
within two to five years	1,014	692	1,741	621
	2,733	1,129	2,300	992
Less: Future finance charges	(433)	(137)	N/A	N/A
Present value of finance leases obligations	2,300	992	2,300	992
Carrying amount analysed for reporting purpose as:				
Current			559	371
Non-current			1,741	621

The finance leases are secured on certain property, plant and equipment with average lease term of 3-4 years. No residual value is expected at the end of the term.

29. Loan From A Minority Shareholder

Loan from a minority shareholder was unsecured, bearing interest with reference to Bill Swap Reference Rate (Bid) plus 0.9% to 1.1% with effect from April 2005 and with no fixed terms of repayment. However, the minority shareholder has agreed not to demand repayment within one year. The loan was interest free prior to April 2005.

Notes to the Financial Statements (cont'd)

30. Deferred Taxation

The major deferred tax (assets)/liabilities recognized by the Group and movements during the period are as follows:

	Accelerated tax depreciation HK$'000	Development costs HK$'000	Tax losses HK$'000	Total HK$'000
As at 1 January 2004	10,763	16,158	(26,921)	–
Charge/(credit) to income statement	(154)	6,301	(6,001)	146
As at 1 January 2005	10,609	22,459	(32,922)	146
Acquisition of subsidiaries	27,513	–	(665)	26,848
Charge/(credit) to income statement	(2,024)	8,430	(7,539)	(1,133)
Exchange difference	1,193	–	–	1,193
As at 31 December 2005	37,291	30,889	(41,126)	27,054

The following is the analysis of the deferred tax balances for balance sheet purpose:

	2005 HK$'000	2004 HK$'000
Deferred tax liabilities	34,270	146
Deferred tax assets	(7,216)	–
	27,054	146

At the balance sheet date, the total un-utilized tax losses amounted to approximately HK$1,030,000,000 (2004: HK$819,244,000). A deferred tax asset has been recognized in respect of HK$219,766,000 (2004: HK$188,126,000) of such losses. No deferred tax asset has been recognized in respect of the remaining HK$810,234,000 (2004: HK$631,118,000) as it is not possible to predict the trend of future profits to determine the amount of available tax losses to be utilized. Tax losses of approximately HK$20,485,000 (2004: HK$11,267,000) arising in Mainland China can only be carried forward for five years subsequent to the year of tax losses incurred.

Notes to the Financial Statements (cont'd)

31. Share Capital

	Number of shares of HK$0.1 each '000	Nominal value HK$'000
Authorized	15,000,000	1,500,000
Issued and fully paid:		
At 1 January 2004	6,407,030	640,703
Shares issued under share option scheme	352	35
At 1 January 2005 and 31 December 2005	6,407,382	640,738

32. Share Option Scheme

The Company adopted a share option scheme on 26 June 2002 (the "Scheme") under which the Directors or employees of the Company or its subsidiaries or certain other persons may be granted options to subscribe for shares of the Company subject to the terms and conditions stipulated in the Scheme.

As at 31 December 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,470,700 (2004: 21,250,000 shares), representing 0.29% (2004: 0.33%) of the share of the Company in issue at that date. Details of the share options granted are as follows:

Notes to the Financial Statements (cont'd)

32. Share Option Scheme (Cont'd)

Year 2005

	Number of share options							
Date of grant	Outstanding as at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2005	Option period	Subscription price per share HK$
30/9/2002	3,660,500	–	–	472,000	–	3,188,500	30/9/2003 – 29/9/2012	1.598
27/1/2003	8,185,500	–	–	1,057,300	–	7,128,200	27/1/2004 – 26/1/2013	1.446
19/1/2004	9,404,000	–	–	1,250,000	–	8,154,000	19/1/2005 – 18/1/2014	1.762

Year 2004

	Number of share options							
Date of grant	Outstanding as at 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31 December 2004	Option period	Subscription price per share HK$
30/9/2002	3,952,000	–	34,500	257,000	–	3,660,500	30/9/2003 – 29/9/2012	1.598
27/1/2003	9,146,000	–	317,100	643,400	–	8,185,500	27/1/2004 – 26/1/2013	1.446
19/1/2004	–	10,160,000	–	756,000	–	9,404,000	19/1/2005 – 18/1/2014	1.762

Notes to the Financial Statements (cont'd)

32. Share Option Scheme (Cont'd)

Details of the vesting period for the above options are as follows:

(i) up to 35% of the options in the first year after commencement of the option period;

(ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) in the second year after commencement of the option period; and

(iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) in the third year and thereafter after the commencement of the option period.

The estimated fair values of the options granted on 2003 and 2004 are HK$0.74 and HK$0.72 respectively. These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share options granted on	
	27 January 2003	19 January 2004
Exercise price	HK$1.446	HK$1.762
Expected volatility	35.78%	19.91%
Expected life	10 years	10 years
Risk-free rate	4.399%	4.034%
Expected dividend yield	0%	0%

In the current year, the Group has applied HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not vested on 1 January 2005. Comparative figures have been restated. The Group recognized the total expenses of HK$623,000 for the year ended 31 December 2005 (2004: HK$5,897,000) in relation to share options granted by the Company.

33. Pledge of Assets

Bank loan of HK$373,650,000 (2004: HK$61,785,000) is secured by a mortgage over the cash, accounts receivable, inventories, property, plant and equipment and other intangibles assets of a subsidiary with a carrying value of HK$160,627,000 as at 31 December 2005.

Obligations under finance leases are secured by the lessor's charge over the leased assets.

34. Operating Lease Commitment

Leases are negotiated for a term ranging from one to two years and rentals are fixed for an average of one year. Minimum lease charges payable by the Group within one year and in the second to fifth years inclusive under non-cancellable operating leases in respect of rented premises were HK$6,783,000 (2004: HK$4,434,000) and HK$22,999,000 (2004: HK$7,543,000) respectively.

35. Capital Commitment

	2005 HK$'000	2004 HK$'000
Capital commitment in respect of the acquisition of laboratory instrument, plant and equipment		
– contracted but not provided for	2,481	14,618
– authorized but not contracted for	–	979
	2,481	15,597

36. Retirement Benefits Scheme

The principal employee retirement schemes operated by the Group are defined contribution schemes. For Hong Kong employees, contributions are made by either employer only or by both employer and employees at rates ranging from approximately 5% to 10% on employee's salary. For overseas employees, contributions are made by employer at rates ranging from 9% to 20% on employee's salary.

The Group's cost incurred on employees retirement schemes for the year was HK$12,031,000 (2004: HK$8,905,000) and forfeited contribution during the year of HK$2,467,000 (2004: HK$1,273,000) was used to reduce the Group's contribution in the year.

Notes to the Financial Statements (cont'd)

37. Directors' Emoluments and Five Highest Paid Individuals

(a) Directors' emoluments

Directors' emoluments paid to the Company's Directors for the year ended 31 December 2005 were as follows:

Name of Director	Fees HK$'000	Basic salaries and allowances HK$'000	Bonuses HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments 2005 HK$'000	Total emoluments 2004 HK$'000
Li Tzar Kuoi, Victor	70	–	–	–	70	70
Kam Hing Lam	70	1,400	–	–	1,470	4,270
Ip Tak Chuen, Edmond	70	600	–	–	670	1,870
Yu Ying Choi, Alan Abel	70	4,789	1,300	470	6,629	6,356
Pang Shiu Fun	70	4,473	1,200	438	6,181	5,840
Chu Kee Hung	70	3,083	1,000	302	4,455	4,074
Lam Hing Chau, Leon	61	1,827	481	179	2,548	2,790
Kwan Chiu Yin, Robert	38	–	–	–	38	89
Peter Peace Tulloch	70	–	–	–	70	70
Wong Yue-chim, Richard	140	–	–	–	140	140
Kwok Eva Lee	160	–	–	–	160	140
Colin Stevens Russel	160	–	–	–	160	–
	1,049	16,172	3,981	1,389	22,591	25,709

The Directors' fees included an amount of HK$70,000 (2004: HK$70,000) for each director and an additional amount of HK$70,000 (2004: HK$70,000) and HK$20,000 (2004: Nil) for each Independent Non-executive Director who is also a member of the audit committee and remuneration committee respectively. Such fees would be proportioned according to the length of services of the directors during the year.

Notes to the Financial Statements (cont'd)

37. Directors' Emoluments and Five Highest Paid Individuals (Cont'd)

(a) Directors' emoluments (Cont'd)

The remuneration of Directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

None of the Directors waived any emoluments in the year ended 31 December 2005. No incentives were paid by the Group to the Directors as inducement to join or upon joining the Group or as compensation for loss of office.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments, four (2004: four) of them are Directors whose emoluments are disclosed in note (a) above. The emoluments of the remaining one (2004: one) are as follows:

	2005 HK$'000	2004 HK$'000
Salary and other benefits	4,488	3,234
Bonus	–	3,000
Retirement benefits scheme contributions	360	240
	4,848	6,474

No incentive was paid by the Group to the above individual as inducements to join, or upon joining the Group, or as a compensation for loss of office.

Notes to the Financial Statements (cont'd)

38. Purchase of Subsidiaries

	Acquiree's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	20,021	–	20,021
Intangible assets – trademark	–	79,830	79,830
– other intangible assets	–	22,205	22,205
Deferred tax assets	3,612	–	3,612
Inventories	57,309	–	57,309
Receivables and prepayments	32,059	–	32,059
Bank balances and cash	3,739	–	3,739
Payable and accruals	(50,005)	–	(50,005)
Bank overdrafts	(5,237)	–	(5,237)
Taxation	1,779	–	1,779
Bank and other loans	(17,359)	–	(17,359)
Deferred tax liabilities	–	(30,460)	(30,460)
	45,918	71,575	117,493
Goodwill on acquisition			395,769
Total consideration			513,262
Discharged by:			
Cash payment (including acquisition costs)			513,262
Cash and cash equivalents purchased			1,498
			514,760

Goodwill arising from acquisition of 100% interest in AG, Nuturf and Envirogreen on 15 May 2005, 4 August 2005 and 5 August 2005 respectively is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combinations.

The subsidiaries acquired during the year contributed HK$277,662,000 to the Group's turnover and profit of HK$11,093,000 to the profit attributable to equity holders of the Company.

If the acquisition had been completed on 1 January 2005, total group turnover for the year would have been HK$916,957,000, and profit for the year would have been HK$11,364,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

Notes to the Financial Statements (cont'd)

39. Segment Information

Segment information is presented in respect of the Group's primary business segments and secondary geographical segments.

(a) Business segments

	Environment		Health		Investment		Unallocated		Total	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Segment turnover	425,317	155,032	117,167	5,478	151,895	169,117	–	–	694,379	329,627
Segment results	(21,482)	(44,695)	(5,316)	(29,989)	187,060	204,423	–	–	160,262	129,739
Other income									4,277	7,265
Business development expenditure	–	–	–	–	–	–	(28,889)	(26,007)	(28,889)	(26,007)
Research and development expenditure	–	–	–	–	–	–	(26,843)	(39,308)	(26,843)	(39,308)
Corporate expenses									(76,504)	(76,328)
Finance costs	(10,257)	(4,438)	(9,237)	–	–	–	–	–	(19,494)	(4,438)
Gain on disposal of an associate									–	4,179
Share of results of associates	3,337	2,279	–	–	–	–	–	–	3,337	2,279
Profit/(loss) before taxation									16,146	(2,619)
Taxation									(5,368)	(2,548)
Profit/(loss) for the year									10,778	(5,167)

Notes to the Financial Statements (cont'd)

39. Segment Information (Cont'd)

(a) Business segments (Cont'd)

	Environment		Health		Investment		Unallocated		Total	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Segment assets	474,427	314,987	353,461	153,778	1,819,390	1,892,260	–	–	2,647,278	2,361,025
Goodwill	143,322	34,215	297,781	–	–	–	–	–	441,103	34,215
Interests in associates	30,922	27,585	–	–	–	–	–	–	30,922	27,585
Bank balances and deposits									372,433	442,850
Other assets									189,147	197,132
Total assets									3,680,883	3,062,807
Segment liabilities	(300,703)	(83,718)	(396,435)	(6,078)	(96,115)	–	–	–	(793,253)	(89,796)
Other liabilities									(103,543)	(128,023)
Total liabilities									(896,796)	(217,819)
Other information										
Amortization of intangible assets	2,781	2,769	1,977	60	–	–	–	–	4,758	2,829
Depreciation	6,685	3,957	8,196	10,711	–	–	13,955	17,501	28,836	32,169
Capital additions	23,143	92,714	65,149	78,729	–	–	11,059	16,059	99,351	187,502

Notes to the Financial Statements (cont'd)

39. Segment Information (Cont'd)

(b) Geographical segments

Turnover is analysed by the Group's sales by geographical market while the carrying amount of segments assets and capital additions is analysed by the geographical area in which the segment assets are located.

	Turnover		Segment assets		Capital additions	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Hong Kong	17,059	24,202	635,070	380,830	62,183	66,810
Canada	111,300	–	460,480	–	2,603	–
Mainland China	138,109	84,083	267,724	248,651	28,732	116,596
Other Asian countries	7,444	1,932	103,253	122,258	–	–
Australia	278,062	68,222	414,695	180,312	3,747	1,915
America	28,762	622	569,654	270,709	–	–
Europe (Note)	113,643	150,566	1,230,007	1,860,047	2,086	2,181
	694,379	329,627	3,680,883	3,062,807	99,351	187,502

Note: Including mainly financial instruments.

40. Related Party Transactions

During the year, the Group entered into the following transactions with related parties:

a) The Group made sales of HK$3,308,000 (2004: HK$3,358,000) to Hutchison International Limited ("HIL") group. HIL is a wholly-owned subsidiary of Hutchison Whampoa Limited which is the associate of a substantial shareholder of the Company, Cheung Kong (Holdings) Limited .

b) The Group made sales of HK$16,552,000 (2004: HK$18,862,000) to Jiangsu Su Nong Agricultural Means Chain Company Ltd., an indirect associate of the Group.

The prices of these transactions were agreed between the parties concerned.

The emoluments of key management have been presented in note 37 above.

Notes to the Financial Statements (cont'd)

41. Post Balance Sheet Event

Subsequent to 31 December 2005, the Group entered into an agreement for the acquisition of 80% of the common shares of Vitaquest International Holdings LLC ("Vitaquest") and 100% interest of Vitaquest senior preferred interests at an aggregate price of USD166 million. The purchase price will be funded by internal resources of the Group and/or financing from external sources. The acquisition is subject to the shareholders' approval at an extraordinary general meeting to be held on 11 May 2006.

42. Approval of Financial Statements

The financial statements set out on pages 90 to 143 were approved and authorized for issue by the Board of Directors on 17 March 2006.

Principal Subsidiaries

Appendix I

Principal Subsidiaries

The Directors are of the opinion that a complete list of the particulars of all the subsidiaries will be of excessive length and as such, the following list contains only those principal subsidiaries. They are all indirect subsidiaries.

	Name	Place of incorporation	Issued ordinary share capital/ registered capital*	Effective percentage held by the Company indirectly	Principal activities
	AquaTower Pty Ltd	Australia	AU$2	51	Water treatment
#	Beijing Green Vision EcoSciences Inc.	Mainland China	US$300,000*	100	Trading of biotechnology products
#	Beijing Vital Care Biotech Inc.	Mainland China	US$4,300,000*	100	Trading of biotechnology products
	Biocycle Resources Limited	British Virgin Islands	US$1	100	Trading of biotechnology products
	CK Biotech Laboratory Limited	Hong Kong	HK$2	100	Research and development
	CK Life Sciences Int'l., Inc.	British Virgin Islands	US$1	100	Commercialization of biotechnology products
	CK Life Sciences Limited	Hong Kong	HK$10,000,000	100	Applied research, production, product development and commercialization
	Dimac Limited	British Virgin Islands	US$1	100	Investment in financial instruments
	Envirogreen Pty Limited	Australia	AU$2	100	Manufacturing and distribution of horticultural products for the home gardening market
	Fertico Pty Ltd	Australia	AU$4,000,100	60	Blending and distribution of fertilizer
	Genero International Limited	British Virgin Islands	US$1	100	Investment in financial instruments
	Great Affluent Limited	British Virgin Islands	US$1	100	Investment in financial instruments
##	Jiangsu Technology Union Eco-fertilizer Limited	Mainland China	US$12,787,000*	52.88	Trading of biotechnology products
	Lincore Limited	British Virgin Islands	US$1	100	Investment in financial instruments
	NutriSmart Australia Pty Ltd	Australia	AU$1	100	Trading of fertilizer
	Nuturf Australia Pty Ltd	Australia	AU$7,200,002	100	Distribution of turf management products and provision of the related services
	Panform Limited	British Virgin Islands	US$1	100	Investment in financial instruments
	Paton Fertilizers Pty Ltd	Australia	AU$469,100	100	Blending and distribution of fertilizer
	Proven Leader Limited	British Virgin Islands	US$1	100	Investment in financial instruments
	Santé Naturelle (A.G.) Ltée	Canada	CAD100	100	Manufacturing, wholesaling, retailing and distribution of nutraceutical products
	Shinna Limited	British Virgin Islands	US$1	100	Investment in financial instruments
	Vital Care Hong Kong Limited	Hong Kong	HK$2	100	Trading of biotechnology products
	Ultra Biotech Limited	Isle of Man	£1	100	Ownership of patents/trademarks

Notes: All of the above subsidiaries are limited liability companies. None of the subsidiaries had issued any debt.

Principal Subsidiaries (cont'd)

The principal area of operations of the above companies were the same as the place of incorporation except the following:

Name	Area of operations
Biocycle Resources Limited	Australia, Asia and America
CK Life Sciences Int'l., Inc.	Australia, Asia, Europe and America
Dimac Limited	America
Genero International Limited	Europe
Great Affluent Limited	Europe and America
Lincore Limited	Europe
Panform Limited	Europe
Proven Leader Limited	America
Shinna Limited	Europe

Foreign investment enterprise registered in the Mainland China

Sino-foreign equity joint venture registered in the Mainland China

Principal Associates

Appendix II

Principal Associates

The Directors are of the opinion that a complete list of the particulars of all the associates will be of excessive length and as such, the following list contains only those principal associates.

Name	Effective percentage of capital held by the Company indirectly	Principal activities	Place of operation
Nanjing Green Union Eco-Technology Limited	40	Trading of biotechnology products	Mainland China
Jiangsu Prosperous Union Crop Sciences Limited	49	Trading of biotechnology products	Mainland China

The above companies are sino-foreign equity joint venture registered in the Mainland China

Corporate Information

Board of Directors

Executive Directors

LI Tzar Kuoi, Victor
Chairman
KAM Hing Lam
President and Chief Executive Officer
IP Tak Chuen, Edmond
Senior Vice President and Chief Investment Officer
YU Ying Choi, Alan Abel
Vice President and Chief Operating Officer
PANG Shiu Fun
Vice President and Chief Technology Officer
CHU Kee Hung
Vice President, Technology and Product Development

Non-executive Directors

Peter Peace TULLOCH
Non-executive Director
WONG Yue-chim, Richard
Independent Non-executive Director
KWOK Eva Lee
Independent Non-executive Director
Colin Stevens RUSSEL
Independent Non-executive Director

Company Secretary

Eirene YEUNG

Qualified Accountant

MO Yiu Leung, Jerry

Compliance Officer

YU Ying Choi, Alan Abel

Audit Committee

WONG Yue-chim, Richard
Chairman
KWOK Eva Lee
Colin Stevens RUSSEL

Remuneration Committee

LI Tzar Kuoi, Victor
Chairman
KWOK Eva Lee
Colin Stevens RUSSEL

Authorized Representatives

IP Tak Chuen, Edmond
Eirene YEUNG

Auditors

Deloitte Touche Tohmatsu

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
JP Morgan Chase Bank, N.A.
Canadian Imperial Bank of Commerce
Commonwealth Bank of Australia

Solicitors

Woo, Kwan, Lee & Lo

Registered Office

P.O. Box 309GT
Ugland House
South Church Street
Grand Cayman
Cayman Islands

Head Office

2 Dai Fu Street
Tai Po Industrial Estate
Tai Po
Hong Kong

Principal Place of Business

7th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town
Grand Cayman
Cayman Islands

Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Rooms 1712 – 1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong

Internet Address

http://www.ck-lifesciences.com

This annual report ("Annual Report") is available in both English and Chinese. Shareholders who have received either the English or the Chinese version of the Annual Report may request a copy in the language different from that has been received by writing to: Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The Annual Report (in both English and Chinese versions) has been posted on the Company's website at http://www.ck-lifesciences.com. Shareholders who have chosen to rely on copies of the Company's corporate communication (including but not limited to annual report, summary financial report (where applicable), half-year report, summary half-year report (where applicable), quarter report, notice of meeting, listing document, circular and proxy form) posted on the Company's website in lieu of the printed copies thereof may request the printed copy of the Annual Report.

Shareholders who have chosen to receive the corporate communication using electronic means through the Company's website and who for any reason have difficulty in receiving or gaining access to the Annual Report posted on the Company's website will promptly upon request be sent the Annual Report in printed form free of charge.

Shareholders may at any time choose to change your choice as to the means of receipt (i.e. in printed form or by electronic means through the Company's website) and/or the language of the Company's corporate communication by notice in writing to the Company's Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

FINANCIAL CALENDAR

Annual Results Announcement	17 March 2006
Closure of Register of Members	4 to 11 May 2006 *(both days inclusive)*

CK Life Sciences Int'l., (Holdings) Inc.
長江生命科技集團有限公司

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