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)

Better Health Better Life

Annual Report 2006

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

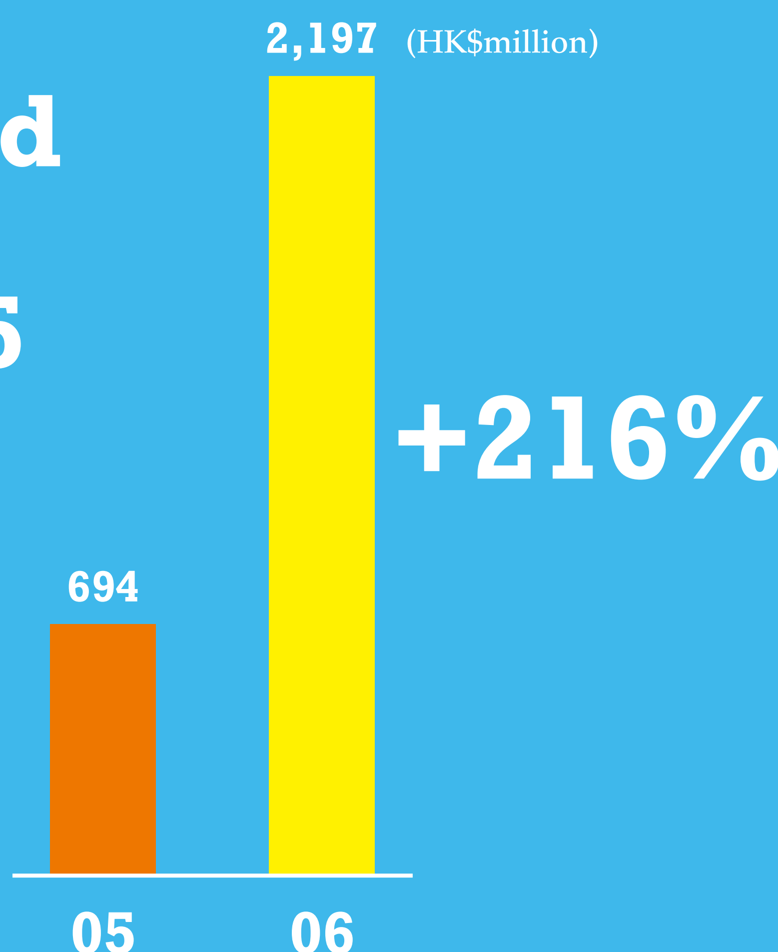
About CK Life Sciences

CK Life Sciences has been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (stock code: 8222) since July 2002. Bearing the mission of improving the quality of life, the Group is engaged in the business of research and development, commercialization, marketing and sale of biotechnology products. Products developed by CK Life Sciences are categorized into the areas of human health and environmental sustainability. A number of the Group's inventions have been granted patents by the US Patent and Trademark Office. CK Life Sciences has also been selected as one of 30 global "Technology Pioneers 2004" by the World Economic Forum.

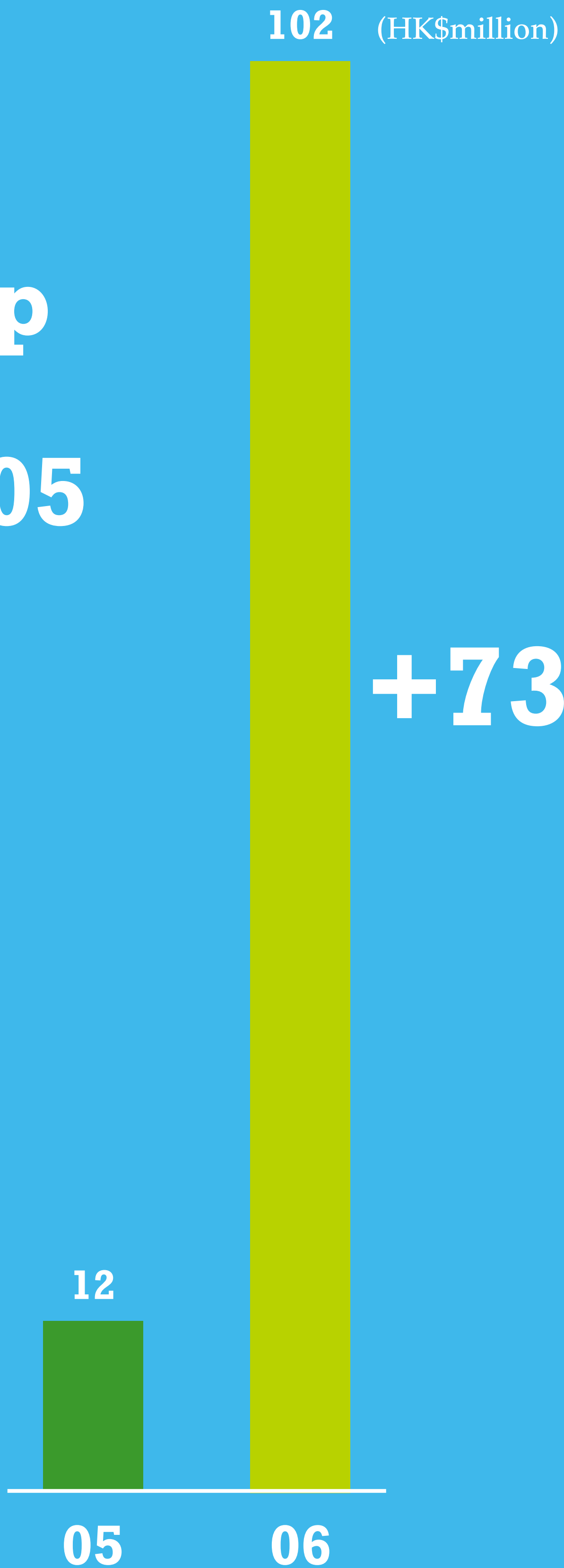
Better Health
Better Life

Strong Growth

Total Revenue Increased 2 Times over 2005



Profit Up 7 – fold over 2005



+734%

2006 – Year in Review

JAN – FEB

CK Life Sciences acquired an 80% stake in Vitaquest International Holdings LLC, the largest custom contract nutraceutical manufacturer in the United States.

MAR – APR

The *Adrien Gagnon* or "*AG*" brand of natural health supplements was launched in Hong Kong. An extensive range of *AG* health products are now exclusively available at Watsons Your Personal Stores throughout the territory.

MAY – JUNE

A new distributor, PhilAgrow, Inc. was appointed in the Philippines to drive sales of NutriSmart®.

JUL – AUG

NutriWiz™, a new fertilizer product developed by CK Life Sciences from microbial technology, was launched in Mainland China. Encouraging sales have been reported to date.

SEP – OCT

The *AG Natural Health* brand was launched in over 700 Kruidvat stores in the Netherlands. This represents CK Life Sciences' first foray into the European market.

Adrien Gagnon was the recipient of the "Gold Award" for "Bestselling Nutraceutical Brand" at Watsons 2006 7th Annual Health & Beauty Awards. At the same time, VitaGain® received the "Silver Award" in the "Bestselling Food Brand in the Immunity Category".

NOV – DEC

The latest VitaGain® products, Lingzhi Guard and Cordyceps Guard, were launched and have fast become popular items in the range.

2006
A Noteworthy Year

It has been a very exciting year for CK Life Sciences, with achievements on all fronts.

Sales Up 2½ Times; Revenue Increased 2 Times; and Profit Grew 7 Times

HK$'000	**2006**	2005	Variance
Sales revenue	**1,938,557**	542,484	+257%
Investment proceeds	**258,561**	151,895	+70%
Total revenue	**2,197,118**	694,379	+216%
Profit attributable to shareholders	**102,022**	12,234	+734%

2006 marked a noteworthy year for CK Life Sciences:

1. **Sales from environmental and health businesses about HK$2 billion;**
2. **Total revenue approaching HK$2.2 billion;**
3. **Profit attributable to shareholders over HK$100 million;**
4. **First full year contributions from the newly acquired Santé Naturelle A.G. Ltée in Canada and Envirogreen and Nuturf in Australia recorded;**
5. **Acquired Vitaquest, the largest custom contract nutraceutical manufacturer in the US, strengthening profit contribution for the Group;**
6. **Launched the *Adrien Gagnon* (or "*AG*") nutraceutical brand internationally, firstly in Hong Kong in the earlier half of the year and then in the Netherlands in the second half.**

All in all, it has been a very exciting year for CK Life Sciences, with achievements on all fronts. We look forward to capitalizing on this momentum in 2007 and beyond.

The financial performance of CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences" or the "Group") for the year ended 31 December 2006 has been very strong. Sales revenue increased $2^1/_2$ times to approximately HK$2 billion, while investment proceeds increased 70% to approximately HK$260 million. Total revenue reached nearly HK$2.2 billion, an increase of more than 2 times over last year. Profit attributable to shareholders grew 7-fold to HK$102 million.

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2006.

Health Sales Up 10 Times

Sales from health-related business approached HK$1.4 billion, representing an increase of more than 10 times over 2005.

The performance of our health business was boosted by contributions from Vitaquest International Holdings LLC ("Vitaquest"), which was acquired in early 2006. Vitaquest generated strong results over the course of the year and expanded the scope of our nutraceutical business. Leveraging on the core competencies of Vitaquest, CK Life Sciences has broadened its geographical reach, sales and marketing power, manufacturing capacity and product development expertise.

2006 was also notable for the expansion of the *Adrien Gagnon* (or "*AG*") brand. Following the acquisition of Santé Naturelle A.G. Ltée ("S.N.A.G.") in 2005, CK Life Sciences owns the top-selling nutraceutical brand in Québec, Canada – *Adrien Gagnon*. S.N.A.G. has generated steady earnings in its first full year under the Group. In 2006, CK Life Sciences launched the *Adrien Gagnon* brand internationally, commencing with the Hong Kong market in the early part and the Netherlands in the latter part of the year.

Environmental Sales Reached HK$550 Million

The Group's environmental-related business continued on its growth trend, with sales approaching HK$550 million. Full year contributions from Envirogreen Pty Limited ("Envirogreen") and Nuturf Australia Pty Ltd ("Nuturf") have been recorded for the first time. These recent acquisitions have delivered a meaningful contribution to our financial performance, as well as expanded our market share in Australia.

Elsewhere in Asia, the Group reported satisfactory progress in its existing markets.

Encouraging R&D Advances

In our core business areas of human health and environmental sustainability, CK Life Sciences continues to devote significant resources to the research and development of new solutions that will improve the quality of life. Our research spans the study of microbes, herbs and antibodies. The results achieved by our expert team of scientists during the year have been very positive.

Strong Financial Position

CK Life Sciences has a very sound financial position. As at 31 December 2006, cash and net financial assets on hand amounted to over HK$1.5 billion, while bank loans were only HK$323 million. As a consequence, we remain in a strong financial position to support our plans for continued sales growth, R&D advancements and new acquisitions.

Our treasury investments have also performed very well over 2006 and we will continue to make prudent investments to enhance the returns generated in this area.

The financial performance... has been very strong... Total revenue reached nearly HK$2.2 billion, an increase of more than 2 times over last year. Profit attributable to shareholders grew 7-fold to HK$102 million.

Prospects

2006 was a milestone year for the development of our nutraceutical business. We plan to continue our expansion and build on our foundation of experience and expertise in the biotech sector. By leveraging on the capabilities of our existing businesses, as well as those of our newly acquired companies, S.N.A.G. and Vitaquest, we will build a strong foothold towards achieving our vision of becoming one of the pre-eminent nutraceutical companies in the world.

CK Life Sciences has a very sound financial position. As at 31 December 2006, cash and net financial assets on hand amounted to over HK$1.5 billion, while bank loans were only HK$323 million.

We will also maximize the synergies between CK Life Sciences and other Cheung Kong Group companies. Our recent launches of the *Adrien Gagnon* brand in Hong Kong and the Netherlands have been favourably supported by the A.S. Watson Group, also a member of the Cheung Kong Group, which is the world's largest health and beauty retailer with operations in 36 markets worldwide. This partnership has greatly enhanced CK Life Sciences' sales and distribution channels, as well as strengthened our acquisition capability. The Group will continue to seek ways to capitalize on the strong financial foundations, extensive expertise, reputation and scale of the Cheung Kong Group, as well as utilize its international network of professional partners, to pursue new expansion opportunities.

In addition to aggressively pursuing organic growth of our core businesses in health and environmental sustainability, we will continue to explore acquisition opportunities to further enhance our growth and add value to our shareholders.

2006 has been a landmark year for CK Life Sciences, affirming our management's growth strategies and vision for the future. We look forward to setting more records and reaching new highs. The future is promising.

On the back of a highly encouraging performance in 2006, I would like to take this opportunity to thank our shareholders, Board of Directors, staff and business partners for their unfaltering support.

Li Tzar Kuoi, Victor
Chairman

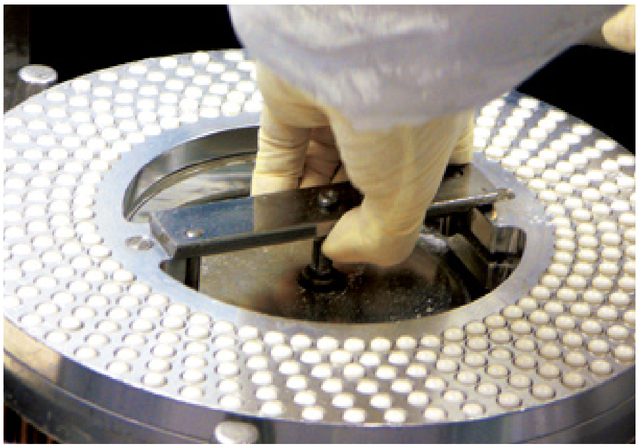
Hong Kong, 16 March 2007

Health

It has been an exciting year for CK Life Sciences' health business. In the nutraceutical segment, significant corporate milestones were achieved as the Group expanded its business in North America and launched new products and new markets. Good progress was also achieved in pharmaceutical research.


VITAQUEST
HENDERSON DRIVE

Business Review
Health



Adrien Gagnon was founded by the legendary Mr Adrien Gagnon, Canada's "Father of Natural Health Products", 60 years ago.

Nutraceuticals

2006 was a milestone year for CK Life Sciences' nutraceutical businesses.

During the year, the Group has continued to commercialize and bring more products to the market, substantially extending the range of VitaGain® products.

The *Adrien Gagnon* or *"AG"* range of health supplements from Canada experienced noteworthy expansion during the year, with major launches in Hong Kong and the Netherlands.

In addition, the acquisition of Vitaquest International Holdings LLC ("Vitaquest") in the early part of 2006 significantly strengthened CK Life Sciences' capabilities in the nutraceutical sector.

VitaGain®

In 2006, a number of new products based on herbal ingredients were added to the VitaGain® range, including formulations for liver, heart, respiratory, blood vessel and skin health. CK Life Sciences also introduced a proprietary enzymatic cleaving technology for soy essence, which has been effectively utilized in VitaGain's® Immuguard, Lingzhi Guard and Cordyceps Guard products launched in the last quarter of the year. These three innovative products have fast become popular items in the range.

In recognition of the brand's popularity, VitaGain® received the "Silver Award" in the "Bestselling Health Food Brand in the Immunity Category" at the 2006 7th Health & Beauty Awards hosted by Watsons Your Personal Store. VitaGain® has also been reaffirmed as one of the territory's "Superbrands".

The Adrien Gagnon nutraceutical brand was launched internationally, firstly in Hong Kong in the earlier half of the year and then in the Netherlands in the second half.

Adrien Gagnon

2006 marked the first full year of contribution from Santé Naturelle A.G. Lteé ("S.N.A.G."), which was acquired in 2005. With the bestselling nutraceutical brand in Québec, Canada – *Adrien Gagnon* – S.N.A.G. reported good performance during the year.

In April, CK Life Sciences strengthened its brand portfolio in Hong Kong with the launch of the western dietary nutraceutical brand, *Adrien Gagnon* or *"AG"*. The sales performance of *Adrien Gagnon* in Hong Kong has been very good and within a few months of launch, the brand had already emerged as the leading nutraceutical brand at Watsons Your Personal Stores across the territory. As a result, *Adrien Gagnon* was the recipient of the "Gold Award" for "Bestselling Nutraceutical Brand" at Watsons 2006 7th Annual Health & Beauty Awards. Within a very short space of time, *Adrien Gagnon* has achieved a strong market presence and continued efforts will be made to reinforce the brand's position.

Following the brand's success in Hong Kong, *"AG Natural Health"* was launched in the Netherlands in September. A range of 29 health products is now available in over 700 Kruidvat stores in Holland, the health and beauty retail chain owned by the A.S. Watson Group, CK Life Sciences' retail partner and a sister member of the Cheung Kong Group. Through an extensive advertising and PR campaign, as well as in-store promotions, *AG Natural Health* has achieved a very encouraging sales performance and this momentum is poised to continue.

Vitaquest

The acquisition of Vitaquest in February last year has significantly enhanced the scale of the Group's nutraceutical business. Vitaquest is the largest custom contract nutraceutical manufacturer in the United States. As well as making a major contribution to the Group's sales and profits during the year, Vitaquest offers a good strategic fit by boosting CK Life Sciences' product portfolio, enhancing its product offerings and formulations,

Adrien Gagnon is the bestselling nutraceutical brand in Québec, Canada and is synonymous with quality health products.

S.N.A.G. provided its first full year of profit contribution to CK Life Sciences in 2006.

Vitaquest offers a good strategic fit by boosting CK Life Sciences' product portfolio, as well as strengthening its R&D, manufacturing and sales capabilities.

strengthening its R&D and manufacturing capabilities and widening its sales and distribution network.

CK Life Sciences has already started sourcing new formulations from Vitaquest and has utilized the company's manufacturing might to meet growing demand for the Group's *Adrien Gagnon* products. On the R&D front, the Group will look towards sharing expertise and information with Vitaquest. The American operations are poised to benefit from the Group's existing knowledge in traditional Chinese herbs, while CK Life Sciences will be able to enhance its cutting edge biotech intelligence. The Group will continue to explore synergies between Vitaquest's operations and its own nutraceuticals businesses to accelerate its pace of expansion and increase its market share.

Pharmaceuticals

Progress is also being made in CK Life Sciences' pharmaceutical operations as it continues to conduct extensive studies to demonstrate the efficacy of its inventions and products.

To date, the Group has been granted 10 patents for its pharmaceutical inventions by the US Patent and Trademark Office. In 2006, 5 new patent applications were submitted.

Cancer R&D Remains Key Focus

The focus of the Group's R&D thrust continues to be on cancer treatment, and it is currently exploring active ingredients in plants that may be useful for this objective. A single compound from traditional herbal medicine has been successfully purified and found to be effective in

The focus of the Group's R&D is cancer treatment. It is currently exploring active ingredients in plants that may be useful for this objective.

The Group has been granted 10 patents for its pharmaceutical inventions and 5 new patent applications were submitted in 2006.

inhibiting cancer growth in an animal cancer model. Platforms have also been developed to reformulate several major anti-cancer drugs that significantly increase their efficacy, while lowering their toxicity.

A number of pre-clinical and clinical trials are underway with a host of world-renowned academic institutions, namely The University of California, San Francisco; The University of California, Los Angeles; The University of British Columbia; The Chinese University of Hong Kong and The Hong Kong University of Science and Technology.

R&D Fast Track

The Group's R&D progress will be further expedited by cooperation with overseas companies that have valuable human health technology close to drug approval stage. This will accelerate the speed at which CK Life Sciences can bring new products to the market and enhance its R&D capabilities.

Commitment to R&D Success

CK Life Sciences is dedicated to realizing its full R&D potential. The Group will continue to make concerted efforts to speed up its drug discovery and commercialization process to enhance its portfolio of health solutions.

Agriculture

CK Life Sciences' fertilizer and related businesses recorded satisfactory sales growth in 2006. Its leading eco-fertilizer product has been increasingly adopted in existing and new markets. Recent acquisitions have also made a positive impact on the Group's performance.


Amgrow
Biogrow
Compost
soil improver & planting mix for sandy & clay soils
Azalea, Camellia
Planting Mix
organic
potting
mix
Australian
Native Plant
Potting & Inground
Planting Mix
POT n PEAT
COW MANURE
SUPERGREEN
Lawn Fertiliser
Makes Lawns Green Fast
No.17
Lawn
Food
2.5kg NET
Wettasoil
Granular
NITROSOL
SUPERWAY

Agriculture

The appointment of a new distributor in the Philippines is poised to enhance sales for NutriSmart®.

Satisfactory sales growth has been recorded by the Group's fertilizer and related businesses during the course of the year. CK Life Sciences has been pleased by the progress made by its environmentally-friendly fertilizer product, NutriSmart®. Sales have more than doubled in its export markets in 2006. The Group will continue to explore ways to minimize processing costs and to customize more applications to meet the specific needs of its customers.

Greater China

In Mainland China, encouraging sales were reported and NutriSmart® has been demonstrated to have a positive effect on soil quality and fertility by tests carried out in conjunction with the Chinese Academy of Sciences. Specific formulas of NutriSmart® have been developed for different crops, including garlic, sugar cane and vegetables.

A NutriSmart® blended product series was endorsed by the Anhui Science and Technology Department and a group of top scientists as an environmentally-friendly, innovative high-tech biotechnology product in April last year. The product series was heralded as a scientific breakthrough fertilizer product for use on broadacre crops. Such strong backing is expected to help drive sales in Mainland China, particularly in the growing broadacre market.

Sales of NutriSmart® in export markets have more than doubled in 2006.

In Hong Kong, the Group's joint marketing initiative with the Vegetable Marketing Organization and PARKnSHOP, the leading local supermarket chain, to promote sales of accredited local vegetables grown using NutriSmart® fertilizer continues to be very well-received.

South East Asia

In Vietnam, sales grew significantly during the year under review. The application of NutriSmart® has been extended from rice to watermelons, potatoes, cucumbers and other green leafy vegetables.

In the Philippines, a new distributor — PhilAgrow, Inc. — was appointed during the year, helping enhance sales for NutriSmart®.

In Thailand, the NutriSmart® trials on sugar cane have been ongoing and progressing well. Blended NutriSmart® tests on oil palms in Malaysia have also demonstrated encouraging results. CK Life Sciences will explore the potential of extending sales to other oil palm growing countries.

The Group is engaged in a joint marketing initiative with the Vegetable Marketing Organization and PARKnSHOP to promote accredited local vegetables grown using NutriSmart® fertilizer.

Strong sales were recorded by CK Life Sciences' fertilizer business in Australia.

North Asia

Significant sales growth was recorded in Japan, with the volume of NutriSmart® sold increasing more than 6-fold. The Group's partnership with Sumitomo Corporation has proved to be a very successful initiative. The use of NutriSmart® will be promoted to other crops such as potatoes and greenhouse vegetables.

South Korea has emerged as one of the Group's most profitable markets, coming in second in terms of overall sales. In cooperation with Sumitomo Corporation and Chobi Co., Ltd, sales of a NutriSmart® blended formula has been very encouraging. NutriSmart® is also being distributed to greenhouse growers in Korea through the Group's other customers, Pacific Agriscience Pte. Ltd and Arysta LifeScience Korea Ltd.

Looking ahead, CK Life Sciences will continue to work together with Sumitomo Corporation and other distribution partners to spearhead expansion into new markets in Asia.

Australia

Strong sales were recorded in the Australian market. The Group's performance in this market was further boosted by the first full year contributions from Envirogreen Pty Limited, a leading Australian home garden products manufacturer and supplier, and Nuturf Australia Pty Ltd, the largest supplier of turf management products and services in Australia, which were both acquired in 2005.

Encouraging sales have been reported by NutriSmart®, an eco-fertilizer that has been increasingly adopted by environmentally conscious farmers.

New Product Offering – NutriWiz™

During the year under review, the Group launched a new fertilizer product range to the market. NutriWiz™ was test marketed in Mainland China in August last year and sales so far have been promising. It is already being used in provinces of Shangdong, Jiangsu and Guangxi. It can be applied on crops such as rice, greenhouse vegetables, bananas, oranges and tangerines.

NutriWiz™ is a specially formulated fertilizer product developed from microbial technology. It can be used as a base fertilizer or as a side dressing. Currently three product series – NutriWiz™ 200, 500 and 900 – are available on the market. The China National Rice Research Institute has endorsed one of the 500 series products, a specially formulated rice fertilizer formula, after successful trials.

Following a very encouraging start, sales of NutriWiz™ are expected to achieve significant growth in the coming year.

Directors and Senior Management

Directors' Biographical Information

LI Tzar Kuoi, Victor

aged 42, 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. Victor 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. Victor 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, the management shareholder of the Company, and (ii) Trueway International Limited, (iii) Li Ka Shing Foundation 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 60, 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 is a member of the Beijing Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. 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 54, 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, the management shareholder of the Company, and (ii) Trueway International Limited, (iii) Gold Rainbow Int'l Limited, (iv) Gotak Limited and (v) Cheung Kong (Holdings) Limited, all being substantial shareholders of the Company within the meaning of Part XV of the SFO.

YU Ying Choi, Alan Abel

aged 51, 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.

CHU Kee Hung

aged 62, is the Vice President and Chief Scientific Officer of the Group responsible for the technology and product development activities of the Group. Dr. Chu holds a Bachelor of Science from The Chinese University of Hong Kong, a Master of Science degree and a Doctor of Philosophy degree both 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 technology project management in the United States, Mainland China and Hong Kong.

TULLOCH, Peter Peace

aged 63, serves as the Chairman and Non-executive Director of each of Powercor Australia Limited, CitiPower Pty and ETSA Utilities, and a Non-executive Director of Connector Motorways Pty 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.

Note: Mr. Tulloch has resigned as Non-executive Director of Connector Motorways Pty Limited with effect from 5 March 2007.

WONG Yue-chim, Richard, SBS, JP

aged 54, 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 64, 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. and Bank of Montreal. 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., 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 Nominating and Governance Committee of Shoppers Drug Mart Corporation, 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.

Senior Management's Biographical Information

RUSSEL, Colin Stevens

aged 66, 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.

CHEUNG Ling Yuk, Larry

aged 52, 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.

CHEN Yuguang

aged 48, is the Technical Services Director of the Group. He holds a Doctor of Philosophy degree in Plant Physiology from The Iowa State University, U.S. He has over 15 years' experience in technology and product development of the agribusiness, seed technology research and basic plant biochemistry and physiology research in the U.S. 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 53, is the 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 40, is the Controller, Laboratory Operations, of the Group. She graduated from China Technology and Operation Management University in Mainland China with 14 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).

YEUNG, Eirene

aged 46, 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. She is a Part-time Member of the Central Policy Unit of the HKSAR Government (for 2005, 2006 and 2007), and a member of the Companies Ordinance Rewrite Advisory Group 3.

TONG BARNES Wai Che, Wendy

aged 46, is the Chief Corporate Affairs Officer responsible for the overall corporate activities of the Group including public relations and marketing communications. 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, U.S. 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 51, is the Director, Product Development, of the Group. He holds a Doctor of Philosophy degree in Chemical Engineering from the University of Michigan, U.S. with over 15 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 U.S. 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 55, 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.

MO Yiu Leung, Jerry

aged 47, 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, U.K. 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) (U.K. & Hong Kong). Prior to joining the Group in October 2005, Mr. Mo was Chief Financial Officer of Fong's Industries Company Limited.

HON King Sang, Dennis

aged 52, 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 25 years' experience in legal and acquisition 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 50, 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.

MAN Hon Wan

aged 54, 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 25 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 Limited.

XIE Weidong

aged 52, is the Director, Therapeutics Research, 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.

CHAN Chin To

aged 49, is the Vice President, Nutraceuticals Development, of the Group responsible for leading and coordinating global nutraceuticals business activities. He holds a Bachelor's degree in Surveying from The University of Melbourne, Australia. Mr. Chan has over 20 years of marketing and sales experience. He has a diverse experience in leading multinational and local corporations, and he has held a number of positions of increasing responsibility in Procter & Gamble, Swire Resources Ltd., Johnson & Johnson, and American Express International, Inc. Prior to joining the Group in September 2006, he was Sales Director of G2000 (Apparel) Ltd., with P & L and marketing and sales responsibilities for some ten countries from 2004 to 2006.

LEE Mai Kuen, Jane

aged 47, is the Personnel Manager of the Group, and has been with the Cheung Kong Group since December 1995, and joined the Group in March 2002. She holds a Master of Science degree in Training and Human Resource Management from The University of Leicester, U.K., and is a member of the Hong Kong Institute of Human Resource Management. She has over 20 years' experience in human resource management gained within the Cheung Kong Group, and from multinational research-based pharmaceutical corporations including Glaxo (now known as GlaxoSmithKline) and Schering-Plough.

NAM Cheung Ching, Adrian

aged 37, is the Internal Audit Manager of the Group. He holds a Master of Science degree in Organizational Behaviour and a Bachelor of Science degree in Accounting and Finance both from The University of London. He also holds a Master's degree in Professional Accounting. He is an Associate of The Institute of Chartered Accountants in England and Wales, a Member of The Institute of Chartered Accountants in Australia, and a Certified Information Systems Auditor. He has over 10 years' experience and has worked with PricewaterhouseCoopers, The Stock Exchange of Hong Kong, and Securities and Futures Commission. Prior to joining the Group in June 2002, he was Manager, Compliance Divisions, of Mandatory Provident Fund Schemes Authority.

Financial Summary

	Year ended 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Consolidated results summary					
Turnover	61,447	192,268	329,627	694,379	**2,197,118**
Profit/(loss) attributable to equity holders of the Company	(88,895)	(738)*	(3,968)*	12,234	**102,022**

	As at 31 December				
	2002	2003	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Consolidated balance sheet summary					
Non-current assets	2,469,723	2,515,897	2,310,811	2,830,045	**4,616,436**
Current assets	349,634	343,832	751,996	850,838	**1,315,218**
Current liabilities	(24,922)	(46,292)	(149,596)	(365,333)	**(520,195)**
Non-current liabilities	–	–	(68,223)	(531,463)	**(449,435)**
Total net assets	2,794,435	2,813,437	2,844,988	2,784,087	**4,962,024**
Equity attributable to equity holders of the Company	2,794,084	2,813,316	2,795,705	2,736,260	**4,946,453**
Minority interests	351	121	49,283	47,827	**15,571**
Total equity	2,794,435	2,813,437	2,844,988	2,784,087	**4,962,024**

* Figures have been restated to reflect the change in accounting policy for the adoption of HKFRS2 "Share-based Payment" effective 1 January 2005.

Financial Resources, Liquidity and Treasury Policies

In 2006, the financial and liquidity position of the Group continued to be sound and healthy. It obtained its finances mainly from internal sources such as cash generated from business activities and rights issue as well as external source such as bank borrowings.

In May 2006, the Company completed a rights issue, through which a net amount of about HK$2,076,000,000 had been raised from its shareholders. After this fund raising exercise, the financial and liquidity position of the Group was further strengthened which has added more vitality for the Group to develop its business by means of organic growth as well as strategic acquisition.

The external financing by bank loans was mainly for the purpose of acquiring the Group's overseas businesses. As at 31 December 2006, the total bank loans amounted to HK$322,877,000. 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$168,906,000 as at 31 December 2006 for a loan of HK$205,258,000. The total finance costs of the Group for the year were HK$37,866,000.

At the end of 2006, the total assets of the Group were about HK$5,931,654,000, of which bank balances and deposits were about HK$459,624,000 and marketable securities were about HK$1,108,245,000. The total investment income and bank interest generated for the year were HK$169,556,000 and HK$18,193,000 respectively.

The total net assets of the Group as at 31 December 2006 were HK$4,962,024,000, representing about 1.8 times of the same reported last year. The substantial increase in net asset value is mainly attributable to the consolidation of the results of Vitaquest International Holdings LLC ("Vitaquest"), the acquisition of which was completed in the mid of the year. The net asset value of the Group was increased from HK$0.43 per share in 2005 to HK$0.52 per share in 2006. The gearing ratio of the Group, which is based on total bank borrowings over total equity, was reduced from 0.2 in 2005 to 0.07 in 2006.

The Group's treasury function operates as a centralized service for managing financial risks, including interest rate and foreign exchange risks, and for providing cost efficient funding to the Group. The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to interest rates fluctuation. It would monitor its overall net debt position closely, review its funding costs and maturity profile regularly and take necessary actions to facilitate refinancing whenever appropriate. To mitigate the currency exchange risk arising from overseas investments which consist of non-HK dollar assets, the Group would generally establish a natural hedge with an appropriate level of borrowings in the same currencies of the overseas investments. As such, same as the previous years, all the bank loans of the Group for the year under review were denominated in foreign currencies.

Material Acquisitions/Disposals and Significant Investments

In May 2006, the Group completed the acquisition of 80% stake in Vitaquest, a US company specializing in the manufacture and sales of nutritional supplements worldwide. This acquisition constitutes a very substantial acquisition under the Rules Governing the Listing of securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) and was approved by shareholders in an extraordinary general meeting.

In December 2006, the Company announced the restructuring of the joint ventures with the Nanjing Red Sun Stock Co., Ltd (“Red Sun”), under which the Group, inter alia, would dispose of an 8.625% equity interests in one of the joint ventures to the Red Sun. Such disposal constitutes a discloseable transaction under the GEM Listing Rules and details of which are incorporated in a circular issued on 18 December 2006.

Other than the aforementioned, there was no other material acquisition/disposal which would have been required to be disclosed under the GEM Listing Rules for the year under review.

The Group has always been investing significantly in research and development activities. Such investment amounted to about HK$71,658,000 in 2006.

Capital Commitments and Future Plans for Material Investments or Capital Assets

As of 31 December 2006, the total capital commitments by the Group amounted to HK$5,170,000 which were mainly made up of contracted commitments in respect of the acquisition of laboratory, instrument, plant and equipment.

Information on Employees

The total number of full-time employee of the Group was 1,162 at the end of 2006, and is 387 more than the total headcount of 775 at the end of 2005. The total staff costs, including directors’ emoluments, amounted to approximately HK$470,712,000 for the year under review, which represents an increase of 173% as compared to the same of the previous year. The increases in headcount and staff costs were mainly due to the inclusion of Vitaquest as a new member of the Group in 2006.

As a result of the rights issue in May 2006, the exercise prices of the 3 lots of stock options granted in September 2002, January 2003 and January 2004 to the employees of the Group had been adjusted to HK$1.422, HK$1.286 and HK$1.568 respectively. Other than these adjustments, 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 2006 (2005: Nil).

The Group's businesses, financial condition, results of operations or growth prospects may be affected by risks and uncertainties pertaining to the Group's businesses. The factors set out below are those that the Group believes could result in the Group's businesses, financial condition, results of operations or growth prospects differing materially from expected or historical results. There may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Highly Competitive Markets

The Group's principal business operations face significant competition across the markets in which they operate as well as rapid technological change. New market entrants, the intensification of price competition by existing competitors and the acceptability of the Group's products by the market may affect the Group's financial condition, results of operation or growth prospects. Likewise, product innovation and technical advancement may render the Group's existing and potential applications and products and its own research and development efforts obsolete or non-competitive.

Research and Development

The research and development activities conducted by the Group is a lengthy and expensive process involving a lot of trial testing in order to demonstrate that the products are effective and in some cases safe for commercial sale. Successful results in the early stage of the trial process may, upon further review, be revised or negated by regulatory authorities or by later stage trial results and there is no assurance that any of the research and development activities will produce positive results.

In addition, recruiting and retaining qualified scientific personnel to perform research and development work will be critical to the success of the Group and there can be no assurance that the Group will be able to attract and retain such personnel on acceptable terms given the competition for experienced scientists from numerous specialized biotechnology firms, pharmaceutical and chemical companies, universities and other research institutions. Failure to recruit and retain such skilled personnel could delay the research and development and product commercialization programs of the Group.

Some of the Group's operations are subject to extensive and rigorous government regulations relating to the development, testing, manufacture, safety, efficacy, record-keeping, labeling, storage, approval, advertising, promotion and sale and distribution of the products. The regulatory review and approval process (which requires the submission of extensive data and supporting information to establish the products' safety, efficacy and potency) can be lengthy, expensive and uncertain and there can be no assurance that any of the Group's products will be approved for marketing and sale.

Intellectual Property

The success of the Group will depend in part on whether it is able to obtain and enforce patent protection for its products and processes. No assurance can be given as to whether patent rights may be granted to the Group and that the patents granted will be sufficiently broad in their scope to provide protection and exclude competitors with similar products. Even when granted the patents may still be susceptible to revocation or attack by third parties. It is also not possible to determine with certainty whether there are any conflicting third party rights which may affect the Group's current commercial strategy.

Industry Trends and Interest Rates

The trends in the industries in which the Group operates, including the market sentiment and conditions, the consumption power of the general public, mark to market value of securities investments, the currency environment and interest rates cycles, may pose significant impact on the Group's results. There can be no assurance that the combination of industry trends and interest rates the Group experiences in the future will not adversely affect its financial condition or results of operations.

In particular, income from finance and treasury operations is dependent upon the interest rate and currency environment and market conditions, and therefore there can be no assurance that changes in these conditions will not adversely affect the Group's financial condition or results of operations.

Currency Fluctuations

The results of the Group is recorded in Hong Kong dollars but its various subsidiaries and associates may receive revenue and incur expenses in other currencies. Any currency fluctuations on translation of the accounts of these subsidiaries and associates and also on the repatriation of earnings, equity investments and loans may therefore impact on the Group's performance. Although currency exposures had been managed by the Group, a depreciation or fluctuation of the currencies in which the Group conducts operations relative to the Hong Kong dollar could adversely affect the Group's financial condition or results of operations.

Strategic Partners

Some of the businesses of the Group are conducted through non wholly-owned subsidiaries and associates in which the Group shares control (in whole or in part) and strategic alliances had been formed by the Group with other strategic or business partners. There can be no assurance that any of these strategic or business partners will continue their relationships with the Group in the future or that the Group will be able to pursue its stated strategies with respect to its non wholly-owned subsidiaries and associates and the markets in which they operate. Furthermore, the joint venture partners may (a) have economic or business interests or goals that are inconsistent with those of the Group; (b) take actions contrary to the Group's policies or objectives; (c) undergo a change of control; (d) experience financial and other difficulties; or (e) be unable or unwilling to fulfill their obligations under the joint venture, which may affect the Group's financial condition or results of operations.

Impact of Local, National and International Regulations

The local business risks in different countries and cities in which the Group operates could have a material impact on the financial condition, results of operations and the growth prospects of the businesses in the relevant market. The Group has investments in different countries and cities around the world and the Group is, and may increasingly become, exposed to different and changing political, social, legal and regulatory requirements at the local, national or international level. Also, new policies or measures by governments, whether fiscal, regulatory or other competitive changes, may pose a risk to the overall investment return of the Group's businesses and may delay or prevent the commercial operation of a business with resulting loss of revenues and profit.

Impact of New Accounting Standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") had issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") which were generally effective on or after 1 January 2005. HKICPA may in the future issue new and revised standards and interpretations. In addition, interpretations on the application of the HKFRS will continue to develop. These factors may require the Group to adopt new accounting policies. The adoption of new accounting policies or new HKFRS might or could have a significant impact on the Group's financial position or results of operations.

Connected Transactions

Cheung Kong (Holdings) Limited ("Cheung Kong Holdings") and Hutchison Whampoa Limited ("Hutchison") are also listed on The Stock Exchange of Hong Kong Limited. Although the Group believes that its relationship with Cheung Kong Holdings and Hutchison provides it with significant business advantages, the relationship results in various connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and accordingly any transactions entered into between the Group and Cheung Kong Holdings, its subsidiaries or associates and between the Group and Hutchison, its subsidiaries or certain of its associates are connected transactions, which, unless one of the exemptions is available, will be subject to compliance with the applicable requirements of the GEM Listing Rules, including the issuance of announcements, the obtaining of independent shareholders' approval at general meetings and disclosure in annual reports and accounts. Independent shareholders' approval requirements may also lead to unpredictable outcomes causing disruptions to as well as increase the risks of the Group's business activities. Independent shareholders of the Company may also take actions that are in conflict with the interests of the Group.

Past Performance and Forward Looking Statements

The performance and the results of operations of the Group during the past years as contained in this Annual Report are historical in nature and past performance can be no guarantee of future results of the Group. This Annual Report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume (a) any obligation to correct or update the forward-looking statements or opinions contained in this Annual Report; and (b) any liability in the event that any of the forward-looking statements or opinions does not materialize or turns out to be incorrect.

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 2006.

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 2006 are set out in the consolidated income statement on page 84.

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 87.

Directors

The Directors of the Company in office at the date of this report are listed on page 135 and their biographical information is set out on pages 24 to 27.

On 1 July 2006, Dr. Pang Shiu Fun retired as an Executive Director of the Company.

In accordance with the Company's Articles of Association, the Directors of the Company (including Non-executive Directors) shall be subject to retirement by rotation at each annual general meeting. Mr. Li Tzar Kuoi, Victor, Mr. Kam Hing Lam and Mr. Ip Tak Chuen, Edmond 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 ("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.

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

As at 31 December 2006, 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 ("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	2,250,000	–	–	4,258,634,570 (Note)	4,260,884,570	44.33%
Kam Hing Lam	Interest of child or spouse	–	6,225,000	–	–	6,225,000	0.06%
Ip Tak Chuen, Edmond	Beneficial owner	2,250,000	–	–	–	2,250,000	0.02%
Yu Ying Choi, Alan Abel	Beneficial owner	2,250,000	–	–	–	2,250,000	0.02%
Chu Kee Hung	Beneficial owner	2,250,000	–	–	–	2,250,000	0.02%
Peter Peace Tulloch	Beneficial owner	1,050,000	–	–	–	1,050,000	0.01%
Wong Yue-chim, Richard	Beneficial owner	375,000	–	–	–	375,000	0.004%
Kwok Eva Lee	Beneficial owner	200,000	–	–	–	200,000	0.002%

Note:

Such 4,258,634,570 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 ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2") 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 4,258,634,570 shares held by the subsidiary of Cheung Kong Holdings under the SFO.

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

Pursuant to the share option scheme adopted by the Company on 26 June 2002 ("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 2006 were as follows:

		Number of share options							Subscription price per share	
Name of Director	Date of grant	Outstanding as at 1 January 2006	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Adjustment for rights issue	Outstanding as at 31 December 2006	Option period	As at date of grant HK$	Upon adjustment after rights issue HK$
Yu Ying Choi, Alan Abel	30/9/2002	310,000	–	–	–	38,440	348,440	30/9/2003 – 29/9/2012	1.598	1.422
	27/1/2003	690,000	–	–	–	85,560	775,560	27/1/2004 – 26/1/2013	1.446	1.286
	19/1/2004	690,000	–	–	–	85,560	775,560	19/1/2005 – 18/1/2014	1.762	1.568
Chu Kee Hung	30/9/2002	310,000	–	–	–	38,440	348,440	30/9/2003 – 29/9/2012	1.598	1.422
	27/1/2003	690,000	–	–	–	85,560	775,560	27/1/2004 – 26/1/2013	1.446	1.286
	19/1/2004	690,000	–	–	–	85,560	775,560	19/1/2005 – 18/1/2014	1.762	1.568

Save as disclosed above, during the year ended 31 December 2006, 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 2006, 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 6.7% 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.

(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 ("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.

(2) Details of options granted by the Company

As at 31 December 2006, options to subscribe for an aggregate of 16,442,657 shares of the Company granted to certain continuous contract employees (including the Executive Directors of the Company as disclosed above) pursuant to the Scheme were outstanding, details of which were as follows:

	Number of share options								Subscription price per share	
Date of grant	Outstanding as at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Adjustment for rights issue	Outstanding as at 31 December 2006	Option period	As at date of grant HK$	Upon adjustment after rights issue HK$
30/9/2002	3,188,500	–	–	(697,504)	–	378,014	2,869,010	30/9/2003 – 29/9/2012 (Note 1)	1.598	1.422
27/1/2003	7,128,200	–	–	(1,674,816)	–	841,239	6,294,623	27/1/2004 – 26/1/2013 (Note 2)	1.446	1.286
19/1/2004	8,154,000	–	–	(1,840,192)	–	965,216	7,279,024	19/1/2005 – 18/1/2014 (Note 3)	1.762	1.568

Notes:

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

Interests and Short Positions of Shareholders

So far as is known to any Director or chief executive of the Company, as at 31 December 2006, 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 or were otherwise notified to the Company 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	4,258,634,570	44.30%
Gotak Limited	Interest of a controlled corporation	4,258,634,570 (Note i)	44.30%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	4,258,634,570 (Note ii)	44.30%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	4,258,634,570 (Note iii)	44.30%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	4,258,634,570 (Note iii)	44.30%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	4,258,634,570 (Note iii)	44.30%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	4,258,634,570 (Note iv)	44.30%
Trueway International Limited	Beneficial owner	2,119,318,286	22.05%
Li Ka Shing Foundation Limited	Interest of controlled corporations	2,835,759,715 (Note v)	29.50%

(2) Long position of other person in the shares of the Company

Name	Capacity	Number of Ordinary Shares	Approximate % of Shareholding
Triluck Assets Limited	Beneficial owner	716,441,429	7.45%

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 DT1 and TDT2 as trustee of DT2 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 DT1 and TDT2 as trustee of DT2 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. As Mr. Li Ka-shing owns 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 and is the settlor and may be regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, Mr. Li Ka-shing is deemed to be interested in the same number of shares in which Cheung Kong Holdings is deemed to be interested as mentioned above under the SFO.

v. Trueway International Limited ("Trueway") and Triluck Assets Limited ("Triluck") are wholly-owned by Li Ka Shing Foundation Limited ("LKSF") and LKSF is deemed to be interested in a total of 2,835,759,715 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.

Save as disclosed above, as at 31 December 2006, 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)
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)
	The Ming An (Holdings) Company Limited	Non-executive Director	(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 (resigned on 16 October 2006)	(i)
Colin Stevens Russel	Cheung Kong Infrastructure Holdings Limited	Independent Non-executive Director	(i) & (ii)

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.

Continuing Connected Transactions

The following transactions of the Group constituted continuing connected transactions of the Group during the year ended 31 December 2006 under the GEM Listing Rules:

(1) 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 "Framework Circular")) with 南京紅太陽股份有限公司 (Nanjing Red Sun Stock Co Ltd) ("Red Sun"), 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 the Framework Circular) ("Red Sun Group") by entering into individual sales contracts (hereinafter referred to as the "Continuing Connected Transactions I"). Red Sun is the substantial shareholder of a non wholly-owned subsidiary of the Company and hence, a connected person of the Company under the GEM Listing Rules. The Framework Agreement was deemed to have commenced on 17 January 2004 and it expired on 31 December 2006.

The Continuing Connected Transactions I 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 ended 31 December 2006
Caps	HK$79,000,000	HK$270,000,000	HK$431,000,000

During the year, the value of fertilizers provided by the Group to members of the Red Sun Group pursuant to the Framework Agreement amounted to HK$98,767,000. Details of the Continuing Connected Transactions I were disclosed in the Framework Circular and the Continuing Connected Transactions I 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 I other than through their equity interests in the Company.

The Continuing Connected Transactions I were renewed for a further three years up to 31 December 2009 by means of written shareholders' approval on 24 November 2006 pursuant to the GEM Listing Rules 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 I other than through their equity interests in the Company.

(2) Lease Agreements

On 1 March 2005, Vitaquest International LLC ("Vitaquest LLC"), a subsidiary of the Company, entered into lease agreements ("Lease Agreements") (as defined and more particularly described in the announcement of the Company dated 30 March 2006 (the "VQ Announcement")) with Leknarf Associates, LLC ("Leknarf"), under which the leases of the Premises (as defined and more particularly described in the VQ Announcement) from Leknarf or its predecessor were renewed for a term of fifteen years commencing from 1 March 2005 (hereinafter referred to as the "Continuing Connected Transactions II"). The rents for the three leases of the Premises for each subsequent lease year shall be the rents for the prior lease year increased at the fixed rate of 2% per annum. As at the date of the VQ Announcement, the annual rental for the three leases were approximately US$228,000 (approximately HK$1,774,000), approximately US$1,127,000 (approximately HK$8,768,000) and approximately US$551,000 (approximately HK$4,287,000) respectively. During the year, the rentals paid to Leknarf for the three leases pursuant to the Lease Agreements amounted to US$209,440 (HK$1,634,000), US$1,033,175 (HK$8,059,000) and US$504,900 (HK$3,938,000) respectively. The rents for the three leases have the same payment terms and are to be paid by monthly instalments in advance on the first day of each and every calendar month during the lease period. Leknarf is an associate of an individual investor, who is in turn a substantial shareholder of a non wholly-owned subsidiary of the Company. Leknarf is therefore a connected person of the Company under the GEM Listing Rules. According to Rule 20.41 of the GEM Listing Rules, the Lease Agreements are subject to the reporting and disclosure requirements under Chapter 20 of the GEM Listing Rules.

Details of the Continuing Connected Transactions II were disclosed in the VQ Announcement.

(3) Supply Agreements

The Existing CKH Supply Agreement and the Existing HIL Supply Agreement (both as defined and more particularly described in the circular of the Company dated 19 April 2005 (the "Supply Circular")) and the period covered by the approval given by the independent shareholders of the Company at the Company's extraordinary general meeting held on 26 September 2003 in respect thereof had expired on 31 December 2005.

On 29 March 2005, the Company entered into a New CKH Supply Agreement and a New HIL Supply Agreement (both as defined and more particularly described in the Supply Circular) 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 (a) the Company agreed to continue to provide and/or procure members of the Group to provide the Products (as defined in the Supply Circular) to the CKH Group and the HIL Group (both as defined in the Supply Circular) for a term of three years commencing from 1 January 2006 to 31 December 2008; (b) Cheung Kong Holdings agreed to continue to purchase and/or procure members of the CKH Group (in respect of associates of Cheung Kong Holdings which are not subsidiaries of Cheung Kong Holdings, to procure with reasonable endeavours only) to purchase the Products from the Group for use or consumption and/or for sale and distribution by the CKH Group both locally and overseas on a non-exclusive basis; and (c) HIL agreed to continue to purchase and/or procure members of the HIL Group (in respect of those members of the HIL Group in which HIL is directly or indirectly interested so as to exercise or control the exercise of 30% to 50% of voting power at general meetings of such companies, to procure with reasonable endeavours only) to purchase the Products from the Group for sale and distribution by the HIL Group both locally and overseas on a non-exclusive basis. In connection with the supply of the Products by the Group to the HIL Group, relevant members of the Group may make the Sales Related Payments (as defined in the Supply Circular) to relevant members of the HIL Group, which are expected to include advertising and promotional fees and royalties, display rentals, upfront payments or premium and/or such other payments (including without limitation, payments for consultancy, management and/or merchandizing services to be rendered by the HIL Group) (all transactions mentioned above being collectively referred to as the "Continuing Connected Transactions III").

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

Category of the Continuing Connected Transactions III	Annual caps (in HK$) For the year ended 31 December 2006	For the year ending 31 December 2007	For the year ending 31 December 2008
1. The value of the Products to be provided under the transactions under or pursuant to the New CKH Supply Agreement	200,000	300,000	400,000
2. Transactions under or pursuant to the New HIL Supply Agreement:			
(a) the value of the Products to be provided to the HIL Group;	70,000,000	120,000,000	200,000,000
(b) the value of the Sales Related Payments payable by the Group	21,000,000	36,000,000	60,000,000

During the year, the value of the Products provided by the Group to the CKH Group pursuant to the New CKH Supply Agreement amounted to HK$22,000 whereas the value of the Products provided by the Group to the HIL Group and the value of the Sales Related Payments paid by the Group to the HIL Group pursuant to the New HIL Supply Agreement amounted to HK$11,173,000 and HK$3,070,000 respectively. Details of the Continuing Connected Transactions III were disclosed in the Supply Circular and the Continuing Connected Transactions III have been approved by the independent shareholders of the Company at the Company's annual general meeting held on 12 May 2005.

(4) Manufacturing Agreement

Vitaquest LLC entered into a manufacturing agreement ("Manufacturing Agreement") (as defined and more particularly described in the circular of the Company dated 18 April 2006 (the "VQ Circular")) dated 17 March 2005 and as amended on 27 March 2006 with Nu-Life Corp. ("Nu-Life") for a term of three years commencing from 27 March 2006, under which Nu-Life appointed (i) Garden State Nutritionals (as defined and more particularly described in the VQ Circular) as the manufacturer and source of supply for the GSN Products (as defined and more particularly described in the VQ Circular) for Nu-Life; and (ii) Windmill (as defined and more particularly described in the VQ Circular) as the manufacturer and source of supply for the Windmill Products (as defined and more particularly described in the VQ Circular) for Nu-Life (hereinafter referred to as the "Continuing Connected Transactions IV"). The parties to the Manufacturing Agreement shall modify, from time to time, the prices for the GSN Products and the Windmill Products so as to reflect the then prevailing market prices for them. Payment terms under the Manufacturing Agreement are cash on delivery. Nu-Life is an associate of an individual investor, who is in turn a substantial shareholder of a non wholly-owned subsidiary of the Company. Nu-Life is therefore a connected person of the Company under the GEM Listing Rules.

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

	For the year ended 31 December 2006	For the year ending 31 December 2007	For the year ending 31 December 2008
Caps	US$4,000,000	US$5,200,000	US$6,400,000

During the year, the aggregate annual sales from Garden State Nutritionals and Windmill to Nu-Life pursuant to the Manufacturing Agreement amounted to US$2,593,448 (HK$20,229,000). Details of the Continuing Connected Transactions IV were disclosed in the VQ Circular and the Continuing Connected Transactions IV have been approved by the independent shareholders of the Company at the Company's extraordinary general meeting held on 11 May 2006.

All the Continuing Connected Transactions I, the Continuing Connected Transactions II, the Continuing Connected Transactions III and the Continuing Connected Transactions IV (collectively referred to as the "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 2006 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.

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 their factual findings to the Board that the Continuing Connected Transactions for the year 2006 (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.

Connected Transactions

(1) 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 and more particularly described in the announcement of the Company dated 18 March 2005 (the "AquaTower Loan 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 AquaTower Loan 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.

(2) NJ Acquisition Agreement

On 24 November 2006, Rimco Resources Limited ("Rimco"), a wholly-owned subsidiary of the Company, entered into the NJ Acquisition Agreement (as defined and more particularly described in the announcement of the Company dated 24 November 2006 (the "Red Sun Announcement")) with Red Sun for the acquisition of 36.76% equity interests in 南京綠邦生態科技有限公司 (Nanjing Green Union Eco-Technology Limited) ("NJLP") for a consideration of RMB9,132,150. The purchase of the 36.76% equity interests in NJLP were conducted in two tranches. After completion of the transfer of the 24.51% equity interests in NJLP in November 2006, NJLP has become a subsidiary of the Company. The business operations of NJLP are manufacturing and selling of fertilizers and the related businesses. Red Sun is the substantial shareholder of a non wholly-owned subsidiary of the Company and hence, a connected person of the Company under the GEM Listing Rules. The transaction under the NJ Acquisition Agreement constituted a connected transaction for the Company under the GEM Listing Rules.

(3) MASLP Agreement

On 24 November 2006, 馬鞍山科邦生態肥有限公司 (Maanshan Technology Union Eco-Fertilizer Limited) ("MAS"), an indirect non wholly-owned subsidiary of the Company, entered into the MASLP Agreement (as defined and more particularly described in the Red Sun Announcement) with NJLP for the disposal of 92% equity interests of the holding company of the Production Line (as defined and more particularly described in the Red Sun Announcement) ("MASLP") to NJLP for a consideration of RMB15,437,600. After completion of both the NJ Acquisition Agreement and the MASLP Agreement, MASLP will become an indirect subsidiary of the Company. NJLP is a subsidiary of Red Sun and is therefore a connected person of the Company under the GEM Listing Rules. The transaction under the MASLP Agreement constituted a connected transaction for the Company under the GEM Listing Rules.

Directors' Interests in Contracts

Save as disclosed under the sections headed "Continuing Connected Transactions" and "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, the Group's turnover attributable to the Group's five largest customers were less than 30% of the Group's turnover and the Group's purchases attributable to the Group's five largest suppliers were less than 30% of the Group's purchases.

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

During the year ended 31 December 2006, 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$528,610.

Disclosure under Rule 17.23 of the GEM Listing Rules

On 13 May 2005, two indirect wholly-owned subsidiaries of the Company had each entered into a loan facility letter with HSBC Bank Canada ("Loan Facility Agreements") in connection with or arising out of the acquisition of the entire issued and outstanding shares in the capital of Développement Santé Naturelle A.G. Ltée. One of the Loan Facility Agreements is for a 3-year term loan and the other is for an operating facility (together the "Facilities") under which the Company guarantees the obligations of its wholly-owned subsidiaries under the Facilities. As at 31 December 2006, the outstanding balance of the Facilities amounted to HK$205,258,000. The provisions of the Loan Facility Agreements require that unless the Facilities have been repaid in full, at least 44.01% direct or indirect interest in the Company will have to be maintained by Cheung Kong Holdings (the Company's controlling shareholder). This obligation has been complied with.

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, 16 March 2007

Corporate Governance Report

The Board of Directors ("Board") and the management of the Company are committed to the maintenance 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 emphasize 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 2006.

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.*		
A.1.1	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	√	• The Board meets regularly and held meetings in March, May, August and November 2006. • Details of Directors' attendance records in 2006:

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

* Retired effective 1 July 2006

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.1.1 (cont'd)			• 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.
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/Board Committee members.

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 is 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.

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 the Chief Executive Officer of the Company to ensure a balance of power and authority.*		
A.2.1	– Separate roles of chairman and chief executive officer not to be performed by the same individual – Division of responsibilities between the chairman and chief executive officer 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.

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 had meetings with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of Executive Directors in May and November 2006. Details of the attendance records of the meetings are as follows:

Chairman/ Non-executive Directors	**Attendance**
LI Tzar Kuoi, Victor *(Chairman)*	2/2
Peter Peace TULLOCH *(Non-executive Director)*	1/2
WONG Yue-chim, Richard *(Independent Non-executive Director)*	2/2
KWOK Eva Lee *(Independent Non-executive Director)*	2/2
Colin Stevens RUSSEL *(Independent Non-executive Director)*	2/2

Note: The Chairman and the Non-executive Directors (including the Independent Non-executive Directors) can attend meetings in person, by phone or through other means of electronic communication or by their alternates (if applicable) in accordance with the Company's Articles of Association.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
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 Directors 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.
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 nine Directors, comprising five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. One-third of the Board are Independent Non-executive Directors and at least one of them has appropriate professional qualifications, or accounting or related financial management expertise. • Details of the composition of the Board are set out on page 135. • The Directors' biographical information and the relationships among the Directors are set out on pages 24 to 27. • 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.

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. On the basis that the proposed amendment to the Company's Articles of Association is approved at the forthcoming 2007 annual general meeting, Directors appointed to fill a casual vacancy will be subject to election by shareholders at the first general meeting after 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.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
A.4.2 (cont'd)			• 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.

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 provided to each newly appointed Director. A revised information package comprising the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors was forwarded to each Director during the year for his/her information and ready reference. • Memos are issued from time to time to the Directors on updating of legal and regulatory changes and matters of relevance to the Directors in the discharge of their duties. • During the year, seminars were organized at which distinguished professionals were invited to present to the Directors on subjects such as duties and responsibilities of directors and its trends, corporate governance practices and its development and the way forward, etc. The attendance rate was about 80%.

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	 √ √ √ √	• The Non-executive Directors exercise their independent judgement and advise on the future business direction and strategic plans of the Company. • 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 during the year. Please refer to A.1.1 for details of attendance records. • Every Executive Director has hands-on knowledge and expertise in the areas and operation in which he 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 necessary knowledge and expertise.

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 2006. • 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/Board Committee meetings to enable the Directors to make informed decisions on matters to be raised at the Board/Board Committee meetings.

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, and 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.	√ √	• Please see A.6.2 above.

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 publication of the Company's 2005 annual report, meetings of the Remuneration Committee were held in November 2006 and January 2007. Details of the attendance records 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)* — 2/2 KWOK Eva Lee — 2/2 Colin Stevens RUSSEL — 2/2 Note: The members of the Remuneration Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternates (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 2006/2007; 2. Review of the remuneration of Non-executive Directors; and 3. Review of the annual performance bonus policy.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
B.1.2	The remuneration committee should consult the chairman and/or chief executive officer 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 about proposals relating to the remuneration packages and other human resources issues of the Directors and senior management, including, without limitation, succession plan and key personnel movements as well as policies for recruiting and retaining qualified personnel. • 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. • To enable them to better advise on the Group's future remuneration policy and related strategies, the Remuneration Committee has been advised of the Group's existing remuneration policy and succession plan, such as guidelines on designing employees' remuneration packages and related market trends and information.
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.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
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.
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.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.1.2	– The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts.	√	• 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. • 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 Independent Auditor's Report on page 83.
	– 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.	√	
	– 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	

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
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.
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 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.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.2.1 (cont'd)	– The review should cover 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. *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.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.2.1 (cont'd)			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. *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 significant perceived risks 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.*		

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
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 2006. Details of the attendance records 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 Note: The members of the Audit Committee can attend meetings in person, by phone or through other means of electronic communication or by their alternates (if applicable) in accordance with the Company's Articles of Association. • The following is a summary of the work of the Audit Committee during 2006: 1. Review of the financial reports for 2005 annual results and 2006 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 findings; 5. Review of the auditors' remuneration; 6. Review of risks of different business units and analysis thereof provided by the relevant business units; and 7. Review of the control mechanisms for such risks and advising on action plans for improvement of the situations.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.1 (cont'd)			• 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, significant internal control deficiencies, or suspected infringement of laws, rules, or regulations had been found, and concluded at the meeting held on 16 March 2007 that the system of internal controls was adequate and effective. • On 16 March 2007, the Audit Committee met to review the Group's 2006 consolidated financial statements, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditors. After review and discussions with the management, internal auditor 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 2006 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 2006. • The Audit Committee also recommended to the Board the re-appointment of Messrs. Deloitte Touche Tohmatsu ("Deloitte") as the Company's external auditors for 2007 and that the related resolution shall be put forth for shareholders' consideration and approval at the 2007 annual general meeting. • The Group's Annual Report for the year ended 31 December 2006 has been reviewed by the Audit Committee.

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
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.
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).

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
C.3.4 (cont'd)			• 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 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 Audit Committee 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 2006.
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 2007. • For the year ended 31 December 2006, the external auditors of the Company received approximately HK$4,590,000 for audit services and approximately HK$10,662,000 for non-audit services, comprising reporting accountants on acquisition of business of approximately HK$203,000, tax compliance and advisory services of approximately HK$2,683,000, consultancy services of approximately HK$6,240,000 and other non-audit services for preparation of financial statements of approximately HK$1,536,000.

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. • Please refer to the Management Structure Chart set out on page 82. • For matters or transactions of a material nature, the same will be referred to the Board for approval. • For matters or transactions of a magnitude requiring disclosure under the GEM Listing Rules or other applicable rules or regulations, appropriate disclosure will be made and where necessary, circular will be prepared and shareholders' approval will be obtained in accordance with the requirements of the applicable rules and regulations.
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. • Under the leadership of the Chief Executive Officer, management is responsible for the day-to-day operations of the Group.

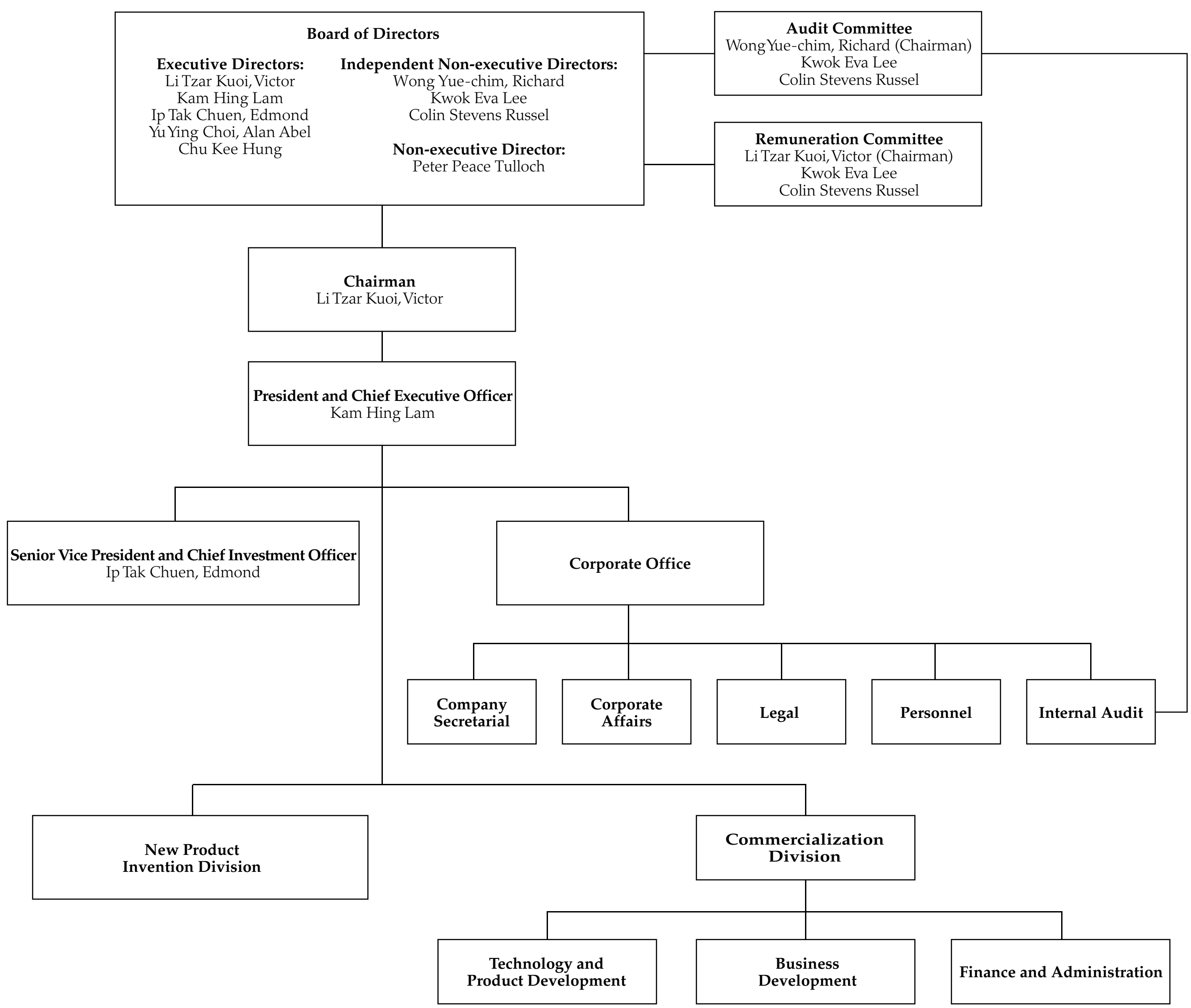
Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
D.2	**Board Committees** ***Corporate Governance Principle*** *Board Committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.*		
D.2.1	Where board committees are 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.
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).	√	• Board Committees report to the Board of their decisions and recommendations at Board meetings.
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.*		

Code Ref.	Code Provisions	Compliance	Corporate Governance Practices
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.
E.1.2	– The chairman of the board should attend the annual general meeting 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 annual general meeting. – 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 2006, 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 of 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; (vi) the Company's Branch Share Registrar deals with shareholders for share registration matters; and (vii) Corporate Affairs Department of the Company handles enquiries from shareholders and investors generally.
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.*		

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 2006, the right to demand a poll was set out in all the circulars issued during the year. • In 2006, Chairman of the general meetings exercised his power under the Articles of Association of the Company to put each resolution set out in the notices 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.	√	

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 cast at the general meetings. • Poll results were announced at the adjourned meetings 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 general meetings held in 2006, the Chairman of the meetings explained the detailed procedures for conducting a poll, which had also been set out in the circulars containing the notices of general meetings, and then answered any questions from shareholders. • At the general meetings held in 2006, the Chairman of the meetings 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.

Management Structure Chart



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

We have audited the consolidated financial statements of CK Life Sciences Int'l., (Holdings) Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 84 to 134, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	6	**2,197,118**	694,379
Cost of sales		**(1,369,928)**	(386,536)
		827,190	307,843
Other income	7	**43,382**	80,412
Staff costs	8	**(283,269)**	(142,711)
Depreciation		**(31,888)**	(28,836)
Amortization of intangible assets		**(22,282)**	(4,758)
Fair value change of investments at fair value through profit and loss/derivative financial instruments		**(10,007)**	(28,165)
Other operating expenses		**(389,745)**	(151,482)
Finance costs	9	**(37,866)**	(19,494)
Share of results of associates		**2,930**	3,337
Profit before taxation		**98,445**	16,146
Taxation	10	**(1,653)**	(5,368)
Profit for the year	11	**96,792**	10,778
Attributable to:			
Equity holders of the Company		**102,022**	12,234
Minority interests		**(5,230)**	(1,456)
		96,792	10,778
Earnings per share	12		
– Basic		**1.16 cents**	0.17 cent
– Diluted		**1.16 cents**	0.17 cent

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	14	**358,180**	359,953
Prepaid lease for land	15	**12,700**	27,827
Intangible assets	16	**3,077,477**	738,738
Interests in associates	17	**72,909**	30,922
Debt investment	18	**–**	174,179
Available-for-sale investments	19	**155,727**	210,879
Investments at fair value through profit and loss	20	**920,265**	1,280,331
Deferred taxation	30	**19,178**	7,216
		4,616,436	2,830,045
Current assets			
Debt investment	18	**–**	36,986
Investments at fair value through profit and loss	20	**12,709**	48,346
Derivative financial instruments	21	**19,544**	22,361
Inventories	22	**320,489**	127,914
Receivables and prepayments	23	**502,852**	202,990
Taxation		**–**	808
Deposit with financial institution	24	**47,931**	39,000
Bank balances and deposits	25	**411,693**	372,433
		1,315,218	850,838
Current liabilities			
Payables and accruals	26	**(438,286)**	(216,958)
Derivative financial instruments	21	**(63,630)**	(54,736)
Bank loans	27	**–**	(93,080)
Finance lease obligations	28	**(2,222)**	(559)
Taxation		**(16,057)**	–
		(520,195)	(365,333)
Net current assets		**795,023**	485,505
Total assets less current liabilities		**5,411,459**	3,315,550
Non-current liabilities			
Bank loans	27	**(322,877)**	(461,200)
Finance lease obligations	28	**(1,505)**	(1,741)
Loan from a minority shareholder	29	**(23,828)**	(34,252)
Deferred taxation	30	**(101,225)**	(34,270)
		(449,435)	(531,463)
Total net assets		**4,962,024**	2,784,087

	Notes	**2006 HK$'000**	2005 HK$'000
Capital and reserves			
Share capital	31	**961,107**	640,738
Share premium and reserves		**3,985,346**	2,095,522
Equity attributable to equity holders of the Company		**4,946,453**	2,736,260
Minority interests		**15,571**	47,827
Total equity		**4,962,024**	2,784,087

Li Tzar Kuoi, Victor
Director

Ip Tak Chuen, Edmond
Director

16 March 2007

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	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 2005	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 1 January 2006	**640,738**	**2,392,185**	**(27,602)**	**(35)**	**8,186**	**(277,212)**	**2,736,260**	**47,827**	**2,784,087**
Gain on fair value changes of available-for-sale investments	**–**	**–**	**4,657**	**–**	**–**	**–**	**4,657**	**–**	**4,657**
Exchange difference on translation of financial statements of overseas operations	**–**	**–**	**–**	**27,261**	**–**	**–**	**27,261**	**2,742**	**30,003**
Net profit recognized directly in equity	**–**	**–**	**4,657**	**27,261**	**–**	**–**	**31,918**	**2,742**	**34,660**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**102,022**	**102,022**	**(5,230)**	**96,792**
Total recognized income and expenses for the year	**–**	**–**	**4,657**	**27,261**	**–**	**102,022**	**133,940**	**(2,488)**	**131,452**
Shares issued under rights issue	**320,369**	**1,762,030**	**–**	**–**	**–**	**–**	**2,082,399**	**–**	**2,082,399**
Transaction costs arising from rights issue	**–**	**(6,672)**	**–**	**–**	**–**	**–**	**(6,672)**	**–**	**(6,672)**
Employees' share options benefits	**–**	**–**	**–**	**–**	**526**	**–**	**526**	**–**	**526**
Arising from acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,705**	**7,705**
Arising from acquisition of additional interest in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,709)**	**(1,709)**
Arising from disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(44,607)**	**(44,607)**
Fair value adjustments on loan from minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,827**	**12,827**
Deferred tax liability of fair value adjustments on loan from minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,984)**	**(3,984)**
At 31 December 2006	**961,107**	**4,147,543**	**(22,945)**	**27,226**	**8,712**	**(175,190)**	**4,946,453**	**15,571**	**4,962,024**

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	**2006 HK$'000**	2005 HK$'000
Profit before taxation		**98,445**	16,146
Share of results of associates		**(2,930)**	(3,337)
Finance costs		**37,866**	19,494
Depreciation		**45,971**	31,888
Amortisation of prepaid lease for land		**635**	401
Gain on disposal/redemption of available-for-sale investments		**–**	(33,794)
Gain on disposal/redemption of investments at fair value through profit and loss		**(10,735)**	(29,349)
(Gain)/loss on disposal of property, plant and equipment		**(343)**	115
Interest income		**(18,193)**	(14,200)
Amortization of intangible assets		**22,282**	4,758
Allowance for bad debts		**8,701**	1,166
Inventories written off		**4,108**	843
Fair value change of investments at fair value through profit and loss/derivative financial instruments		**10,007**	28,165
Share-based payment		**526**	623
Operating profit before working capital changes		**196,340**	22,919
Increase in inventories		**(68,414)**	(31,200)
Increase in receivables and prepayments		**(7,618)**	(48,882)
Increase in payables and accruals		**42,626**	84,030
Profits tax paid		**(3,701)**	(6,557)
Net cash from operating activities		**159,233**	20,310
Investing activities			
Purchases of property, plant and equipment and addition of prepaid lease for land		**(66,344)**	(60,111)
Proceeds from disposal of property, plant and equipment		**3,739**	850
Purchase of subsidiaries	38	**(1,244,799)**	(514,760)
Disposal of subsidiaries	38	**(11,746)**	–
Purchases of Investments at fair value through profit and loss		**(508,147)**	(1,195,847)
Proceeds from disposal of Investments at fair value through profit and loss		**929,358**	1,275,015
Expenditure on intangible assets		**(53,036)**	(44,820)
Increase in deposit with financial institution		**(8,931)**	(39,000)
Repayment of debt investment		**211,166**	39,439
Interest received		**22,006**	14,232
Net cash used in investing activities		**(726,734)**	(525,002)

	Notes	2006 HK$'000	2005 HK$'000
Financing activities			
Issue of shares		**2,082,399**	–
Expenses on issue of shares		**(6,672)**	–
New bank loans		**–**	519,565
Repayment of bank loans		**(1,433,489)**	(80,585)
Repayment of other loan		**–**	(13,737)
Finance leases obligations repaid		**(127)**	(324)
Interest paid		**(37,866)**	(19,531)
Loan from a minority shareholder of a subsidiary		**–**	29,482
Net cash from financing activities		**604,245**	434,870
Net increase/(decrease) in cash and cash equivalents		**36,744**	(69,822)
Cash and cash equivalents at beginning of the year		**372,433**	442,850
Effect of foreign exchange rate changes		**2,516**	(595)
Cash and cash equivalents at end of the year		**411,693**	372,433
Represented by:			
Bank balances and cash		**411,693**	372,433

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 dollar, 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 adopted, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for the accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material impact on how the financial statements of the Group for the current or prior financial years have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective for the financial period beginning 1 January 2006. However, the directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on how the results and the financial position of the Group are prepared and presented:

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]

1 Effective for annual periods beginning on or after 1 January 2007

2 Effective for annual periods beginning on or after 1 March 2006

3 Effective for annual periods beginning on or after 1 May 2006

4 Effective for annual periods beginning on or after 1 June 2006

5 Effective for annual periods beginning on or after 1 November 2006

6 Effective for annual periods beginning on or after 1 March 2007

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 Hong Kong Financial Reporting Standards issued by the HKICPA as well as the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(a) Consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 ofdisposal 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.

(b) Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. Significant Accounting Policies (cont'd)

(c) Property, plant and equipment

Property, plant and equipment, other than freehold land and construction in progress, 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 is stated in the balance sheet at its revalued amount, 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 other than freehold land and construction in progress 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 freehold land and construction in progress. 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 derecognition of the asset is included in the income statement in the year in which the item is derecognized.

3. Significant Accounting Policies (cont'd)

(d) 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.

(e) 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 and at fair value respectively. 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.

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, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

3. Significant Accounting Policies (cont'd)

(e) Intangible assets (cont'd)

iv. Trademarks

On initial recognition, trademarks acquired from business combinations are recognized at fair value at the acquisition date. 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 fair value at the acquisition date. 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.

(f) 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 (e) 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.

3. Significant Accounting Policies (cont'd)

(g) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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.

(h) Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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 derivatives 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 consolidated income statement.

3. Significant Accounting Policies (cont'd)

(h) Financial instruments (cont'd)

i. Investments at fair value through profit and loss (cont'd)

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

ii. Available-for-sale investments

Available-for-sale investments are non-derivative instruments that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. 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 consolidated income statement. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

iii. Loans and receivables

Loans and receivables (including debt investment, receivables, deposits and bank balances and cash) 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. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

iv. Other financial liabilities

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

v. Equity instruments

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

3. Significant Accounting Policies (cont'd)

(i) Inventories

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

(j) 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. Service income is recognized when services are provided.

(k) 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 consolidated 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 consolidated income statement on a straight-line basis over the relevant lease term. Benefit received and receivable as an incentive to enter into an operating lease recognized as a reduction of rental expense over the lease term on a straight line basis.

(l) Retirement benefit costs

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

(m) 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 Dollar, 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. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on that date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. Significant Accounting Policies (cont'd)

(m) Foreign currencies (cont'd)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

On consolidation, assets and liabilities of the Group's operations with a 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. Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

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.

Goodwill arising on an acquisition of a foreign operation before 1 January 2005 is treated as non-monetary foreign currency item and reported using the exchange rate at acquisition date.

(n) Share-based payment

The fair value of the share options that were granted by the Company after 7 November 2002 and had not vested on 1 January 2005 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.

In prior year, the Group chose not to apply HKFRS 2 to the shares options granted by the Group which had been fully vested before 1 January 2005 in accordance with the transitional provision of HKFRS 2. The financial impact of the share options granted and fully vested before 1 January 2005 is not recorded in the Group's results until such time as the options are exercised, and no charge is recognized in the consolidated income statement in respect of the value of options granted in the year.

3. Significant Accounting Policies (cont'd)

(o) 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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement 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 bases 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 3, 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, development costs and deferred taxation.

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 2006, 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 2006, 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 2006, a deferred tax asset of HK$19,178,000 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.

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 minimal exposure to foreign currency risk. The management always monitors foreign exchange exposure closely.

Interest rate risk

The Group's bank borrowings are floating rate borrowings based on market rates and are therefore exposed to cash flow interest rate risk. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimize the fair value interest rate risk.

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 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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 price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

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:

	2006 **HK$'000**	2005 HK$'000
Environment	**549,922**	425,317
Health	**1,388,635**	117,167
Investment income	**258,561**	151,895
	2,197,118	694,379

7. Other Income

	2006 **HK$'000**	2005 HK$'000
Included in other income are:		
Interest income from bank deposits	**18,193**	14,200
Gain on disposal/redemption of available-for-sale investments	**–**	33,794
Gain on disposal/redemption of investments at fair value through profit and loss	**10,735**	29,349

8. Staff Costs

Staff costs which include salaries, bonuses, retirement benefit scheme contributions and recruitment costs for the year amounted to HK$470,712,000 (2005: HK$172,579,000) of which HK$26,732,000 (2005: HK$25,092,000) relating to development activities was capitalized and HK$160,711,000 (2005: HK$4,776,000) relating to direct labour costs was included in cost of sales.

Staff costs also include operating lease rentals of HK$1,043,000 (2005: HK$923,000) in respect of accommodation provided to staff.

9. Finance Costs

	2006 HK$'000	2005 HK$'000
Interest on:		
Bank loans wholly repayable within five years	**35,513**	17,226
Other loan	**–**	692
Loan from a minority shareholder	**2,149**	1,470
Finance leases	**204**	106
	37,866	19,494

10. Taxation

	2006 HK$'000	2005 HK$'000
Current tax		
Hong Kong	**114**	–
Other jurisdictions	**17,696**	6,501
Over provision in prior year:		
Other jurisdictions	**(35)**	–
Deferred tax (Note 30)		
Hong Kong	**(153)**	(843)
Other jurisdictions	**(15,969)**	(290)
	1,653	5,368

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.

10. Taxation (cont'd)

The charge for the year can be reconciled to the profit before taxation as follows:

	2006 **HK$'000**	2005 HK$'000
Profit before taxation	**98,445**	16,146
Notional tax at tax rate of 17.5%	**17,228**	2,826
Tax effect of share of results of associates	**(513)**	(584)
Tax effect of non-deductible expenses	**6,298**	9,912
Tax effect of non-taxable income	**(31,544)**	(38,360)
Tax effect of tax losses not recognized	**13,052**	28,724
Over provision in prior year	**(35)**	–
Utilization of tax losses previously not recognized	**(2,528)**	(20)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,462)**	2,935
Others	**2,157**	(65)
Tax expenses	**1,653**	5,368

11. Profit for the Year

	2006 HK$'000	2005 HK$'000
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**6,655**	2,310
Depreciation of property, plant and equipment		
Owned assets	**58,167**	44,691
Assets held under finance leases	**750**	754
	58,917	45,445
Amount included in production overheads	**(14,083)**	(3,052)
Amount capitalized as development costs	**(12,946)**	(13,557)
	31,888	28,836
Research and development expenditure	**71,658**	72,933
Amount capitalized as development costs	**(41,310)**	(42,014)
	30,348	30,919
Amortization of development costs	**3,413**	2,860
	33,761	33,779
Loss on disposal of property, plant and equipment	**–**	115
Allowance for bad debts	**8,701**	1,166
Inventories written off	**4,108**	843
Exchange loss	**–**	1,144
Share-based payment	**526**	623
Operating lease		
– land	**635**	401
– other properties	**26,174**	4,833
and after crediting:		
Exchange gain	**1,419**	–
Gain on disposal of property, plant and equipment	**343**	–
Interest income from available-for-sale investments (included in turnover)		
– Listed	**–**	7,228
– Unlisted	**7,116**	19,952
Interest income from investments at fair value through profit and loss (included in turnover)		
– Unlisted	**76,104**	99,442
Interest income from debt investment (included in turnover)		
– Unlisted	**25,846**	21,899

12. Earnings Per Share

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

	2006 **HK$'000**	2005 HK$'000
Profit for the year		
Profit for calculating basic and diluted earnings per share	**102,022**	12,234
Number of shares		
Weighted average number of ordinary shares in issue used in the calculation of basic and diluted earnings per share	**8,759,610,000**	7,201,896,918

The weighted average number of ordinary shares used in the calculation of earnings per share for the year ended 31 December 2006 has accounted for the issuance of new shares pursuant to the rights issue which was completed on 10 May 2006. The corresponding number of ordinary shares for 2005 has been retrospectively adjusted to reflect the said rights issue.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options for the two years ended 31 December 2006 and 2005.

13. Dividends

The Directors do not recommend the payment of any dividend for the year ended 31 December 2006 (2005: Nil).

14. Property, Plant and Equipment

	Freehold land and building HK$'000	Construction in progress HK$'000	Laboratory instruments, plant and equipment HK$'000	Furniture, fixtures and other assets HK$'000	Leasehold Improvement HK$'000	Total HK$'000
Cost or valuation						
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	1,514	–	12,645	2,989	2,873	20,021
Disposals	–	–	(1,382)	(1,518)	–	(2,900)
Transfer	–	(463)	463	–	–	–
Exchange difference	209	–	(3,964)	(12)	(113)	(3,880)
At 1 January 2006	**102,806**	**15,420**	**309,250**	**56,342**	**2,760**	**486,578**
Additions	**361**	**1,433**	**49,486**	**8,231**	**3,390**	**62,901**
Acquired on acquisition of subsidiaries	**–**	**64**	**36,867**	**20,956**	**39,881**	**97,768**
Disposals	**–**	**–**	**(3,684)**	**(1,559)**	**–**	**(5,243)**
Disposal of subsidiary	**–**	**(15,420)**	**(99,189)**	**(1,983)**	**–**	**(116,592)**
Exchange difference	**(7)**	**–**	**11,174**	**828**	**230**	**12,225**
At 31 December 2006	**103,160**	**1,497**	**303,904**	**82,815**	**46,261**	**537,637**
Comprising:						
Cost	–	1,497	303,904	82,815	46,261	434,477
Valuation	103,160	–	–	–	–	103,160
	103,160	1,497	303,904	82,815	46,261	537,637
Depreciation						
At 1 January 2005	4,541	–	51,031	28,464	–	84,036
Provided for the year	2,396	–	31,327	11,269	453	45,445
Eliminated upon disposals	–	–	(801)	(1,134)	–	(1,935)
Exchange difference	123	–	(1,141)	109	(12)	(921)
At 1 January 2006	**7,060**	**–**	**80,416**	**38,708**	**441**	**126,625**
Provided for the year	**2,512**	**–**	**38,687**	**11,139**	**6,579**	**58,917**
Eliminated upon disposals	**–**	**–**	**(814)**	**(1,033)**	**–**	**(1,847)**
Eliminated upon disposal of subsidiary	**–**	**–**	**(7,712)**	**(443)**	**–**	**(8,155)**
Exchange difference	**–**	**–**	**3,365**	**468**	**84**	**3,917**
At 31 December 2006	**9,572**	**–**	**113,942**	**48,839**	**7,104**	**179,457**
Carrying value						
At 31 December 2006	**93,588**	**1,497**	**189,962**	**33,976**	**39,157**	**358,180**
At 31 December 2005	95,746	15,420	228,834	17,634	2,319	359,953

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

The carrying value of building shown above situated on:

	2006 **HK$'000**	2005 HK$'000
Land in Hong Kong under medium term lease	**91,959**	94,233
Overseas freehold land	**1,629**	1,513
	93,588	95,746

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 2006, the fair value of this building did not differ materially from that of 31 December 2002. The building in overseas was revalued by the Directors of the Group by reference to recent market prices for similar properties. Had the building been carried at the historical cost less depreciation, their aggregate carrying amount would have been stated at approximately HK$93,349,000 (2005: HK$94,132,000).

The carrying value of the Group's property, plant and equipment held under finance leases included in furniture, fixtures and other assets amounted to HK$2,549,000 (2005: HK$2,581,000).

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.

	2006 **HK$'000**	2005 HK$'000
Leasehold land in Hong Kong under medium term lease	**12,700**	13,015
Leasehold land outside Hong Kong	**–**	14,812
	12,700	27,827

16. Intangible Assets

	Development costs HK$'000	Patents HK$'000	Goodwill HK$'000	Trademark HK$'000	Customer relationship HK$'000	Distribution network HK$'000	Other Intangible assets HK$'000	Total HK$'000
Cost								
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	19,842	–	2,363	497,804
Exchange difference	–	(9)	11,119	3,021	1,073	–	129	15,333
At 1 January 2006	**190,175**	**12,319**	**441,103**	**82,851**	**20,915**	**–**	**2,492**	**749,855**
Additions	**58,257**	**2,011**	**1,081**	**–**	**–**	**–**	**5,713**	**67,062**
Arising on acquisition of subsidiaries	**–**	**–**	**2,030,879**	**26,481**	**188,589**	**37,463**	**–**	**2,283,412**
Exchange difference	**(24)**	**12**	**9,463**	**1,260**	**35**	**–**	**(269)**	**10,477**
At 31 December 2006	**248,408**	**14,342**	**2,482,526**	**110,592**	**209,539**	**37,463**	**7,936**	**3,110,806**
Amortization								
At 1 January 2005	5,540	826	–	–	–	–	–	6,366
Provided for the year	2,860	428	–	–	1,312	–	158	4,758
Exchange difference	–	(7)	–	–	–	–	–	(7)
At 1 January 2006	**8,400**	**1,247**	**–**	**–**	**1,312**	**–**	**158**	**11,117**
Provided for the year	**3,413**	**454**	**–**	**–**	**14,698**	**2,205**	**1,512**	**22,282**
Exchange difference	**–**	**9**	**–**	**–**	**–**	**–**	**(79)**	**(70)**
At 31 December 2006	**11,813**	**1,710**	**–**	**–**	**16,010**	**2,205**	**1,591**	**33,329**
Carrying value								
At 31 December 2006	**236,595**	**12,632**	**2,482,526**	**110,592**	**193,529**	**35,258**	**6,345**	**3,077,477**
At 31 December 2005	181,775	11,072	441,103	82,851	19,603	–	2,334	738,738

16. Intangible Assets (cont'd)

In February 2006, the Group acquired 80% of common interests and 100% of senior preferred interests in Vitaquest International Holdings LLC ("Vitaquest") for a total consideration of HK$1,276,108,000. Goodwill arising from the acquisition amounted to HK$2,030,879,000. Please refer to note 38 (a) for details.

In April 2006, the Group acquired 40% additional interest in Fertico Pty. Limited ("Fertico") for a purchase consideration of HK$2,790,000 and since then Fertico has become a wholly-owned subsidiary of the Group. Goodwill arising the acquisition is HK$1,081,000.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, goodwill and trademark with indefinite useful lives have been allocated to six individual cash generating units (CGUs), including two subsidiaries in the health segment and four subsidiaries in the environment segment. The carrying amounts of goodwill and trademarks (net of accumulated impairment losses) as at 31 December 2006 allocated to these segments are as follows:

	Goodwill HK$'000	Trademark HK$'000
Health	2,327,589	95,450
Environment	154,937	15,142
	2,482,526	110,592

During the year ended 31 December 2006, management of the Group determines that there are no impairments of any of its CGUs containing goodwill or trademark with intangible useful lives.

The recoverable amounts of the CGUs are determined from value in use calculations. These calculations use cash flow projections of 5-10 years based on next year's financial budgets approved by management using a steady growth rate and at discount rate of 8% to 14.5%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which have included budgeted sales and gross margin, and such estimation is based on the unit's past performance and management's expectations for the market development.

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

Other intangibles assets include non-competition agreement.

17. Interests in Associates

	2006 HK$'000	2005 HK$'000
Cost of investment in associates, unlisted	**60,793**	25,497
Share of post-acquisition profits	**9,474**	5,425
Exchange reserve	**2,642**	–
	72,909	30,922

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

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

	2006 HK$'000	2005 HK$'000
Total assets	**1,381,120**	796,429
Total liabilities	**(1,183,356)**	(686,491)
Net assets	**197,764**	109,938
Group's share of net assets of associates	**72,909**	30,922
Revenue	**2,035,064**	1,653,789
Profit for the year	**5,452**	7,735
Group's share of results of associates for the year	**2,930**	3,337

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 as at 31 December 2005. The amount carries interest at prevailing market rate with maturity date on 31 March 2009. The investment was disposed of during the year.

The effective interest rate during the year was 4.8% (2005: 4.8%).

19. Available-for-Sale-Investments

	2006 HK$'000	2005 HK$'000
Debt security – unlisted	**155,727**	210,879

The above investment represents investment in an unlisted debt security that offers the Group the opportunity for return through interest income or fair value gain. The investment has no fixed coupon rate.

As at the balance sheet date, the available-for-sale investment was stated at fair value. The fair value was determined based on the market price provided by a financial institution.

20. Investments at Fair Value through Profit and Loss

	2006 HK$'000	2005 HK$'000
Equity securities held for trading – listed in Hong Kong at quoted bid price	**2,213**	1,746
Equity securities held for trading – listed overseas at quoted bid price	**10,496**	–
Debt securities – unlisted	**920,265**	1,326,931
	932,974	1,328,677
Carrying amount analysed for reporting purpose as:		
Non-current	**920,265**	1,280,331
Current	**12,709**	48,346

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

The interest income from unlisted debt securities is linked to equity prices or index.

21. Derivative Financial Instruments

	2006 HK$'000	2005 HK$'000
Assets		
Derivative financial instruments (deemed as held for trading) at fair value:		
Interest rate swap	**13,980**	12,478
Credit default swap	**5,564**	9,883
	19,544	22,361

	2006 HK$'000	2005 HK$'000
Liabilities		
Derivative financial instruments (deemed as held for trading) at fair value:		
Interest rate swap	**(63,274)**	(43,430)
Credit default swap	**(356)**	(11,306)
	(63,630)	(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. Inventories

	2006 HK$'000	2005 HK$'000
Raw materials	**103,602**	47,787
Work in progress	**95,199**	3,665
Finished goods	**121,688**	76,462
	320,489	127,914

The cost of inventories recognized as an expense during the year was HK$1,266,015,000 (2005: HK$360,904,000).

23. Receivables and Prepayments

	2006 HK$'000	2005 HK$'000
Trade receivables	**391,480**	122,021
Other receivables, deposits and prepayments	**111,372**	80,969
	502,852	202,990
Trade receivables		
Aged 0 to 90 days	**359,183**	116,640
Aged more than 90 days	**32,297**	5,381

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

Included in the other receivables is an amount of HK$27,222,000 (2005: Nil) due from a minority shareholder of a subsidiary. The amount is unsecured, interest free and repayment on demand.

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

24. Deposit with Financial Institution

Deposit with financial institutions carries an average interest rate of 4.76%

25. Bank Balances and Deposits

Balance balances and deposits carry an average interest rate of 3.54%.

26. Payables and Accruals

	2006 HK$'000	2005 HK$'000
Trade payables	**289,754**	79,989
Other payables and accrued charges	**148,532**	136,969
	438,286	216,958
Trade payables		
Aged 0 to 90 days	**249,469**	78,342
Aged more than 90 days	**40,285**	1,647

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

27. Bank Loans

	2006 HK$'000	2005 HK$'000
Bank loans repayable		
within 1 year	**–**	93,080
1 to 2 years	**117,619**	180,630
2 to 5 years	**205,258**	280,570
	322,877	554,280
Analysed as:		
Secured	**205,258**	373,650
Unsecured	**117,619**	180,630
	322,877	554,280
Carrying amount analysed for reporting purpose as:		
Current	**–**	93,080
Non-current	**322,877**	461,200

27. Bank Loans (cont'd)

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

	2006 HK$'000	2005 HK$'000
Canadian dollars (note (a))	**205,258**	373,650
Australian dollars (note (b))	**117,619**	108,630
Renminbi (note (c))	**–**	72,000
	322,877	554,280

Notes:

(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%. The 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 were 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.

28. Finance Lease Obligations

	Minimum leases payment		Present value of minimum lease payments	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Finance leases obligations payable				
within one year	**2,415**	1,719	**2,222**	559
within two to five year	**1,660**	1,014	**1,505**	1,741
	4,075	2,733	**3,727**	2,300
Less: Future finance charges	**(349)**	(433)	**N/A**	N/A
Present value of finance leases obligations	**3,726**	2,300	**3,727**	2,300
Carrying amount analysed for reporting purpose as:				
Current			**2,222**	559
Non-current			**1,505**	1,741

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 effective from April 2005 except for an amount of HK$2,148,000 is interest free, and matures on 31 December 2025. The loan was interest free prior to April 2005.

The Directors consider that the carrying amount of loan from a minority shareholder approximates its fair value.

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	Intangible assets HK$'000	Loan from a minority shareholder HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
The Group							
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	–	–	(7,519)	(20)	(1,133)
Exchange difference	1,193	–	–	–	–	–	1,193
As at 1 January 2006	**37,291**	**30,889**	**–**	**–**	**(40,441)**	**(685)**	**27,054**
Acquisition of subsidiaries	**8,109**	**81,937**	**17,907**	**–**	**(35,831)**	**(4,266)**	**67,856**
Charge to equity	**–**	**–**	**–**	**3,984**	**–**	**–**	**3,984**
Charge/(credit) to income statement	**2,316**	**36,706**	**–**	**(129)**	**(24,617)**	**(30,398)**	**(16,122)**
Exchange difference	**–**	**–**	**–**	**–**	**(725)**	**–**	**(725)**
As at 31 December 2006	**47,716**	**149,532**	**17,907**	**3,855**	**(101,614)**	**(35,349)**	**82,047**

30. Deferred Taxation (cont'd)

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

	2006 HK$'000	2005 HK$'000
Deferred tax liabilities	**101,225**	34,270
Deferred tax assets	**(19,178)**	(7,216)
	82,047	27,054

At the balance sheet date, the total un-utilized tax losses amounted to approximately HK$1,316,676,000 (2005: HK$1,038,181,000). A deferred tax asset has been recognized in respect of HK$443,356,000 (2005: HK$225,110,000) of such losses. No deferred tax asset has been recognized in respect of the remaining HK$873,320,000 (2005: HK$813,071,000) 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$27,849,300 (2005: HK$20,485,000) arising in Mainland China can only be carried forward for five years subsequent to the year of tax losses incurred.

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 2005 and 31 December 2005	6,407,382	640,738
Shares issued under rights issue	3,203,691	320,369
At 31 December 2006	**9,611,073**	**961,107**

In May 2006, the Company completed the rights issue of 3,203,690,800 rights shares at HK$0.65 per rights share in the proportion of one rights share for every two existing shares.

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 for the primary purpose of providing incentives to directors and eligible employees.

As at 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,442,657 (2005: 18,470,700 shares), representing 0.17% (2005: 0.29%) of the share of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue of any point in time, with prior approval from the Company's shareholder.

As a result of the rights issue of the Company in May 2006, the subscription prices of the options have also been adjusted. Details of the share options granted and the adjusted share option prices are as follows:

Year 2006

	Number of share options							
Date of grant	Outstanding as at 1 January 2006	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2006	No. of exercisable options as at 31 December 2006	Option period	Adjusted subscription price per share HK$
30/9/2002	3,188,500	–	–	(319,490)	2,869,010	2,869,010	30/9/2003 to 29/9/2012	1.422
27/1/2003	7,128,200	–	–	(833,577)	6,294,623	4,406,236	27/1/2004 to 26/1/2013	1.286
19/1/2004	8,154,000	–	–	(874,976)	7,279,024	2,547,658	19/1/2005 to 18/1/2014	1.568

32. Share Option Scheme (cont'd)

Year 2005

Date of grant	Number of share options: Outstanding as at 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2005	No. of exercisable options as at 31 December 2005	Option period	Subscription price per share HK$
30/9/2002	3,660,500	–	–	(472,000)	3,188,500	2,231,950	30/9/2003 to 29/9/2012	1.598
27/1/2003	8,185,500	–	–	(1,057,300)	7,128,200	2,494,870	27/1/2004 to 26/1/2013	1.446
19/1/2004	9,404,000	–	–	(1,250,000)	8,154,000	–	19/1/2005 to 18/1/2014	1.762

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 Group recognized the total expenses of HK$526,000 for the year ended 31 December 2006 (2005: HK$623,000) in relation to share options granted by the Company.

33. Pledge of Assets

Bank loan of HK$205,258,000 (2005: HK$373,650,000) 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$168,906,000 (2005: HK$160,627,000) as at 31 December 2006.

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

34. Operating Lease Commitment

The leases of the Group are negotiated for a term ranging from one to three years. Minimum lease charges payable by the Group within one year and second to fifth years under non-cancellable operating leases in respect of rented premises were HK$27,435,000 (2005:HK$6,783,000) and HK$235,070,000 (2005: HK$22,999,000) respectively.

35. Capital Commitment

	2006 **HK$'000**	2005 HK$'000
Capital commitment in respect of the acquisition of laboratory instrument, plant and equipment – contracted but not provided for	**5,170**	2,481

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 4% to 20% on employee's salary.

The Group's cost incurred on employees retirement schemes for the year was HK$17,661,000 (2005: HK$12,031,000) and forfeited contribution during the year of HK$4,305,000 (2005: HK$2,467,000) was used to reduce the Group's contribution in the year.

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 2006 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 2006 HK$'000**	Total emoluments 2005 HK$'000
Li Tzar Kuoi, Victor	70	–	–	–	**70**	70
Kam Hing Lam	70	700	700	–	**1,470**	1,470
Ip Tak Chuen, Edmond	70	–	600	–	**670**	670
Yu Ying Choi, Alan Abel	70	5,124	1,300	503	**6,997**	6,629
Chu Kee Hung	70	3,663	1,000	360	**5,093**	4,455
Pang Shiu Fun	35	2,642	–	226	**2,903**	6,181
Peter Peace Tulloch	70	–	–	–	**70**	70
Wong Yue-chim, Richard	140	–	–	–	**140**	140
Kwok Eva Lee	160	–	–	–	**160**	160
Colin Stevens Russel	160	–	–	–	**160**	160
Lam Hing Chau, Leon	–	–	–	–	**–**	2,548
Kwan Chiu Yin, Robert	–	–	–	–	**–**	38
	915	12,129	3,600	1,089	**17,733**	22,591

The directors' fees included an amount of HK$70,000 (2005: HK$70,000) for each director and an additional amount of HK$70,000 (2005: HK$70,000) and HK$20,000 (2005: HK$20,000) 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.

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 2006. 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.

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

(b) Five highest paid individuals

Of the five individuals with the highest emoluments, three (2005: four) of them are Directors whose emoluments are disclosed in note (a) above. The emoluments of the remaining two (2005: one) are as follows:

	2006 HK$'000	2005 HK$'000
Salary and other benefits	**6,613**	4,488
Bonus	**470**	–
Retirement benefits scheme contributions	**564**	360
	7,647	4,848

Their emoluments were within the following bands:

	2006 Number of employees	2005 Number of employees
HK$2,000,001 to HK$2,500,000	**1**	–
HK$4,500,001 to HK$5,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**1**	–
	2	1

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.

38. Purchase and Disposal of Subsidiaries

(a) Acquisition of Vitaquest

	Vitaquest's carrying amount before combination HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	97,741	–	97,741
Intangible assets:			
– trademark	–	26,481	26,481
– customer relationship	–	188,589	188,589
– distribution network	–	37,463	37,463
Inventories	142,324	–	142,324
Receivables and prepayments	381,335	–	381,335
Bank balances and cash	8,665	–	8,665
Payables and accruals	(263,371)	–	(263,371)
Deferred taxation	–	(67,856)	(67,856)
Bank and other loans	(1,306,142)	–	(1,306,142)
	(939,448)	184,677	(754,771)
Goodwill on acquisition			2,030,879
Total consideration			1,276,108
Net cash outflow arising from acquisition:			
Cash payment (including acquisition cost)			1,276,108
Bank balances and cash acquired			(8,665)
			1,267,443

In February 2006, the Group acquired the control of 80% of common interests and 100% of senior preferred interests in Vitaquest International Holdings LLC ("Vitaquest") for a total consideration of HK$1,276,108,000 which comprises direct attributable acquisition cost of HK$255,408,000 and purchase consideration of HK$1,020,700,000. Goodwill arising from the acquisition amounted to HK$2,030,879,000 which is attributable to its anticipated profitability and the anticipated future operating synergies from the combination. Details of the acquiree are set out in Appendix I.

The subsidiary acquired during the year contributed HK$1,160,128,000 to the Group's turnover and profit of HK$82,549,000 to the profit attributable to equity holders of the Company.

38. Purchase and Disposal of Subsidiaries (cont'd)

(a) Acquisition of Vitaquest (cont'd)

If the acquisition had been completed on 1 January 2006, total group turnover for the year would have been HK$2,261,017,000 and profit for the year would have been HK$93,501,000. 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 2006, nor is it intended to be a projection of future results.

(b) Restructuring of the joint ventures with Nanjing Red Sun Stock Co. Ltd ("Red Sun")

(i) Acquisition of Nanjing Green Union Eco-Technology Ltd ("Nanjing GU")

	Nanjing GU's carrying value before acquisition and fair value HK$'000
Net assets acquired:	
Property, plant and equipment	27
Interest in associate	400
Receivables and prepayments	1,838
Bank balances and cash	22,644
Payable and accruals	(3,045)
	21,864
Minority interest	(7,705)
	14,159
Represented by:	
Transfer from interests in associates	8,716
Disposal of 5.75% interests in JT	5,443
	14,159
Cash inflow arising from acquisition:	
Bank balances and cash acquired	22,644

38. Purchase and Disposal of Subsidiaries (cont'd)

(b) Restructuring of the joint ventures with Nanjing Red Sun Stock Co. Ltd ("Red Sun") (cont'd)

(ii) Disposal of Jiangsu Technology Union Eco-fertilizer Ltd ("JT")

	HK$'000
Net assets disposed:	
Property, plant and equipment	108,437
Prepaid lease for land	20,569
Inventories	19,105
Receivables and prepayments	85,693
Bank balances and cash	11,746
Payable and accruals	(49,496)
Bank and other loans	(101,000)
Minority interest	(388)
	94,666
Minority interest	(44,607)
	50,059
Represented by:	
Interests in associates	44,616
Acquisition of 24.51% interests in Nanjing GU	5,443
	50,059
Cash outflow arising from disposal:	
Bank balances and cash disposed of	11,746

In 2006, the Group announced the restructuring of the joint ventures with the Red Sun by two tranches. In December 2006, the Group completed the first tranche of restructuring whereby the Group had obtained an additional 24.51% interests in Nanjing GU from Red Sun and in return had disposed 5.75% interests in JT to Red Sun. Prior to the restructuring, the Group had 40% interests in Nanjing GU and 52.88% in JT. After the first tranche of restructuring, Nanjing GU has changed from an associate company to a subsidiary company while JT has changed from a subsidiary company to an associate company. The second tranche of restructuring is scheduled to be completed in mid 2007 whereby the Group will further dispose an additional 2.875% interests in JT and acquire an additional 12.25% interests in Nanjing G.U.

Nanjing GU only contributed insignificant turnover and profit to the Group since acquisition.

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	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Segment turnover	**549,922**	425,317	**1,388,635**	117,167	**258,561**	151,895	**–**	–	**2,197,118**	694,379
Segment results	**8,505**	(21,482)	**92,089**	(5,316)	**169,556**	187,060	**–**	–	**270,150**	160,262
Other income									**–**	4,277
Business development expenditure	**–**	–	**–**	–	**–**	–	**(41,212)**	(28,889)	**(41,212)**	(28,889)
Research and development expenditure	**–**	–	**–**	–	**–**	–	**(17,402)**	(26,843)	**(17,402)**	(26,843)
Corporate expenses	**–**	–	**–**	–	**–**	–	**(78,155)**	(76,504)	**(78,155)**	(76,504)
Finance costs	**–**	–	**–**	–	**–**	–	**(37,866)**	(19,494)	**(37,866)**	(19,494)
Share of results of associates	**2,930**	3,337	**–**	–	**–**	–	**–**	–	**2,930**	3,337
Profit before taxation									**98,445**	16,146
Taxation									**(1,653)**	(5,368)
Profit for the year									**96,792**	10,778

39. Segment Information (cont'd)

(a) Business segments (cont'd)

	Environment		Health		Investment		Unallocated		Total	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Segment assets	**500,852**	617,749	**3,643,341**	651,242	**1,111,160**	1,819,390	**–**	–	**5,255,353**	3,088,381
Interests in associates	**72,909**	30,922	**–**	–	**–**	–	**–**	–	**72,909**	30,922
Bank balances and cash	**–**	–	**–**	–	**–**	–	**–**	–	**411,693**	372,433
Other assets	**–**	–	**–**	–	**–**	–	**–**	–	**191,699**	189,147
Total assets									**5,931,654**	3,680,883
Segment liabilities	**(106,076)**	(118,777)	**(295,652)**	(24,081)	**(61,274)**	(96,115)	**–**	–	**(463,002)**	(238,973)
Other liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**(506,628)**	(657,823)
Total liabilities									**(969,630)**	(896,796)
Other information										
Amortization of intangible assets	**2,776**	2,781	**19,506**	1,977	**–**	–	**–**	–	**22,282**	4,758
Depreciation	**11,210**	6,685	**23,253**	8,196	**–**	–	**11,508**	17,007	**45,971**	31,888
Capital additions	**15,408**	23,143	**2,493,656**	65,149	**–**	–	**2,079**	11,059	**2,511,143**	99,351
Allowances for bad debts	**(49)**	1,166	**8,750**	–	**–**	–	**–**	–	**8,701**	1,166
Inventories written off	**19**	820	**4,089**	23	**–**	–	**–**	–	**4,108**	843

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	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Hong Kong (Note)	**181,092**	17,059	**544,731**	396,987	**55,014**	62,183
Canada	**166,579**	111,300	**464,452**	441,333	**8,893**	2,603
Mainland China	**121,503**	138,109	**52,088**	243,143	**19,307**	28,732
Other Asian countries	**12,680**	7,444	**5,781**	50,193	**–**	–
Australia	**415,517**	278,062	**461,560**	382,041	**14,948**	3,747
America (Note)	**1,215,842**	28,762	**3,059,348**	345,202	**2,410,970**	–
Europe (Note)	**83,905**	113,643	**667,393**	1,229,482	**2,011**	2,086
	2,197,118	694,379	**5,255,353**	3,088,381	**2,511,143**	99,351

Note: including 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$11,173,000 (2005: HK$3,308,000) 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$98,767,000 (2005: HK$16,552,000) to members of the Red Sun group. Red Sun is the substantial shareholder of Nanjing NG.

c) The Group leased certain properties from Leknarf Associates LLC ("Leknarf") which is an associate of a minority shareholder of a non-wholly owned subsidiary company, Vitaquest. The total rental payment by the Group to Leknarf amounted to HK$13,631,000 in 2006 (2005: Nil). Included in receivables and prepayments is prepaid rental amounted to HK$5,811,000 to Leknarf.

40. Related Party Transactions (cont'd)

d) The Group was the manufacturer and exclusive supplier of the dietary supplement, food and cosmetic lines of products for Nu-Life Corp, ("Nu-Life"). Nu-Life is controlled by a substantial shareholder of Vitaquest and is a connected person of the Group. The total sum received by the Group from Nu-Life amounted to HK$20,229,000 in 2006 (2005: Nil). The outstanding balance due from Nu-Life at the year ended date amounted to HK$3,588,000 (2005: Nil).

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

41. Approval of Financial Statements

The financial statements set out on pages 84 to 134 were approved and authorized for issue by the Board of Directors on 16 March 2007.

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
	Chilchobie Investments Limited	British Virgin Islands	US$1	100	Investment in financial instruments
	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. Limited	Australia	AU$4,000,100	100	Blending and distribution of fertilizer
	Genero International Limited	British Virgin Islands	US$1	100	Investment in financial instruments

APPENDIX I (cont'd)

PRINCIPAL SUBSIDIARIES (cont'd)

	Name	Place of incorporation	Issued ordinary share capital/ registered capital*	Effective percentage held by the Company indirectly	Principal activities
##	Nanjing Green Union Eco-Technology Limited	Mainland China	US$3,000,000*	64.51	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
	Vital Care Hong Kong Limited	Hong Kong	HK$2	100	Trading of biotechnology products
	Vitaquest International Holdings LLC	USA	N/A$^{\Delta}$	80	Supplying and manufacturing of nutritional supplements
	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.

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
Chilchobie Investments Limited	Europe
CK Life Sciences Int'l., Inc.	Australia, Asia, Europe and America
Dimac Limited	America
Genero International Limited	Europe
Lincore Limited	Europe
Panform Limited	Europe
Proven Leader Limited	America

\# Foreign investment enterprise registered in the Mainland China

\## Sino-foreign equity joint venture registered in the Mainland China

Δ Vitaquest International Holdings LLC did not have any issued or registered capital. However, the Company held 80% interest in its common voting rights.

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
Jiangsu Technology Union Eco-fertilizer Limited	47.12	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 and Key Dates

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
CHU Kee Hung
Vice President and Chief Scientific Officer

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

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

Company Secretary
Eirene YEUNG

Qualified Accountant
MO Yiu Leung, Jerry

Compliance Officer
YU Ying Choi, Alan Abel

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
Citibank, N.A.

Legal Advisers
Woo, Kwan, Lee & Lo
Dibb Lupton Alsop

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

Stock Codes

The Stock Exchange of Hong Kong Limited: 8222
Bloomberg: 8222 HK
Reuters: 8222.HK

Website

http://www.ck-lifesciences.com

Key Dates

Annual Results Announcement	16 March 2007
Closure of Register of Members	3 to 10 May 2007 *(both days inclusive)*
Annual General Meeting	10 May 2007

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.

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