

Healthy Strides
Sustained Growth



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

(incorporated in the Cayman Islands with limited liability)

Annual Report 2004

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.

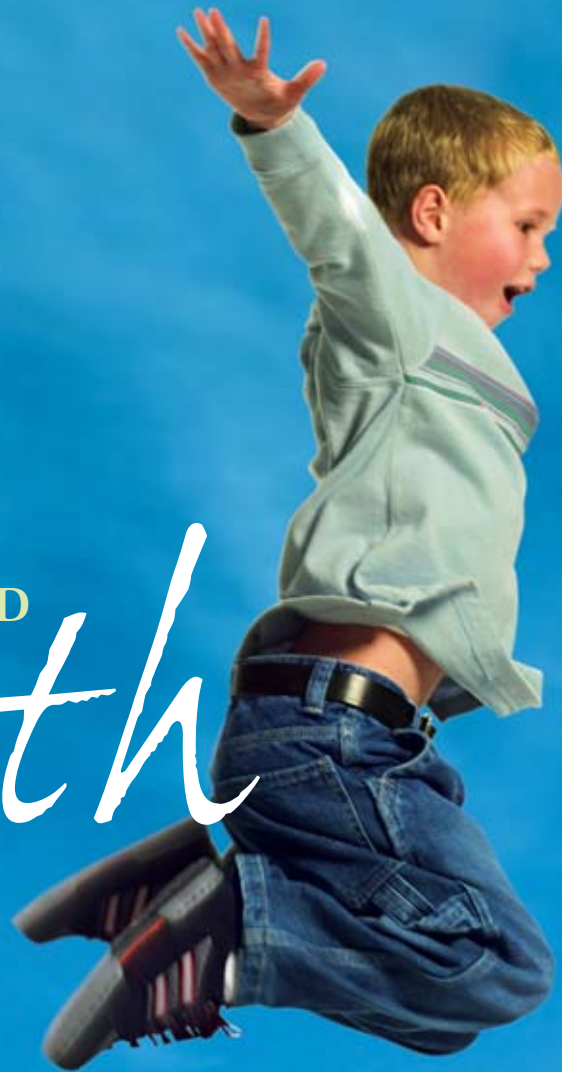
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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective 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.

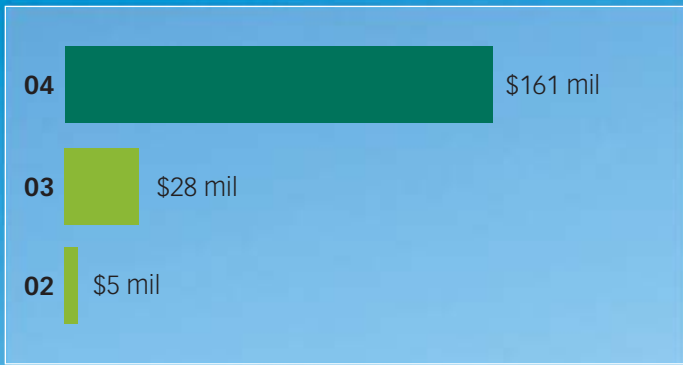
This document, for which the Directors of CK Life Sciences Int’l., (Holdings) Inc. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange 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 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.

ACHIEVEMENT HIGHLIGHTS

SUSTAINED Growth



Sales Revenue
5 times
that of 2003



Four acquisitions were completed, pace of market penetration was accelerated.



Acquired a fertilizer distribution network with our Mainland partner, Nanjing Red Sun Co Ltd.



Purchased a 60% stake in South Australian fertilizer company, **Fertico**.



Fully acquired **Paton Fertilizers** in Australia.



Acquired 51% of **AquaTower**, a water plant in Victoria, Australia.

CORPORATE

Expansion





CK Life Sciences was chosen as the **"Outstanding Biochemistry Technology Company"** by Capital Magazine.

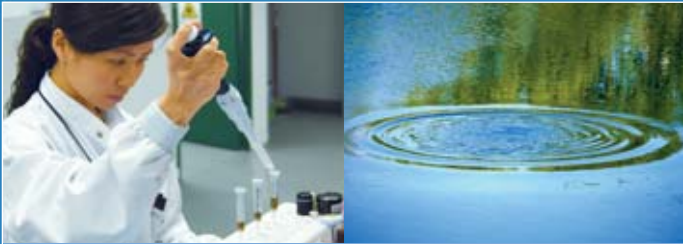


The Group's VitaGain™ range of products received the **Superbrand** seal of recognition and was selected as the **Best New Product** by Watson's at the 2004 Health and Beauty Awards.

Outstanding

ENTERPRISE





The Group was granted **7 new patent notices of allowance**, 4 for pharmaceutical inventions, and 3 for bioremediation solutions. This brings the Group's total to 25 patents and notices of allowance.

R&D *Progress*



CANCER Research



The **CK Cancer Institute** was set up to conduct cancer-related R&D and community services.



A number of **seminars** on different cancer topics have been staged and a **hotline** has been established for the public to voice their cancer related enquiries.

NEW Products

During the year, the VitaGain™ range of nutraceutical products was further extended. Several new products were introduced to the market.



The oral liquid and capsule form of
VitaGain™ For Daily Immunity



The capsule form of
VitaGain™ Nasal Allergy Relief



**VitaGain® Immune Booster
MACIMA™**



YEAR IN REVIEW 2004

January



The Group was selected by the World Economic Forum as one of the 30 "Technology Pioneers" of 2004, reinforcing the Group's status as a world-class technology company.



The Group acquired an extensive distribution network and set up a fertilizer production plant in Jiangsu province together with Nanjing Red Sun Co Ltd, a strategic partner in China. The move aims to increase the Group's market share in the country.

NutriSmart™, the Group's eco-fertilizer, was presented the "Global Excellence Product Golden Rim Award 2004" by the Chinese Enterprise Development Association of Taiwan.



February



Following the success of the "Immunity and Health" series aired in 2003, a television and radio programme series on "Immunity and Cancer", presented by Prof S F Pang, Chief Technology Officer of CK Life Sciences, was launched.

March



VitaGain™ For Daily Immunity, the nutraceutical that seeks to help healthy individuals meet the challenges of everyday life, was launched.



A 60% stake in South Australian fertilizer company, Fertico, was purchased. The acquisition facilitates the Group's penetration in the Australian market and the realization of local manufacturing.



Together with Cheung Kong Infrastructure Holdings Limited, the Group acquired AquaTower, a water supplier in Victoria. This has strengthened the Group's presence in the water business.

April

Results from the *in vitro* study conducted together with the Partners AIDS Research Center at the Massachusetts General Hospital, Harvard Medical School, indicated that the Group's AIDS product is able to boost the immunity function in the blood samples of both AIDS patients and healthy individuals.



May



In *in vitro* and *in vivo* studies jointly conducted with The University of Hong Kong and the Cancer Institute and Hospital of The Chinese Academy of Medical Sciences, the Group's product showed a prominent effect in inhibiting the growth of cancer cells.



The Group's operations were showcased in the television programme "Hong Kong Superbrand – CK Life Sciences" on TVB Jade. The Group's selection as a focus topic reflected its status as one of Hong Kong's leading biotechnology companies.

Paton Fertilizers, a fertilizer company with a sales network that spans the eastern seaboard of Australia, was acquired. The addition of this company facilitates further expansion of the Group's fertilizer business in Australia.



June



The VitaGain™ series was awarded the Superbrand seal of recognition.

September



The Group's laboratories were awarded the ISO 9001:2000 certification, in recognition of the international standards in operation and quality control.



The Group was invited by China's State Environmental Protection Administration to conduct a joint study on the control and management of rural non-point source pollution. The effectiveness of NutriSmart™ in reducing agricultural pollution was recorded.

October



The China National Rice Research Institute organized an international conference on "Sustainable Rice Production". NutriSmart™ was named the official fertilizer at the conference.



The VitaGain™ series was presented the "Best New Product Award" in the health and beauty product category by Watson's.



The capsule form of VitaGain™ For Daily Immunity and VitaGain™ Nasal Allergy Relief was launched to meet market demand.



The Hon Steve Bracks, the Premier of Victoria, Australia, paid a visit to the laboratories of CK Life Sciences and discussed biotechnology research collaboration with the Group.

November



The interim results of a joint cancer research with The Hong Kong University of Science and Technology showed that the Group's product can inhibit the growth of prostate and breast cancer cell lines.



The CK Cancer Institute, an independent unit established to conduct cancer research and provide cancer-related community services, was set up. A series of cancer seminars on different topics were organized in November and December, and a dedicated cancer hotline launched. These events and services were well-received.

December



VitaGain® Immune Booster MACIMA™ was launched in the market. This nutraceutical product is suitable for those who have undergone major surgery or before, during or after radiotherapy/chemotherapy.

CHAIRMAN'S STATEMENT



Healthy Strides Sustained Growth

The call for enhanced environmental protection resonates throughout the world, and good health is a pre-requisite for quality living. The environment and health-related businesses of CK Life Sciences Int'l., (Holdings) Inc. and its subsidiaries ("CK Life Sciences" or the "Group") complement well these global trends with products fulfilling popular demand worldwide. In the two years or so since listing, the Group's business and scope of operations have expanded steadily, and the satisfactory results have given us great encouragement.

I am pleased to announce that the Group has made solid progress on all fronts in 2004 – from financial results, corporate expansion to research & development ("R&D"). Looking forward, we expect that the Group will continue to make healthy strides and generate growth and development year after year.

Financial Highlights — Sales Revenue Surges 5 Times

HK\$'000	Annual Results		
	2004	2003	Increase (%)
Sales revenue	160,510	27,563	482
Investment proceeds	169,117	164,705	2.6
Total revenue	329,627	192,268	71.4
Profit attributable to shareholders	1,929	928	107

The audited financial results for the year ended 31 December 2004 represent a great leap over last year, and quarter-on-quarter increases have been recorded throughout the year. Sales revenue reached HK\$160.5 million, an increase of almost 5 times over the HK\$27.6 million recorded in 2003. Investment proceeds came to HK\$169 million, representing an increase of about 2.6% over the HK\$164.7 million recorded last year. Combining sales and investment proceeds, a total revenue of HK\$329.6 million was recorded for the Group in the fiscal year 2004, a 71% increase over 2003. For the year under review, profit attributable to shareholders was HK\$1.9 million.

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 December 2004.

Review

In the past year, the Group achieved solid business progress and expanded the scope of R&D, notching up a diverse range of achievements:

(1) Sales

(i) Environmental Business

The sales of fertilizer products increased significantly in 2004 with HK\$147 million in revenue recorded, representing an increase of 524% over 2003. Aside from achieving strong sales in China and South East Asian countries, the Group successfully extended the fertilizer business to two new markets, namely Japan and South Korea. These two countries are key strategic markets in the Asia Pacific region with huge market potential. Including Japan and South Korea, the sales network for the Group's eco-fertilizer now spans 13 countries and regions across three continents.

(ii) Health-related Business

During the year, several new products were launched under the VitaGain™ brand. These include "VitaGain™ For Daily Immunity" oral liquid; capsules of "VitaGain™ For Daily Immunity" and "VitaGain™ Nasal Allergy Relief"; and "Immune Booster MACIMA™" oral liquid which is suitable for those who have undergone major surgery or before, during or after radiotherapy/chemotherapy. These additions greatly strengthened the VitaGain™ product line and increased the revenue streams.

(2) Acquisitions

In the past year, apart from actively increasing sales channels and expanding market coverage, the Group also accelerated the penetration of target markets through timely acquisitions. In 2004, the Group:

- (i) Acquired a distribution network and began establishing a production facility in Jiangsu together with our Mainland partner Nanjing Red Sun Co Ltd;
- (ii) Purchased a 60% stake in South Australian fertilizer company, Fertico Pty Limited;

- (iii) Fully acquired Paton Fertilizers Pty Ltd, a fertilizer company with an extensive sales network along the Eastern seaboard of Australia; the addition of Paton is expected to help in speeding up the market take-up rate in the Australian agriculture market;

- (iv) Acquired 51% of AquaTower Pty Ltd, a water plant in Victoria, Australia, widening the scope of operations in the bioremediation business.

These four acquisitions enabled the Group to enlarge our sales force, sales and distribution network as well as customer base within a short period of time.

(3) Research & Development

(i) Immunity Research

Satisfactory results have been recorded in a series of immunity research studies conducted in collaboration with the Partners AIDS Research Center at Massachusetts General Hospital of Harvard Medical School; Peking Union Medical College; and The Chinese University of Hong Kong. Various *in vitro* and *in vivo* trials have demonstrated that the Group's product is able to induce the secretion of cytokines and increase the phagocytic index of macrophage, affirming the efficacy of the product in immunity modulation.

(ii) Cancer Research

A series of *in vitro* and *in vivo* studies conducted in conjunction with The Chinese Academy of Medical Sciences Cancer Institute and Hospital, Cancer Research Foundation in China, The Chinese University of Hong Kong, The University of Hong Kong, The Hong Kong University of Science and Technology and The University of British Columbia, Canada have indicated that the anti-cancer product developed by the Group has inhibitory effects on different kinds of cancer cells. Findings from an application research study have also indicated that the Group's product is effective in improving the quality of life of cancer patients undergoing or who have completed radiotherapy and/or chemotherapy by strengthening their immunity.

A series of clinical trials targeting colorectal cancer, lung cancer, liver cancer, breast cancer and prostate cancer are underway.

(iii) AIDS Research

The Group has conducted a series of trials with the Partners AIDS Research Center at Massachusetts General Hospital of Harvard Medical School, Beijing You An Hospital, Peking Union Medical College Hospital and Australia's Swinburne University. An *in vitro* study demonstrated that the Group's product induced cytokine secretion by several kinds of innate immune cells in the blood samples of AIDS patients. Preliminary results from an application research and a clinical study showed that the Group's product can alleviate symptoms of the disease and increase CD4 cell counts, thereby enhancing patients' immunity.

(4) CK Cancer Institute

To accelerate the pace of cancer research, the Group established the CK Cancer Institute to conduct research studies and to carry out cancer-related community services.

A series of public seminars have been conducted and a cancer hotline set up to increase the community's knowledge in the battle against cancer. Briefings on the Group's cancer research results allow the public to better understand the close relationship between immunity and cancer.

(5) ISO Certification and Patent Application

(i) ISO Certification

The Group has been accredited with the ISO 9001:2000 certification in seven different areas pertaining to the administration of laboratories; research for eco-fertilizer, animal feed additive and bioremediation products; pre-clinical and clinical research of human-health related products; as well as product quality assurance and control.

(ii) New Patent Development for Pharmaceuticals

The Group was granted a total of 7 patents in US during the year of 2004, 2 for eco-fertilizer products, and 5 for nutraceutical products. Towards the end of 2004 and at the beginning of 2005, the US Patent and Trademark Office further granted 7 new patent notices of allowance to the Group's pharmaceutical and bioremediation inventions, namely methods and compositions for treating renal failure, male sexual dysfunction, Hepatitis B and epilepsy in the pharmaceutical category; and methods and compositions for degrading nitrogen-containing compounds, degrading polymeric compounds and degrading odour in the bioremediation category.

Including the additional 7 notices of allowance, the Group now possesses 25 patents and notices of allowance. Among them, 14 are environmental inventions and 11 health related ones. The patent portfolio of the Group has gradually widened from the environmental category to the health category, which commands stricter conditions and a higher qualification

The latest status for the Group's patent applications is as follows:

	Eco-agriculture		Bio-remediation	Nutra-ceuticals	Pharma-ceuticals	Dermato-logicals	Total
	Eco-fertilizer	Animal Feed Additives					
Patent Granted	6	–	5	7	–	–	18
Notice of Allowance Received	–	–	3	–	4	–	7
Patent Pending	–	14	–	3	27	–	44
Drafting Stage	4	4	7	–	19	5	39
Total	10	18	15	10	50	5	108

threshold. These achievements further enlarged the dimensional scale of the patent portfolio and strengthened the breadth and depth of the Group's product offerings, reflecting the R&D capability and long term value of the Group.

Prospects

(1) Environmental Business:

Global Concerns Fuel Demand

Today's business corporations are expected to reduce environmental impact and implement remedial solutions on waste generated while carrying out their operations. At the same time, higher safety standards in agricultural produce are increasingly in demand. These prevailing trends in the global arena pose a favourable environment for the Group's environment related businesses.

In 2005, the Group will enlarge the operation scale of our fertilizer and environmental business in existing markets, while continuing to extend the geographical coverage.

(2) Health-related Business:

More Products to be Launched

In 2004, new cases involving novel strands of human and bird flu were reported, placing health as a priority on the public agenda. At the same time, an aging population has highlighted the problem of chronic diseases such as cancer and the decline of bodily functions. The VitaGain™ brand of nutraceuticals developed based on the Group's "Immune Enhancement" R&D platform have been found to be effective in modulating the immune system, alleviating symptoms and decreasing the chance of contracting diseases.

In 2005, the Group will expedite the launch of more health supplements under the VitaGain™ brand to broaden our product range.

(3) R&D: Further Extension of Geographical Coverage

The Group's strategy has always been to launch products with a shorter research cycle to generate revenue for R&D works. Adopting a prudent and strategic approach to financial planning, the Group has ample financial resources to cater for rapid progress in R&D.

Coming up, more R&D programmes will be launched. Collaboration with world renowned institutions will continue to further increase R&D progress for the enhancement of the Group's future prospects.

(4) Acquisitions: Expand Corporate Scale

Looking ahead, we will continue our efforts in achieving organic growth, while at the same time make every endeavour to look for companies with solid business foundations that offer synergies to the Group's existing businesses, so as to accelerate the Group's market penetration rate, further extend our distribution network, and enhance our production scale, as well as enrich our R&D capability. It is expected that this two-pronged strategy of organic growth and acquisition will expedite the Group's pace of development.

Looking Ahead

Looking ahead, I have full confidence in the prospects for the Group as it is well placed for strong growth in the future. CK Life Sciences will uphold the mission of "Restoring Freshness to Nature; Bringing Quality to Life" and continue to work in the arenas of environment and health. We are glad to be involved in such a meaningful mission. I would like to thank our shareholders, Board of Directors, our staff and business partners who share our vision. Their support has given us great impetus in realizing our mission. Looking ahead, we will continue to work hard in improving the quality of life for mankind and to create a better future for us all.

I would like to take this opportunity to welcome two new Independent Non-executive Directors to the Board of the Company: Mr. Kwan Chiu Yin, Robert and Mr. Colin Stevens Russel. Bringing with them tremendous experience and a strong international outlook, I am sure CK Life Sciences stands to benefit from their contributions to the Group in the future.

Li Tzar Kuoi, Victor

Chairman

Hong Kong, 11 March 2005

OPERATIONS REVIEW



Environmental Business

CK Life Sciences is developing a portfolio of products to address the most pressing problems caused by traditional farming practices in land use, animal husbandry and waste management. The Group offers a range of environmentally-friendly fertilizers, performance of which is on a par with if not better than chemical fertilizers.

A range of bioremediation products have also been developed to tackle pollutants such as municipal waste and animal manure.





Health Business

Immunity and health are closely related; a healthy immune system reduces the chance of contracting diseases. Among the various research faculties, CK Life Sciences has selected immunity as a main research focus to accomplish our mission of enhancing human health. Based on the Group's immune enhancement R&D platform, a number of research studies have been conducted, and a series of nutraceutical products for modulating and enhancing the immunity system have been developed.

Based on the same premise applied in nutraceutical development that immunity can enhance health, CK Life Sciences has also developed a series of pharmaceutical products. The inventions include treatments which aim at combating deadly diseases, such as HIV/AIDS and cancer.

ENVIRONMENTAL BUSINESS

The need to preserve and nurture the world's natural resources for our future generations has become more pressing. Sustainable development has become a priority on the global agenda. For CK Life Sciences' environmentally friendly products, adoption rates have been growing fast in 2004. Along with improved market penetration in existing markets, expansion into new markets was made and strategic alliances with leading market players were established.



Eco-Fertilizer

For the Group's eco-fertilizer business, 2004 was marked by increased penetration and steady sales growth in existing markets, breakthroughs in new ones, stronger alliances with partners, and acquisitions that bring strategic returns to the Group.

China

During the year under review, an important sales and distribution network was acquired in Jiangsu Province, marking a milestone development for the Group's fertilizer business in the world's biggest fertilizer market. A joint initiative with Nanjing Red Sun Co. Ltd. (Red Sun), the Group's strategic partner in China, the acquisition has expanded the Group's sales network to cover all provinces in the country. Additionally, a new production plant in Nanjing came

into operation during the first quarter of 2005, embodying another major collaboration between the Group and Red Sun to meet increasing sales demand in the region.

CK Life Sciences has forged strong strategic partnerships with key government agencies and departments in China over the year. The Group was invited by the China State Environmental Protection Administration (SEPA) to conduct a joint study on the control and management of rural non-point source pollution. Sponsored by the Asian Development Bank, this project is the first large-scale

on Sustainable Rice Production – Policy, Technology and Extension in October 2004. NutriSmart™ was named the official fertilizer at the Conference and data of its key benefits were shared amongst rice experts, scholars, environmental scientists, government officials and fertilizer industry representatives from all over the world.

Following the successful private-public partnerships with SEPA and CNRRI, the Group will continue to seek cooperation opportunities with key public bodies and agencies to obtain wider authoritative recognition on the efficacy of NutriSmart™. Currently in the pipeline



In a joint study with the China State Environmental Protection Administration, sponsored by the Asian Development Bank, NutriSmart™'s effectiveness in maintaining crop yield while reducing the usage of chemical fertilizers was demonstrated.

research on agricultural non-point source pollution involving a Hong Kong-based private enterprise. Results of the study once again demonstrated that NutriSmart™ is effective in maintaining crop yield while significantly reducing the usage of chemical fertilizers - a key feature which plays a significant role in sustainable agriculture. The report generated by this study will become important reference material for SEPA and related agencies in formulating policies for environmental protection and eco-agriculture in China's Eleventh 5-year Plan.

In celebration of the International Year of Rice organized by the United Nations and World Food Day 2004, the China National Rice Research Institute (CNRRI) organized the International Conference

on Sustainable Rice Production – Policy, Technology and Extension in October 2004. NutriSmart™ was named the official fertilizer at the Conference and data of its key benefits were shared amongst rice experts, scholars, environmental scientists, government officials and fertilizer industry representatives from all over the world. It is expected that strategic partnerships such as these and the demonstration of NutriSmart™'s performance in new applications will further reinforce NutriSmart™'s position as a leading revolutionary product for sustainable agriculture across all crops.

South East Asia

A number of projects and sales initiatives have been adopted to expand the market size and increase market share of NutriSmart™ in the South East Asian markets. In Malaysia, growing sales were derived from the rice segment, a major crop in the country. Another area where NutriSmart™'s ability to improve nutrient utilization efficiency, reduce pollution and enhance soil quality is being demonstrated is the significant oil palm industry. With rice and oil palm being the major crops in Malaysia and with NutriSmart™'s unique environmentally friendly characteristics and yield generating



capability, NutriSmart™ is poised to become an effective alternative to conventional fertilizers in the country.

Sales of NutriSmart™ in the Philippines, Thailand and Vietnam have recorded significant progress. Adoption of NutriSmart™ was mostly in rice and cash crops such as tea and tomatoes.

North Asia

During the period under review, encouraging developments were achieved in North Asia. Taiwan reported increased sales of NutriSmart™ as farmers showed an increased awareness of the need to improve soil structure after many years of excessive chemical fertilizer usage.

In South Korea, greenhouse vegetables, high value crops and rice will be the key focus. As the trend for the development of high-

end golf courses continues, there is opportunity in this market for NutriSmart™ to offer an environmentally friendly product that helps grow healthier turf. The Group also introduced its eco-agriculture technology to South Korea via a technology transfer initiative. A South Korean company will utilize the Group's proprietary technology to produce and market eco-fertilizer products.

Significant steps were taken to expand into Japan, one of the largest fertilizer markets in Asia, which is worth about HK\$9.3 billion (US\$1.2 billion). In Japan, environmental awareness is strong



and the concept of conservation is highly regarded. Farming communities are interested in sustainable development, making NutriSmart™ a very suitable product for this important market. In 2004, the Group cooperated with Sumitomo Corporation - one of the largest enterprises in Japan with a diversified portfolio of businesses - on a series of pre-sale field trials on rice. Promising results have paved the way for NutriSmart™'s expansion into the Japanese market. The appointment of Sumitomo as a distributor in Japan in the beginning of 2005 will usher in a new growth phase for NutriSmart™ in this strategic fertilizer market.

Australia

During the year, the Group purchased 60% of Fertico Pty Ltd, and acquired full ownership of Paton Fertilizers Pty Ltd. Both enterprises are firmly established fertilizer companies in Australia. Leveraging

on their customer base, sales teams, and distribution networks, the Group expects to expand market share and accelerate sales growth in the fertilizer industry in the country.

Horticulture sales remained steady in 2004. NutriSmart™'s good performance has brought in a great deal of repeat sales.

Increased sales to sugar cane farmers have demonstrated the growing popularity of NutriSmart™ in the industry. Given the rising costs of conventional fertilizers and external environmental

The Way Forward

As the demand for crops grown under cleaner, healthier and greener conditions increases exponentially all over the world, it is anticipated that the market share of NutriSmart™ will also grow at a rapid pace. Its environmentally friendly and yield effective features will be a big draw in the pursuit of sustainable agriculture.

Bioremediation

In 2004, continued efforts were made to strengthen the Group's bioremediation business. The efficacy of WonderTreat™, particularly



In Australia, horticulture sales remained steady in 2004. NutriSmart™'s good performance has brought in a great deal of repeat sales.

pressures, NutriSmart™'s appeal has intensified. Sales growth in this segment is highly promising.

Market studies have indicated that there is tremendous scope for NutriSmart™ to extend its market share in broadacre cropping, which includes cereals, grains and cotton. Efforts will be launched to capture this big potential sector.

The Group will focus on positioning NutriSmart™ in three major areas to extend market penetration in Australia: in blends with conventional fertilizer; as an organic fertilizer; and as a nutrient enhancer.

in the areas of odour emission control, algae growth control and acceleration of composting, has been acknowledged in key markets such as China and Australia.

In Australia, the performance of WonderTreat™ in controlling bulking and foaming in sewage treatment, odour emission and algae growth, and accelerating the composting process in several states including Queensland, South Australia, and New South Wales has generated great interest in using WonderTreat™ to replace or complement conventional practice.

In the future, the Group plans to continue to launch efforts to expand existing markets and explore new channels and new markets such as North America in the development of the bioremediation business.

HEALTH BUSINESS

The Group's health business showed steady progress in 2004. New products were launched in the nutraceutical category and satisfactory research results were attained from collaborative studies carried out on the pharmaceutical solutions developed by the Group.



Nutraceuticals

Research & Development

Based on the Group's immune enhancement R&D platform, a number of research studies have been conducted, and a series of nutraceutical products for modulating and enhancing the immune system have been developed.

Collaborative immunity research studies carried out in conjunction with the Massachusetts General Hospital / Harvard Medical School, the Peking Union Medical College in China and the Chinese University of Hong Kong have demonstrated that the Group's invention is able to induce the secretion of cytokines and increase the phagocytic index of macrophage. Cytokines are small biological factors that are released by cells and have specific regulatory effects on cell functions, such as cell proliferation and programmed cell death

(apoptosis). Their presence guarantees the smooth functioning of the immune system.

Of the Group's 10 nutraceutical inventions, 7 have been granted patents by the US Patent and Trademark Office so far. These dietary supplements address the needs of immuno-enhancement, hyperlipemia and the gastrointestinal system; regulate the liver function and male hormone; and improve the kidney function and memory. Nutraceuticals based on these inventions have either been rolled out already or are scheduled to be launched in the near future.

IgE level may increase in the circulation and trigger off a chain of reaction that leads to allergic symptoms. The results from this study revealed that the subjects' IgE levels reduced while their nasal allergy symptoms showed significant signs of relief, and the two sets of results have served to corroborate each other.

"VitaGain™ Nasal Allergy Relief" is the top selling product of the VitaGain™ range. The positive results generated by the application research provide a solid backup, making "VitaGain™ Nasal Allergy Relief" a unique product in the market supported by clinical data.



"VitaGain® Immune Booster MACIMA™", developed according to the Group's MACIMA theory, is specifically catered for those who have undergone major surgery as well as for strengthening immunity before, during or after radiotherapy/ chemotherapy.

Application Research for VitaGain™ Nasal Allergy Relief

In 2004, an application research study was conducted in collaboration with Town Health International Holdings Company Limited to demonstrate the efficacy and mechanism of "VitaGain™ Nasal Allergy Relief". The application research was carried out according to guidelines set out by Good Clinical Practice (GCP) and Good Laboratory Practice (GLP).

The findings in the study showed that the subjects, all suffering from nasal allergies, reported an average of a 40% improvement in overall symptoms, and their blood samples have shown a marked decrease in Immunoglobulin E (IgE) levels. IgE is a class of immunoglobulins. It is an allergy antibody produced by the immune system. When a human is allergic to a substance (allergen), the

Product Launch

During the year, the VitaGain™ range of nutraceutical products was further extended. Several new products including "VitaGain™ For Daily Immunity" oral liquid, the capsule forms of "VitaGain™ For Daily Immunity" and "VitaGain™ Nasal Allergy Relief", and "VitaGain® Immune Booster MACIMA™" oral liquid were introduced to the market.

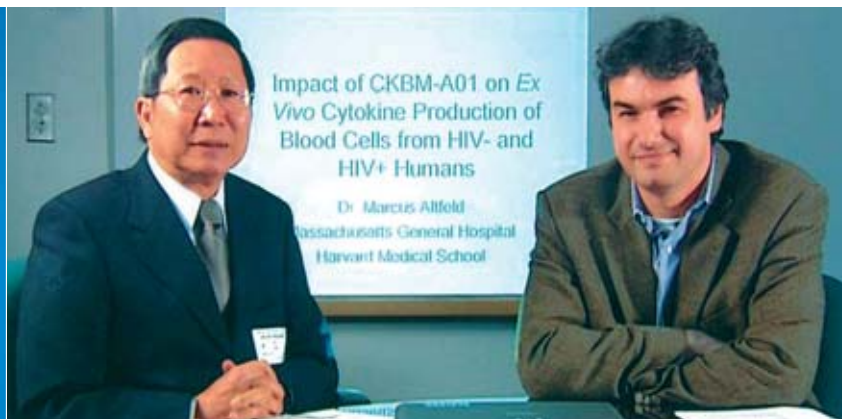
"VitaGain™ For Daily Immunity" is designed to help healthy individuals meet the challenges of everyday life, while "VitaGain® Immune Booster MACIMA™", developed according to the Group's MACIMA (Multiple Actions on Cytokines and Immuno-Modulatory Approach) theory, is specifically catered for those who have undergone major surgery as well as for strengthening immunity before, during or after radiotherapy/ chemotherapy. The importance

of immunity as a medical premise was well received amongst health-conscious individuals and the sales of these new products have been picking up steadily. Repeat purchases by consumers have enhanced the popularity of the products through a snowball effect, further widening the customer base of VitaGain™.

The introduction of a capsule form for "VitaGain™ For Daily Immunity" and "VitaGain™ Nasal Allergy Relief" has made the product more user-friendly and more convenient to carry, contributing to improved sales.

Despite being a relatively young brand in the nutraceutical arena, VitaGain™ has been able to attract the attention of consumers and market practitioners with its association with the concept of immunity. The launch of VitaGain™ has ushered in a trend for immunity-related products in the market.

In the future, the Group will add more new products to the VitaGain™ range and further expand its market share. At the same time, market penetration and extension to overseas markets will be accelerated.



Awards

During the year under review, the VitaGain™ brand received the "Superbrand" seal of recognition. This award recognises the most eminent consumer brands in the territory, and strongly affirms the prominence of the VitaGain™ brand name as a quality health product.

At the end of 2004, the VitaGain™ brand was presented with "The Best New Product" award by Watson's at the 2004 Health & Beauty Awards. VitaGain™ was selected from more than 25,000 health, personal care and beauty product brands from eight countries. Outstanding products were selected based on criteria such as customer appraisals and sales quantity.

Research & Development of Pharmaceuticals

Patent Progress

As at the beginning of 2005, the Group has been granted 4 patent approved notices of allowance for its pharmaceutical inventions by the US Patent and Trademark Office - they are methods and compositions for treating renal failure, male sexual dysfunction, Hepatitis B and epilepsy. The granting of the patents shows recognition of the Group's innovativeness in pharmaceutical development.

In the Group's portfolio, there are 27 pharmaceutical inventions pending patent approval, while another 19 inventions are at patent drafting stage.

AIDS Research

The joint study with the Partners AIDS Research Center at the Massachusetts General Hospital - the largest teaching hospital of Harvard Medical School - showed encouraging results. The *in vitro* study revealed that the Group's AIDS product has immunomodulating effects in the blood samples of both HIV+ and HIV- (i.e. healthy) individuals. The product was shown to significantly induce the cytokine secretion of TNF-alpha by immune cells, including macrophages, neutrophils as well as Natural Killer cells. The secretion

Research by The University of Hong Kong

In a research study conducted in collaboration with The University of Hong Kong, gastric cancer xenografts were implanted into the bodies of nude mice. These cancer implanted mice were treated with CK Life Sciences' anti-cancer product. The xenografts were then extracted for tumor volume measurement, and tumors in the anti-cancer product treated-mice were found to have significantly reduced in size as compared to the control group. It was found that the action was achieved through the induction of apoptosis and the inhibition of the proliferation of cancer cells.



The performance of the Group's anti-cancer product was studied in collaborative trials with several renowned universities and research institutes. Positive results were reaped and the efficacy of the Group's product was further testified.

of TNF-alpha by the three types of immune cells helps to combat foreign matter such as viruses and kills mutated cells.

Early results of the clinical trial conducted by Swinburne University and Macfarlane Burnet Research Institute in Australia indicated that the CD4 counts of patients have increased and improvements in liver function were recorded. No significant side effects were reported and the trial is still in progress.

Cancer Research

The Group's cancer research has shown satisfactory progress in 2004. Collaborations with several renowned universities and research institutes have reaped positive results and further testified the efficacy of the Group's product.

Effect of CK Life Sciences' Anti-Cancer Product on Gastric Tumor Growth

Duration of Treatment	Findings (compared with Control Group)
28 Days	0.2ml/day, tumor volume reduced by 30%
	0.4ml/day, tumor volume reduced by 48%
	0.8ml/day, tumor volume reduced by 56%

Research by Cancer Institute and Hospital, Chinese Academy of Medical Sciences

The objective of the research conducted by the Cancer Institute and Hospital, Chinese Academy of Medical Sciences is to assess the *in vitro* anti-tumor effect of the Group's product on different kinds of cancer. Research findings demonstrated the significant efficacy of the product in primary cell cultures of gastric, colon, breast, bladder, lymphoma and pancreatic cancer. The product was found particularly effective when used to inhibit the growth of primary breast and bladder cancer cells.

Research by The Hong Kong University of Science and Technology

CK Life Sciences and The Hong Kong University of Science and Technology have embarked on a large-scale cancer research initiative with the support of the Innovation and Technology Commission in Hong Kong. Efforts made in 2004 have resulted in encouraging interim figures. A series of *in vitro* and *in vivo* studies indicated that the Group's anti-cancer product has strong inhibitory effects on the growth of prostate and breast cancer cells.

Together with The Hong Kong University of Science and Technology, the Group has also established the first-ever pharmacogenomic



Inhibitory Effect of CK Life Sciences' Anti-Cancer Products on Primary Tumor Cell Cultures

Types of Cancer	IC ₅₀ (Concentration required to achieve 50% inhibitory effect on tumor growth)
Bladder	1.0%
Breast	1.6%
Gastric	3.4%
Colon	3.7%

(Figures Represent the Median)

This study has given insight into the relationship between the dosage and the inhibitory effect on tumors, demonstrating the product's wide application on different types of cancer.

and pharmacogenetic database for the Chinese population. Data collected from animal tests have been tabulated and three different types of animal genes, resembling human genes, have been identified which respond to the Group's product. Blood and liver samples from human subjects will be extracted to investigate the suitability of the product on the Chinese population.

Research by The University of British Columbia

The *in vitro* study conducted by The University of British Columbia has analysed the effects of the Group's anti-cancer product on cell proliferation and cell viability of human-derived, pre-neoplastic and malignant ovarian surface epithelial cell lines. During the study, the cells were cultured in the presence of different dosages of the Group's product for different lengths of time. It was found that the Group's product is effective in promoting apoptosis and inhibiting

cell proliferation of pre-neoplastic and malignant ovarian cancer cells in a dose-and time-dependent manner through the use of fluorescent immunocytochemistry staining technique and ^3H -thymidine incorporation assay.

Clinical Trials

Building on the success of the pre-clinical studies, clinical trials are underway in collaboration with The University of Hong Kong and The Chinese University of Hong Kong to test the efficacy of the Group's product on colorectal, lung, breast, prostate and liver cancer.

presentations on their specialized subjects, while research scientists of CK Life Sciences have explained the cancer research results of the Group. The seminars have provided the public with a valuable opportunity to find out more about the effects of cancer and to have questions close to their heart answered by some of the most prominent specialists in the field.

The CK Cancer Institute has also set up a cancer hotline to provide members of the public with a channel for voicing their cancer concerns and queries to a panel of renowned cancer specialists,



The CK Cancer Institute was set up to conduct cancer-related R&D and community services. The Institute seeks to make a positive difference to the quality of life of cancer patients in the territory.

CK Cancer Institute

The CK Cancer Institute was set up at the end of 2004 to conduct cancer-related R&D and community services. The Institute seeks to act as an important channel of information, help to alleviate effects of the disease and ultimately make a positive difference to the quality of life of cancer patients in the territory. Through organizing community events, up-to-date information on cancer and related research can be conveyed to the general public, raising public awareness on cancer.

Since its establishment, the CK Cancer Institute has organized a series of cancer seminars and exhibitions on different topics. Leading oncologists and medical professionals have been invited to deliver

oncologists and research scientists. This information channel is poised to perform an important public service to the community.

Continued Efforts to Ensure R&D Advancement

The Group is committed to accelerating the development of its pharmaceutical products through continued R&D efforts. Alongside the pre-clinical studies, the Group will dedicate considerable resources to large-scale clinical trials. These trials are integral to bringing the Group's product to the market, helping to fulfill CK Life Sciences' overriding goal of bringing effective health solutions to the world.

DIRECTORS AND SENIOR MANAGEMENT

Directors' Biographical Information

LI Tzar Kuoi, Victor

aged 40, is the Chairman of the Group since April 2002. He is the Managing Director and Deputy Chairman of Cheung Kong (Holdings) Limited. He is also the Chairman of Cheung Kong Infrastructure Holdings Limited, Deputy Chairman of Hutchison Whampoa Limited, an Executive Director of Hongkong Electric Holdings Limited, Co-Chairman of Husky Energy Inc. and a Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Li serves as a member of the Standing Committee of the 10th National Committee of the Chinese People's Political Consultative Conference. He is also a member of the Commission on Strategic Development and the Economic and Employment Council of the Hong Kong Special Administrative Region. Mr. Li holds a Bachelor of Science degree in Civil Engineering and a Master of Science degree in Structural Engineering. Mr. Victor Li is son of Mr. Li Ka-shing, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), and nephew of Mr. Kam Hing Lam, President and Chief Executive Officer of the Company. Mr. Victor Li is also a Director of each of (i) Triluck Assets Limited, a management shareholder of the Company, and (ii) Trueway International Limited, (iii) Tangiers Enterprises Limited, (iv) Gold Rainbow Int'l Limited, (v) Gotak Limited and (vi) Cheung Kong (Holdings) Limited, all being substantial shareholders of the Company within the meaning of Part XV of the SFO.

KAM Hing Lam

aged 58, 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 the Deputy Managing Director of Cheung Kong (Holdings) Limited, the Group Managing Director of Cheung Kong Infrastructure Holdings Limited, and an Executive Director of Hutchison Whampoa Limited and Hongkong Electric Holdings Limited. 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 52, 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 an Executive Director of Cheung Kong (Holdings) Limited, Executive Director and Deputy Chairman of Cheung Kong Infrastructure Holdings Limited and a Non-executive Director of TOM Group Limited. He holds a Bachelor of Arts degree in Economics and a Master of Science degree in Business Administration. Mr. Ip is also a Director of each of (i) Triluck Assets Limited, a management shareholder of the Company, and (ii) Trueway International Limited, (iii) Tangiers Enterprises Limited, (iv) Gold Rainbow Int'l Limited, (v) Gotak Limited and (vi) Cheung Kong (Holdings) Limited, all being substantial shareholders of the Company within the meaning of Part XV of the SFO.

YU Ying Choi, Alan Abel

aged 49, is the Vice President and Chief Operating Officer of the Group responsible for the commercial activities of the Group, including manufacturing and marketing of all product applications. Mr. Yu holds a Bachelor of Arts degree and a Master's degree in Business Administration. Mr. Yu has held a number of positions in multinational corporations, including Standard Chartered Bank, Dairy Farm and American Express, in Hong Kong and overseas. Prior to joining the Group in January 2000, he was a Worldwide Vice President with Johnson & Johnson.

PANG Shiu Fun

aged 60, is the Vice President and Chief Technology Officer of the Group responsible for technical development of products. Dr. Pang holds a Bachelor of Science degree from The Chinese University of Hong Kong, a Master of Arts degree from The California State University and a Doctorate in Biology from The University of Pittsburgh. Dr. Pang has been lecturing and conducting research in Canada and Hong Kong. He joined the Cheung Kong Group in March 2000 and the Group in April 2000. Prior to joining the Group, he was Head of the Department of Physiology, Faculty of Medicine, The University of Hong Kong. He has published numerous articles and books in biological sciences. He has been the Founding Editor and Editor-in-Chief of Biological Signals and Biological Signals and Receptors, Founding President of The Hong Kong Society of Neurosciences, Adjunct Professor of The University of Toronto and The Clarke Institute of Psychiatry, Toronto, and is Honorary or Visiting Professor of over ten universities.

CHU Kee Hung

aged 60, is the Vice President and Chief Production Officer of the Group responsible for microbe processing and production. Dr. Chu holds a Bachelor of Science degree in Physics from The Chinese University of Hong Kong, a Master of Science degree and a Doctor of Philosophy degree both in Engineering Science from The University of California at Berkeley. He began working for the Group in January 2001. Prior to joining the Group, he has held a variety of senior positions in major corporations such as General Electric and the Cheung Kong Group, and has over 20 years' experience in project management, design, construction, operations and management of power plants in the United States, Mainland China and Hong Kong.

LAM Hing Chau, Leon

aged 47, is the Vice President and Chief Financial Officer of the Group responsible for finance, accounting, information technology support and administration. Mr. Lam holds a Bachelor's degree in Social Sciences from The University of Hong Kong. He is a Fellow of the Hong Kong Institute of Certified Public Accountants, CPA Australia and The Association of Chartered Certified Accountants, United Kingdom. Mr. Lam also holds Master's degrees in Information Systems, Business Administration, Applied Finance and Electronic Commerce. Mr. Lam has held a number of senior financial positions in major corporations, including Mentholatum Company (HK) Ltd., Swire Group and Novartis Pharmaceuticals Ltd. Prior to joining the Group in August 2000, he was Vice President — Finance in Bacardi-Martini Asia Pacific Ltd.

KWAN Chiu Yin, Robert, JP

aged 68, is a retired Certified Public Accountant. Mr. Kwan received his Master of Arts degree at Cambridge University and qualified as a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants. He was the Past Chairman of Deloitte Touche Tohmatsu, Certified Public Accountants in Hong Kong and Ocean Park Corporation and is currently an Independent Non-executive Director of Cheung Kong (Holdings) Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO, Pak Fah Yeow International Limited, Melco International Development Limited and Shun Tak Holdings Limited. Mr. Kwan was appointed a Non-executive Director of the Group in June 2002 and was re-designated an Independent Non-executive Director of the Group in September 2004. Mr. Kwan is a member of the Audit Committee of the Company.

TULLOCH, Peter Peace

aged 61, serves as a Senior Advisor for Asia of Canadian Imperial Bank of Commerce since January 2003 after his retirement from the offices of Managing Director, Asia of CIBC World Markets and a Director of MLC (Hong Kong) Limited. Mr. Tulloch is a Director of CrossCity Motorway Pty Limited and Lane Cove Tunnel Company Pty Limited, Chairman and a Director of Paton Fertilizers Pty Limited, a wholly owned subsidiary of the Company, a Co-Chairman and a Director of each of ETSA Utilities, Powercor Australia Limited and CitiPower Pty, and a Non-executive Director of CIBC Australia Holdings Limited and Asset Backed Securitisation Corporation 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.

WONG Yue-chim, Richard, SBS, JP

aged 52, 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. Professor Wong 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 62, currently serves as Chair and Chief Executive Officer of Amara International Investment Corporation. Mrs. Kwok also acts as an Independent Director for Husky Energy Inc., Bank of Montreal and Shoppers Drug Mart Corporation. She is also an Independent Non-executive Director of Cheung Kong Infrastructure Holdings Limited. 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 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 Chairman of the Remuneration Committee of the Company.

RUSSEL, Colin Stevens

aged 64, 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.

Senior Management's Biographical Information**CHEUNG Ling Yuk, Larry**

aged 50, Chief Scientist of CK Biotech Laboratory Limited, is responsible for leading a team of scientists in the research and development of new applications for the Group. He has over 20 years of scientific research experience in the field of biotechnology. Mr. Cheung has experience in many scientific fields including immunology, oncology, AIDS research, agriculture, animal husbandry, ecology and microbiology. Before joining the Cheung Kong Group in December 1999, he operated a research laboratory and a number of associated commercial entities in Mainland China. He joined the Group in May 2002. He has authored many publications, journal articles and abstracts in the area of biotechnology, such as bioremediation and fertilizers.

CHAN Peter Wing Kwong

aged 56, is a Business Development Director of the Group. He holds a Doctor of Pharmacy degree and also an Adjunct Assistant Professor of Pharmacy Practice, from the University of Southern California School of Pharmacy. Dr. Chan has over 25 years of experience in sales, marketing and general management in multinational corporations in the United States, with extensive exposure to a variety of pharmaceutical and nutraceutical products. Dr. Chan has held a number of senior management positions in NeXstar Pharmaceuticals, Inc., Iolab Corporation (a Johnson & Johnson company) and Alcon Laboratories, Inc. Prior to joining the Group in January 2003, he was Managing Director, Pacific Rim Region for Leiner Health Products, Inc., in California.

CHEN Yuguang

aged 46, is the Technical Services Director of the Group. He holds a Doctor of Philosophy degree in Plant Physiology from The Iowa State University. He has 14 years' experience in technology and product development of the agribusiness, seed technology research and basic plant biochemistry and physiology research in the United States. He has held a number of management positions at Syngenta and Novartis in North America. Prior to joining the Group in April 2002, he was the Manager, Seed Treatment Technology Platform, with Syngenta AG (NAFTA Region), where he contributed to the discovery of a new seed and agrochemicals technology.

LAM Hak Loong, Daniel

aged 51, is a Business Development Director of the Group. He holds a Doctor of Business Administration from the University of South Australia. He has over 24 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 38, is the Controller, Laboratory Operations, of the Group. She graduated from China Technology and Operation Management University in Mainland China with 12 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 44, the Company Secretary, has been with the Cheung Kong Group since August 1994 and she joined the Group in January 2002. She is also the Corporate Business Counsel & 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 and of the Supreme Court of Judicature in England and Wales. She holds a Bachelor's degree in Laws and a Master's degree in Business Administration. Ms. Yeung is a panel member of The Hong Kong Institute of Company Secretaries.

TONG BARNES Wai Che, Wendy

aged 44, is the Chief Corporate Affairs Officer responsible for the overall corporate activities of the Group including public relations and communications management. She is also the Chief Corporate Affairs Officer of Cheung Kong (Holdings) Limited and Cheung Kong Infrastructure Holdings Limited. She holds a Bachelor's degree in Business Administration from The University of Hawaii and has had experience in a number of industries, including hotel, property, telecommunications, media, infrastructure, retail and energy and held a number of senior positions with major corporations including Wharf Holdings Limited, Hong Kong Cable Communications Ltd. and Mass Transit Railway Corporation. Prior to joining the Cheung Kong Group, she was the Managing Director of Bozell Tong Barnes PR. Ms. Tong Barnes joined the Group in January 2002.

LIN Jian-er

aged 49, is the Microbe Processing Director of the Group. He holds a Doctor of Philosophy degree in Chemical Engineering from the University of Michigan with over 10 years' experience in research and development on biochemical/chemical processes and products. Dr. Lin has extensive experience in biotechnology and process optimization, scale-up and validation for agricultural, environmental, industrial and household products. He has held a number of senior positions in leading corporations in the United States including Celgene Corporation, Technical Resources Inc., and Novozymes Biologicals (formerly known as Sybron Biochemicals). Prior to joining the Group in December 2003, he was Director, Process Development & Product Scale-Up with AgraQuest Inc., U.S.

ZHANG Shifu

aged 53, 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.

FINANCIAL SUMMARY

Year ended 31 December

	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Consolidated results summary					
Turnover	–	148	61,447	192,268	329,627
Results from operations	(137,467)	(57,896)	(60,475)	657	1,258
Profit/(loss) attributable to shareholders	(137,491)	(57,934)	(88,895)	928	1,929

As at 31 December

	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Consolidated balance sheet summary					
Non-current assets	175,438	232,293	2,469,723	2,515,897	2,310,811
Current assets	10,887	13,412	349,634	343,832	751,996
Current liabilities	(61,643)	(20,116)	(24,922)	(46,292)	(149,596)
Non-current liabilities	(262,173)	(421,014)	–	–	(68,223)
Minority interests	–	–	(351)	(121)	(49,283)
Shareholders' fund/(deficit)	(137,491)	(195,425)	2,794,084	2,813,316	2,795,705

FINANCIAL REVIEW

Financial Resources, Liquidity and Treasury Policies

In 2004, the Group continued to operate in a sound and healthy financial position with adequate resources for its scientific research activities and business development.

As at 31 December 2004, the net asset value of the Group was about HK\$2,795,705,000, representing HK\$0.44 per share. The total bank balances and cash amounted to HK\$442,850,000, of which HK\$157,000,000 was applied to fund its business expansion and research and development activities. Since the new subsidiary companies had maintained loans, the Group started to record total borrowings of HK\$94,322,000 in 2004. As such, the gearing ratio, which is borrowings over shareholders' fund, was 0.03.

The Group has maintained the same investment and treasury policies as before in managing its financial instruments and foreign currency exposures. With the aim to achieve higher return for the Group, a total sum of about HK\$1,862,188,000 was invested in different financial instruments at the end of the year under review, from which an investment income of about HK\$204,423,000 was recorded. In view of the continuing expansion of its business overseas in the coming years, the Group will closely monitor the overall exchange and interest rate exposures and will apply appropriate financial tools, where necessary, to ensure that the risks on such exposures are reduced to the minimum.

Material Acquisition/Disposals and Significant Investment

Other than the acquisition of an Australian fertilizer company as per the circular to shareholders dated 5 July 2004, there were no other material acquisitions in the year 2004 which would have been required to be disclosed under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The Group continued to invest significantly in research and development activities and such investment amounted to about HK\$91,384,000 in 2004.

Capital Commitments and Future Plans for Material Investments or Capital Assets

As of the end of 2004, the total capital commitments by the Group amounted to HK\$15,597,000 which were mainly made up of contracted commitments in respect of the acquisition of laboratory, instrument, plant and equipment.

Information on Employees

The expansion of the Group's business, particularly in China and Australia, had resulted in an increase in the total staff number from 298 in 2003 to 411 in 2004. The additional headcount was mainly to cope with the increasing marketing and research and development activities. The total staff costs, including directors' emoluments, amounted to approximately HK\$105,636,000 for 2004.

The Group's remuneration policies are reviewed on an annual basis and commensurate with the industry pay level. The remuneration package includes basic salary, provident fund, medical benefits and discretionary bonus. Besides, a share option scheme has been adopted as a long-term incentive scheme for the employees. Recreational, social and sport activities were also arranged for the employees during the year.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2004 (2003: Nil).

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 2004.

Principal Activities

The principal activities of the Company are investment holding and the activities of its subsidiaries are research and development, commercialization, marketing and sale of biotechnology products as well as investments in financial instruments/products.

Results and Appropriations

Results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 54.

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 11 to the financial statements.

Share Capital

Movements in share capital of the Company during the year are set out in note 25 to the financial statements.

Reserves

Movements in reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

Directors

The Directors of the Company are listed on page 91. The Directors' biographical information is set out on pages 28 to 31.

On 23 September 2004, Mr. Kwan Chiu Yin, Robert was re-designated as an Independent Non-executive Director of the Company.

Mr. Colin Stevens Russel was appointed as an Independent Non-executive Director of the Company on 1 January 2005. The Company's Articles of Association provides that any Director appointed by the Board of Directors of the Company ("Board") shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Accordingly, Mr. Colin Stevens Russel being the Director so appointed, shall hold office until the forthcoming annual general meeting and, being eligible, offer himself for re-election.

Further, in accordance with the Company's Articles of Association, the Directors of the Company (including Non-executive Directors) retire by rotation at each annual general meeting. Mr. Yu Ying Choi, Alan Abel, Dr. Pang Shiu Fun and Dr. Chu Kee Hung will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 2004, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code on Securities Transactions by Directors adopted by the Company ("Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

(1) Long positions in the shares of the Company

Name of Director	Capacity	Number of Ordinary Shares				Total	Approximate % of Shareholding
		Personal Interests	Family Interests	Corporate Interests	Other Interests		
Li Tzar Kuoi, Victor	Beneficial owner & beneficiary of trusts	1,500,000	–	–	2,820,008,571 (Note 1)	2,821,508,571	44.04%
Kam Hing Lam	Interest of child or spouse	–	4,150,000	–	–	4,150,000	0.06%
Ip Tak Chuen, Edmond	Beneficial owner	1,500,000	–	–	–	1,500,000	0.02%
Yu Ying Choi, Alan Abel	Beneficial owner	1,500,000	–	–	–	1,500,000	0.02%
Pang Shiu Fun	Beneficial owner & interest of child or spouse	1,500,700 (Note 2)	700 (Note 2)	–	–	1,500,700	0.02%
Chu Kee Hung	Beneficial owner	1,500,000	–	–	–	1,500,000	0.02%
Lam Hing Chau, Leon	Beneficial owner	1,250,000	–	–	–	1,250,000	0.02%
Kwan Chiu Yin, Robert	Interest of a controlled corporation	–	–	500,000 (Note 3)	–	500,000	0.01%
Peter Peace Tulloch	Beneficial owner	700,000	–	–	–	700,000	0.01%
Wong Yue-chim, Richard	Beneficial owner	250,000	–	–	–	250,000	0.004%
Kwok Eva Lee	Beneficial owner	200,000	–	–	–	200,000	0.003%

Notes:

1. Such 2,820,008,571 shares are held by a subsidiary of Cheung Kong (Holdings) Limited ("Cheung Kong Holdings"). Li Ka-Shing Unity Trustee Company Limited ("TUT") as trustee of The Li Ka-Shing Unity Trust (the "LKS Unity Trust") and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings. Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust hold all issued and outstanding units in the LKS Unity Trust but are not entitled to any interest or share in any particular property comprising the trust assets of the LKS Unity Trust. The discretionary beneficiaries of such discretionary trusts are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Mr. Li Tzar Kuoi, Victor, as a discretionary beneficiary of such discretionary trusts and a Director of the Company, is taken to be interested in those shares of Cheung Kong Holdings and thus is taken to be interested in those 2,820,008,571 shares held by the subsidiary of Cheung Kong Holdings under the SFO.
2. Such interests comprise the same block of 700 shares jointly held by Dr. Pang Shiu Fun and his wife.
3. Such shares are held by a company wholly-owned by Mr. Kwan Chiu Yin, Robert.

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

Pursuant to the share option scheme adopted by the Company on 26 June 2002 (the "Scheme"), certain Directors in the capacity as beneficial owners were granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 31 December 2004 were as follows:

Name of Director	Date of grant	Number of share options					Outstanding as at 31 December 2004	Option period	Subscription price per share HK\$
		Outstanding as at 1 January 2004	Granted during the year	Exercised during the year	Cancelled/lapsed during the year	Outstanding as at 31 December 2004			
Yu Ying Choi, Alan Abel	30/9/2002	310,000	-	-	-	310,000	30/9/2003 – 29/9/2012	1.598	
	27/1/2003	690,000	-	-	-	690,000	27/1/2004 – 26/1/2013	1.446	
	19/1/2004	-	690,000	-	-	690,000	19/1/2005 – 18/1/2014	1.762	
Pang Shiu Fun	30/9/2002	310,000	-	-	-	310,000	30/9/2003 – 29/9/2012	1.598	
	27/1/2003	690,000	-	-	-	690,000	27/1/2004 – 26/1/2013	1.446	
	19/1/2004	-	690,000	-	-	690,000	19/1/2005 – 18/1/2014	1.762	
Chu Kee Hung	30/9/2002	310,000	-	-	-	310,000	30/9/2003 – 29/9/2012	1.598	
	27/1/2003	690,000	-	-	-	690,000	27/1/2004 – 26/1/2013	1.446	
	19/1/2004	-	690,000	-	-	690,000	19/1/2005 – 18/1/2014	1.762	
Lam Hing Chau, Leon	30/9/2002	222,000	-	-	-	222,000	30/9/2003 – 29/9/2012	1.598	
	27/1/2003	480,000	-	-	-	480,000	27/1/2004 – 26/1/2013	1.446	
	19/1/2004	-	480,000	-	-	480,000	19/1/2005 – 18/1/2014	1.762	

Save as disclosed above, during the year ended 31 December 2004, 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 2004, 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 10% of the total number of shares of the Company in issue as at the listing date of the Company and 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 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 2004, options to subscribe for an aggregate of 21,250,000 shares of the Company granted to certain continuous contract employees (including the Executive Directors of the Company as disclosed above and the management shareholder as disclosed below) pursuant to the Scheme were outstanding, details of which were as follows:

Date of grant	Outstanding as at 1 January 2004	Number of share options				Outstanding as at 31 December 2004	Option period	Subscription price per share
		Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year			
30/9/2002	3,952,000	–	34,500 (Note 1)	257,000	–	3,660,500	30/9/2003 – 29/9/2012 (Note 2)	1.598
27/1/2003	9,146,000	–	317,100 (Note 1)	643,400	–	8,185,500	27/1/2004 – 26/1/2013 (Note 3)	1.446
19/1/2004	–	10,160,000 (Note 4)	–	756,000	–	9,404,000	19/1/2005 – 18/1/2014 (Note 5)	1.762 (Note 6)

Details of the share options granted to Mr. Cheung Ling Yuk, Larry, a management shareholder of the Company, pursuant to the Scheme as at 31 December 2004 were as follows:

Date of grant	Outstanding as at 1 January 2004	Number of share options				Outstanding as at 31 December 2004	Option period	Subscription price per share
		Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year			
30/9/2002	316,000	–	–	–	–	316,000	30/9/2003 – 29/9/2012 (Note 2)	1.598
27/1/2003	580,000	–	–	–	–	580,000	27/1/2004 – 26/1/2013 (Note 3)	1.446
19/1/2004	–	580,000 (Note 4)	–	–	–	580,000	19/1/2005 – 18/1/2014 (Note 5)	1.762 (Note 6)

Notes:

1. The weighted average closing price of the shares of the Company immediately before the date on which the options were exercised is HK\$1.764.
2. The options are exercisable from 30 September 2003 to 29 September 2012 (both days inclusive) subject to the following vesting period:
 - (i) up to 35% of the options commencing on 30 September 2003;
 - (ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 30 September 2004; and
 - (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 30 September 2005.
3. The options are exercisable from 27 January 2004 to 26 January 2013 (both days inclusive) subject to the following vesting period:
 - (i) up to 35% of the options commencing on 27 January 2004;
 - (ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 27 January 2005; and
 - (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 27 January 2006.
4. HK\$1.00 has been received by the Company from each participant as consideration for the grant.
5. The options are exercisable from 19 January 2005 to 18 January 2014 (both days inclusive) subject to the following vesting period:
 - (i) up to 35% of the options commencing on 19 January 2005;
 - (ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) commencing on 19 January 2006; and
 - (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) commencing on 19 January 2007.
6. The closing price of the shares of the Company immediately before the date on which the options were granted is HK\$1.77.

The Directors are of the view that the calculation of the value of share options granted by the Company during the year depends on a number of variables, which are either difficult to ascertain or can only be ascertained subject to a number of theoretical bases and speculative assumptions. As such, the value of share options is not presented in this annual report.

Interests and Short Positions of Shareholders

So far as is known to any Director or chief executive of the Company, as at 31 December 2004, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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

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

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

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

(Note vi)

Notes:

- i. This represents the same block of shares in the Company as shown against the name of Gold Rainbow Int'l Limited ("Gold Rainbow") above. Since Gold Rainbow is wholly-owned by Gotak Limited, Gotak Limited is deemed to be interested in the same number of shares in which Gold Rainbow was interested under the SFO.
- ii. As Gotak Limited is wholly-owned by Cheung Kong Holdings, Cheung Kong Holdings is deemed to be interested in the same number of shares which Gotak Limited is deemed to be interested under the SFO.
- iii. TUT as trustee of the LKS Unity Trust and companies controlled by TUT as trustee of the LKS Unity Trust hold more than one-third of the issued share capital of Cheung Kong Holdings. TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust and TDT2 as trustee of another discretionary trust hold all issued and outstanding units in the LKS Unity Trust but are not entitled to any interest or share in any particular property comprising the trust assets of the LKS Unity Trust. Under the SFO, each of TUT as trustee of the LKS Unity Trust, TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust and TDT2 as trustee of another discretionary trust is deemed to be interested in the same block of shares as Cheung Kong Holdings is deemed to be interested as disclosed in Note ii above.
- iv. Trueway International Limited ("Trueway") and Triluck Assets Limited ("Triluck") are wholly-owned by Tangiers Enterprises Limited ("Tangiers") and Tangiers is deemed to be interested in a total of 1,880,005,715 shares under the SFO, being the aggregate of the shares in which Trueway and Triluck were interested as shown against the names Trueway and Triluck above.
- v. This represents the aggregate of the blocks of shares in the Company in which Tangiers and Cheung Kong Holdings are respectively deemed to be interested under the SFO. As Mr. Li Ka-shing owns the entire issued share capital of Tangiers and one-third of the issued share capital of Li Ka-Shing Unity Holdings Limited which in turn holds the entire issued share capital of TUT, TDT1 and TDT2, under the SFO, Mr. Li Ka-shing is deemed to be interested in the same number of shares in which both Tangiers and Cheung Kong Holdings are deemed to be interested as mentioned above.
- vi. The interests of Mr. Cheung Ling Yuk, Larry in the share options granted by the Company are separately disclosed in the paragraphs headed "Details of options granted by the Company" of the section headed "Share Option Scheme".

Save as disclosed above, as at 31 December 2004, 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, commercialization, marketing and sale of biotechnology products.
- (ii) Investments in financial instruments/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)	(i) & (ii)
	Hutchison Whampoa Limited	Deputy Chairman (Note 1)	(i) & (ii)
	Cheung Kong Infrastructure Holdings Limited	Chairman (Note 1)	(ii)
	Hongkong Electric Holdings Limited	Executive Director (Note 1)	(ii)
Kam Hing Lam	Cheung Kong (Holdings) Limited	Deputy Managing Director (Note 1)	(i) & (ii)
	Hutchison Whampoa Limited	Executive Director (Note 1)	(i) & (ii)
	Cheung Kong Infrastructure Holdings Limited	Group Managing Director (Note 1)	(ii)
	Hongkong Electric Holdings Limited	Executive Director	(ii)
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited	Executive Director	(i) & (ii)
	Cheung Kong Infrastructure Holdings Limited	Executive Director and Deputy Chairman	(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)
	Hanny Holdings Limited	Non-executive Director	(ii)
	Shougang Concord International Enterprises Company Limited	Non-executive Director	(ii)

Name of Director	Name of Company	Nature of Interest	Competing Business (Note 2)
Pang Shiu Fun	Cheung Kong (Holdings) Limited	Shareholder	(i) & (ii)
	Hutchison Whampoa Limited	Shareholder	(i) & (ii)
	Cheung Kong Infrastructure Holdings Limited	Shareholder	(ii)
	TOM Group Limited	Shareholder	(ii)
Kwan Chiu Yin, Robert	Cheung Kong (Holdings) Limited	Independent Non-executive Director	(i) & (ii)
	Pak Fah Yeow International Limited	Independent Non-executive Director	(i) & (ii)
	Melco International Development Limited	Independent Non-executive Director	(ii)
	Shun Tak Holdings Limited	Independent Non-executive Director	(ii)
Kwok Eva Lee	Cheung Kong Infrastructure Holdings Limited	Independent Non-executive Director	(ii)
	Shoppers Drug Mart Corporation	Independent Director	(i)

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

Notes:

1. Apart from holding the directorships, Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Kam Hing Lam and/or their respective family members have direct and/or indirect interests in the shares of such companies where appropriate.
2. Such businesses may be made through subsidiaries, associated companies or by way of other forms of investments.

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

Connected Transactions

Continuing connected transactions of the Group during the year ended 31 December 2004 under the GEM Listing Rules are as follows:

(1) Supply Agreements

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

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

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

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

(2) Framework Agreement

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

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

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

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

Both the Continuing Connected Transactions I and the Continuing Connected Transactions II (collectively referred to as "Continuing Connected Transactions") have been reviewed by the Independent Non-executive Directors of the Company. The Independent Non-executive Directors have confirmed that for the year 2004 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.

The auditors of the Company have also confirmed that for the year 2004 the Continuing Connected Transactions (i) have received the approval of the Board; (ii) are in accordance with the Group's pricing policies; (iii) have been entered into in accordance with the relevant agreements governing such transactions; and (iv) have not exceeded the relevant caps set out above.

Directors' Interests in Contracts

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

Major Customers and Suppliers

During the year, 59.06% of the Group's turnover were attributable to the Group's five largest customers with the largest customer accounting for 36.12% of the Group's turnover whereas 36.14% of the Group's purchases were attributable to the Group's five largest suppliers with the largest supplier accounting for 13.66% of the Group's purchases.

For the year ended 31 December 2004, Nanjing Green Union Eco-Technology Limited, of which the Company is interested in 40% of the issued share capital and Mr. Yu Ying Choi, Alan Abel, Director of the Company, acts as a Director, was one of the Group's five largest customers. Save as disclosed above, none of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers and suppliers.

Sponsor's Interests

Pursuant to a sponsor's agreement dated 3 July 2002 between the Company and Citigroup Global Markets Asia Limited ("Citigroup"), Citigroup has been appointed as a sponsor to the Company as required under the GEM Listing Rules at a fee from 16 July 2002 to 31 December 2004.

As notified to the Company by Citigroup, as at 31 December 2004, neither Citigroup, its directors, employees nor their associates had any interests in any securities of the Company or any of its associated corporations.

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

During the year ended 31 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

(1) Board Practices and Procedures and Code on Corporate Governance Practices

With the exception that the Non-executive Directors have no set term of office but retire from office on a rotational basis in accordance with the Company's Articles of Association, the Company has, throughout the year ended 31 December 2004, complied with the Board Practices and Procedures set out in Rules 5.34 to 5.45 of the GEM Listing Rules which was in force prior to 1 January 2005. The Company's Articles of Association have been amended on 20 May 2004 to provide that all Directors shall retire on such manner of rotation as required by the GEM Listing Rules, i.e. once every three years.

The Board Practices and Procedures set out in Rules 5.35 to 5.45 of the GEM Listing Rules were replaced by the Code on Corporate Governance Practices ("Code on CG Practices") as set out in Appendix 15 of the GEM Listing Rules which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the Code on CG Practices.

(2) Board Composition and Board Practices

The Board is collectively responsible for the management and operations of the Company. The Directors acknowledge their responsibilities for preparing the accounts of the Company for the year covered by this annual report.

The GEM Listing Rules require every listed issuer to have at least three independent non-executive directors and at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Board comprises a total of twelve Directors, with seven Executive Directors, one Non-executive Director and four Independent Non-executive Directors. One-third of the Board is Independent Non-executive Directors and more than one of whom have appropriate professional qualifications, or accounting or related financial management expertise.

All Directors are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association and the Code on CG Practices. Review will be made regularly of the Board composition to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

The positions of the Chairman of the Board ("Chairman") and the Chief Executive Officer are held by separate individuals with a view to maintaining an effective segregation of duties respecting management of the Board and the day-to-day management of the Company's business. One of the important roles of the Chairman is to provide leadership for the Board. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary.

The Company is supportive to the establishment of good corporate governance practices and procedures and has delegated such responsibility to the Company Secretary. All Directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Company. Meeting between the Chairman and the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors has been scheduled to take place at least once every year.

Each newly appointed Director is provided with a package of orientation materials setting out the duties and responsibilities of Directors under the GEM Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Orientation meeting with newly appointed Director will be held for briefing on business and operations of the Company.

The Board meets regularly and held four meetings in 2004 at quarterly intervals. Regular Board meetings of the year are scheduled in advance to give all Directors an opportunity to attend. Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary and the Qualified Accountant normally attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

Appropriate insurance cover on Directors' and officers' liabilities has been in force to protect the Directors and officers of the Company from their risk exposure arising from the businesses of the Company.

(3) Confirmation of Independence of Independent Non-executive Directors

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

(4) Model Code on Securities Transactions by Directors

The Company has adopted the model code on securities transactions by directors set out in Chapter 5 of the GEM Listing Rules as its own code of conduct regarding Directors' securities transactions effective 31 March 2004. Specific enquiry has been made with all Directors and the Directors have complied with the required standard set out in the Model Code for the period ended 31 December 2004.

(5) Audit Committee

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 an audit committee ("Audit Committee") on 26 June 2002 with written terms of reference based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the Code on CG Practices, the terms of reference of the Audit Committee were revised on 1 January 2005 in terms substantially the same as the provisions set out in the Code on CG Practices.

The Audit Committee of the Company comprises four members all of whom are Independent Non-executive Directors, namely, Professor Wong Yue-chim, Richard (Chairman of the Audit Committee), Mrs. Kwok Eva Lee, Mr. Kwan Chiu Yin, Robert and Mr. Colin Stevens Russel. The principal duties of the Audit Committee include the review and supervision of the Company's financial reporting process and internal controls. Regular meetings have been held by the Audit Committee since its establishment and the Audit Committee met four times in 2004.

The Group's annual report for the year ended 31 December 2004 has been reviewed by the Audit Committee.

(6) Remuneration Committee

According to the Code on CG Practices, the Company shall set up a remuneration committee with a majority of the members being independent non-executive directors. The Company established its remuneration committee ("Remuneration Committee") on 1 January 2005 comprising two Independent Non-executive Directors, namely, Mrs. Kwok Eva Lee (Chairman of the Remuneration Committee) and Mr. Colin Stevens Russel.

The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about their proposals relating to remuneration package and other human resources issues of the Directors and senior management of the Company. The emoluments of Directors are based on the skill, knowledge and involvement in the Company's affairs of each Director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

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, 11 March 2005

REPORT OF THE AUDITORS



To The Shareholders of

CK Life Sciences Int'l., (Holdings) Inc.

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 54 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 11 March 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	3	329,627	192,268
Cost of sales		(134,506)	(17,689)
Other income	4	47,881	25,546
Staff costs	5	(105,636)	(99,517)
Depreciation		(23,829)	(18,812)
Amortization of development costs		(2,481)	(2,464)
Amortization of patents		(348)	(334)
Amortization of goodwill		–	(179)
Other operating expenses		(109,450)	(78,162)
Profit from operations	6	1,258	657
Finance costs	7	(4,438)	–
Gain on disposal of an associate		4,179	–
Share of results of associates		3,282	41
Profit before taxation		4,281	698
Taxation	8	(3,551)	–
Profit before minority interests		730	698
Minority interests		1,199	230
Profit attributable to shareholders		1,929	928
Earnings per share	9		
– Basic (Hong Kong cents)		0.030 cents	0.014 cents
– Diluted (Hong Kong cents)		0.030 cents	0.014 cents

BALANCE SHEET

As at 31 December 2004

	Notes	The Group		The Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-current assets					
Fixed assets	11	376,253	184,884	–	–
Development costs	12	128,336	92,330	–	–
Patents	13	9,416	9,994	–	–
Goodwill	14	34,215	–	–	–
Interests in subsidiaries	15	–	–	2,926,679	2,933,187
Interests in associates	16	27,585	32,975	–	–
Investments in securities	17	1,523,840	1,955,161	–	–
Other investments		211,166	240,553	–	–
		2,310,811	2,515,897	2,926,679	2,933,187
Current assets					
Investments in securities	17	97,795	–	–	–
Other investments		29,387	27,763	–	–
Inventories	18	41,484	10,105	–	–
Receivables and prepayments	19	140,480	65,706	150	–
Bank balances and cash		442,850	240,258	67	42
		751,996	343,832	217	42
Current liabilities					
Payables and accruals	20	(112,946)	(46,292)	(2,348)	(3,044)
Finance lease obligations	21	(371)	–	–	–
Bank loans	22	(20,368)	–	–	–
Other loan		(13,737)	–	–	–
Taxation		(2,174)	–	–	–
		(149,596)	(46,292)	(2,348)	(3,044)
Net current assets/(liabilities)		602,400	297,540	(2,131)	(3,002)
Total assets less current liabilities		2,913,211	2,813,437	2,924,548	2,930,185

	Notes	The Group		The Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-current liabilities					
Finance lease obligations	21	(621)	–	–	–
Bank loan	22	(60,217)	–	–	–
Loan from a minority shareholder	23	(7,239)	–	–	–
Deferred taxation	24	(146)	–	–	–
		(68,223)	–	–	–
Minority interests					
		(49,283)	(121)	–	–
Total net assets					
		2,795,705	2,813,316	2,924,548	2,930,185
Capital and reserves					
Share capital	25	640,738	640,703	640,738	640,703
Share premium and reserves	26	2,154,967	2,172,613	2,283,810	2,289,482
Total shareholders' funds					
		2,795,705	2,813,316	2,924,548	2,930,185

Li Tzar Kuoi, Victor

Director

Ip Tak Chuen, Edmond

Director

11 March 2005

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	2004 HK\$'000	2003 HK\$'000
Total shareholders' funds at 1 January	2,813,316	2,794,084
Net profit for the year	1,929	928
Items recognized in reserves:		
Surplus on revaluation of investments in securities	49,058	29,485
Exchange difference on translation of financial statements of overseas operations	1,600	350
	50,658	29,835
Realized on disposal/redemption of investments in securities	(70,711)	(11,579)
Issue of shares under share option scheme	513	48
Total shareholders' funds at 31 December	2,795,705	2,813,316

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Operating activities			
Profit from operations		1,258	657
Depreciation		23,829	18,812
Discount on acquisition of a subsidiary		(3,288)	–
Gain on disposal/redemption of investments in securities		(23,559)	(8,696)
Loss on disposal of fixed assets		52	–
Interest income		(154,444)	(167,391)
Amortization of development costs		2,481	2,464
Amortization of patents		348	334
Amortization of goodwill		–	179
Amortization of discount on other investments		(11,676)	(13,231)
Development costs written off		12,204	–
Patents written off		2,470	–
Operating loss before working capital changes		(150,325)	(166,872)
Decrease in investments in securities		5,244	–
Increase in inventories		(9,495)	(6,996)
Increase in receivables and prepayments		(68,123)	(14,932)
(Decrease)/increase in payables and accruals		(2,954)	22,991
Profits tax paid		(228)	–
Net cash used in operating activities		(225,881)	(165,809)
Investing activities			
Purchases of fixed assets		(88,780)	(23,676)
Proceeds from disposal of fixed assets		397	–
Purchase of subsidiaries	33	(43,552)	–
Capital contribution to associates		(16,177)	(33,361)
Proceeds from disposal of an associate		6,500	–
Purchases of investments in securities		(1,383,720)	(378,300)
Proceeds from disposal/redemption of investments in securities		1,728,907	399,621
Expenditure on intangible assets		(44,218)	(34,636)
Returns from other investments		39,439	39,439
Interest received		172,748	166,211
Net cash from investing activities		371,544	135,298
Financing activities			
Issue of shares		513	48
New bank loan		18,800	–
Repayment of bank loan		(4,824)	–
Repayment of finance lease obligations		(155)	–
Interest paid		(4,400)	–
Contribution by a minority shareholder of a subsidiary		46,995	–
Net cash from financing activities		56,929	48
Net increase/(decrease) in cash and cash equivalents		202,592	(30,463)
Cash and cash equivalents at beginning of the year		240,258	270,721
Cash and cash equivalents at end of the year		442,850	240,258
Analysis of the balances of cash and cash equivalents:			
Bank balances and cash		442,850	240,258

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 ("Stock Exchange").

The Company acts as an investment holding company. Its subsidiaries are principally engaged in research and development, commercialization, marketing and sale of biotechnology products as well as investment in various financial and investment products.

2. Significant Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain fixed assets and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong as well as the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") which together with the Statement of Standard Accounting Practice ("SSAP") and interpretations issued by the HKICPA are collectively referred to as HKFRSs. The HKFRS and HKAS are effective for accounting periods beginning on or after 1 January 2005.

The Group has early adopted HKFRS 3 "Business Combination", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" which supersede SSAP 30 "Business Combination", SSAP 31 "Impairment of Assets" and SSAP 29 "Intangible Assets" respectively in the financial statements for the year beginning on 1 January 2004. The effects and impacts of early adoption of these HKFRSs are set out in the relevant accounting policies.

The Group has commenced an assessment of the impact of those new and revised HKFRSs that the Group has not early adopted in the financial statements for the year ended 31 December 2004 though it is not yet in a position to state whether such HKFRSs would have a significant impact on the Group's results of operations and financial position for the accounting year beginning on 1 January 2005.

Consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and all its subsidiaries made up to 31 December 2004.

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

2. Significant Accounting Policies (Cont'd)

Fixed assets

Fixed assets are stated at cost or valuation less accumulated depreciation and impairment loss, if any. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can clearly be demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset.

Any revaluation increase arising on revaluation of fixed assets 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.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the income statement.

Depreciation is provided to write off the cost of fixed assets 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:

Land and building	Over the terms of the lease
Laboratory instruments, plant and equipment	6% – 33 $\frac{1}{3}$ %
Furniture, fixtures and other assets	5% – 33 $\frac{1}{3}$ %

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

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

Development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized as an expense in the period in which it is incurred.

Expenditure incurred on projects in developing new products is capitalized and deferred when the projects are clearly defined and the relevant expenditure is recoverable 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.

2. Significant Accounting Policies (Cont'd)

Development costs (Cont'd)

The adoption of HKAS 38 "Intangible Assets" retrospectively from 1 January 2004 had no impacts on the financial statements of the Group.

Patents

Patents are stated initially at acquisition cost and are amortized on a straight-line basis over the estimated useful lives of the relevant products of 10 years.

The adoption of HKAS 38 "Intangible Assets" retrospectively from 1 January 2004 had no impacts on the financial statements of the Group.

Goodwill

Under HKFRS 3, goodwill arising from business combination represents the excess of costs of acquisition over the net fair value of the Group's share of the identifiable assets and liabilities and contingent liabilities acquired and discount on acquisition represents the excess of the Group's share of the fair value of the identifiable assets and liabilities and contingent liabilities acquired over the cost of the acquisition.

According to SSAP 30 "Business Combination", when there is an excess of the costs of acquisition over the fair value of the Group's share of the identifiable assets and liabilities acquired, goodwill is recognized in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. Under HKFRS 3 "Business Combination", amortization of goodwill is not permitted in a business combination and instead requires the goodwill to be tested for impairment at least annually.

According to SSAP 30 "Business Combination", when there is an excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition, the discount on acquisition is to be carried forward and recognized as income in the same period in which the related future losses is recognized or recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable depreciable assets and any excess is charged to income immediately. Under HKFRS 3 "Business Combination", any discount on acquisition is recognized immediately in the income statement.

With the adoption of HKFRS 3 "Business Combination" by the Group prospectively from 1 January 2004, the profits attributable to shareholders for the year has been increased by HK\$4,018,000.

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

2. Significant Accounting Policies (Cont'd)

Impairment

At the relevant reporting date, the Group reviews the carrying amounts of its tangible and intangible assets 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.

Where an impairment loss is subsequently reversed, the carrying amount of an asset/cash-generating unit (other than goodwill arising from business combination) 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. An impairment loss recognized for goodwill arising from business combination shall not be reversed in a subsequent period.

The adoption of HKAS 36 "Impairment Assets" retrospectively from 1 January 2004 did not have any impacts on the financial statements of the Group.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less provision for impairment loss where appropriate.

Investments in associates

An associate is a company, other than a subsidiary, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

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 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.

2. Significant Accounting Policies (Cont'd)

Investments in securities

Investments in securities intended to be held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of investment in securities are dealt with as movements in the investment revaluation reserve. Upon disposal of the securities, the relevant revaluation surplus or deficit is dealt with in the income statement.

Other securities are stated at fair value in the balance sheet. Changes in fair value are dealt with in the income statement.

Other investments

Other investments are stated at cost plus or minus the cumulative amortization of the difference between the purchase price and the maturity amount.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method and includes all costs incurred in bringing the inventories to their present condition and location. Net realizable value is determined by the estimated selling price in the ordinary course of business less estimated costs to completion and costs expected to be incurred in marketing, selling and distribution.

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 and at the interest rate applicable. Disposal and trading of investments in securities is recognized on a trade-date basis.

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 fixed assets and depreciated over the shorter of the lease terms or the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement as so to provide a constant periodic rate of charge over the lease terms.

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

Retirement benefit costs

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

2. Significant Accounting Policies (Cont'd)

Foreign currencies

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

On consolidation, assets and liabilities of the Group's subsidiaries with financial records maintained in foreign currencies are translated 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.

Taxation

The charge for current taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Deferred tax liabilities are provided in full on all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases, while deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilized.

3. 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:

	2004 HK\$'000	2003 HK\$'000
Environment	155,032	23,692
Health	5,478	3,871
Investment	169,117	164,705
	329,627	192,268

To better reflect the Group's activities and for reporting purpose, the Group has re-grouped its operations into 3 business segments: Environment, Health and Investment. The sales of products of the Group have been consolidated into Environment and Health while income from investment in financial instruments has been included as the Group's turnover. Comparative figures have been re-stated to conform with the current year's presentation.

4. Other Income

	2004 HK\$'000	2003 HK\$'000
Included in other income are:		
Interest income from bank	3,455	2,686
Amortization of discount on other investments	11,676	13,231
Discount on acquisition of a subsidiary	3,288	–
Gain on disposal/redemption of investments in securities	23,559	8,696

5. Staff Costs

Staff costs which include salaries, bonuses, retirement benefit scheme contributions and recruitment costs for the year amounted to HK\$129,489,000 (2003: HK\$120,139,000) of which HK\$23,853,000 (2003: HK\$20,622,000) relating to development activities was capitalized.

Staff costs also include operating lease rentals of HK\$793,000 (2003: HK\$889,000) in respect of accommodation provided to staff.

6. Profit from Operations

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	806	447
Depreciation of fixed assets		
Owned assets	32,330	24,593
Assets held under finance leases	153	–
	32,483	24,593
Amount capitalized as development costs	(8,654)	(5,781)
	23,829	18,812
Research and development expenditure	82,730	67,781
Amounts capitalized as development costs	(42,037)	(30,851)
	40,693	36,930
Amortization of development costs	2,481	2,464
	43,174	39,394
Development cost written off	12,204	–
Patents written off	2,470	–
Inventories written off	2,107	71
and after crediting:		
Interest income from investments in securities		
– Listed	29,524	43,468
– Unlisted	99,871	105,605
Income from other investments		
– Unlisted	21,594	15,632
Unrealized holding gain on trading securities	6,868	–

7. Finance Costs

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans	3,904	–
Other loan	492	–
Finance leases	42	–
	4,438	–

8. Taxation

	2004 HK\$'000	2003 HK\$'000
Current tax		
Hong Kong	2,174	–
Other jurisdictions	228	–
Deferred tax		
Hong Kong	146	–
Share of taxation of associates – Other jurisdictions	1,003	–
	3,551	–

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. No provision for profits tax has been made for last year as there was no assessable profit for that year.

8. Taxation (Cont'd)

The charge for the year can be reconciled to the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	4,281	698
Notional tax at tax rate of 17.5%	749	122
Tax effect of share of results of associates	464	–
Tax effect of non-deductible expenses	3,890	13,802
Tax effect of non-taxable income	(33,289)	(40,506)
Tax effect of tax losses not recognized	30,846	32,704
Utilisation of tax losses previously not recognized	(217)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	120	(1,260)
Others	988	(4,862)
Tax expenses	3,551	–

9. Earnings Per Share

The calculations of the basic and diluted earnings per share are based on the following data:

	2004 HK\$'000	2003 HK\$'000
Profit for the year		
Profit for calculating basic and diluted earnings per share	1,929	928
Number of shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	6,407,316,727	6,407,007,562
Effect of dilutive potential ordinary shares	546,091	1,229,999
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	6,407,862,818	6,408,237,561

10. Dividends

The Directors do not recommend the payment of any dividend for the year ended 31 December 2004 (2003: Nil).

11. Fixed Assets

	Leasehold land and building in Hong Kong	Building under construction in Mainland China	Laboratory instruments, plant and equipment	Furniture, fixtures and other assets	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group					
Cost or valuation					
At 1 January 2004	115,000	–	81,031	40,788	236,819
Additions	–	15,052	112,010	7,568	134,630
Acquired on acquisition					
of subsidiaries	–	–	84,936	1,799	86,735
Disposals	–	–	(203)	(1,354)	(1,557)
Exchange difference	–	–	3,926	363	4,289
At 31 December 2004	115,000	15,052	281,700	49,164	460,916
Comprising:					
Cost	–	15,052	281,700	49,164	345,916
Valuation	115,000	–	–	–	115,000
	115,000	15,052	281,700	49,164	460,916
Depreciation					
At 1 January 2004	2,584	–	29,299	20,052	51,935
Provided for the year	2,584	–	20,911	8,988	32,483
Eliminated upon					
disposals	–	–	(170)	(938)	(1,108)
Exchange difference	–	–	991	362	1,353
At 31 December 2004	5,168	–	51,031	28,464	84,663
Net book value					
31 December 2004	109,832	15,052	230,669	20,700	376,253
31 December 2003	112,416	–	51,732	20,736	184,884

11. Fixed Assets (Cont'd)

The land in Hong Kong is leased from Hong Kong Science and Technology Parks Corporation for a term up to 27 June 2047. The leasehold land and building in Hong Kong was revalued at HK\$115,000,000 on 31 December 2002 by the Directors on an open market 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 2004, the fair value of this leasehold land and building did not differ materially from that of 31 December 2002. Had the leasehold land and building been carried at the historical cost less depreciation, their aggregate carrying amount would have been stated at approximately HK\$137,134,000 (2003: HK\$140,361,000).

Building under construction includes land use rights of HK\$14,589,000 (2003: Nil) paid to the Mainland China Land Bureau for the use of land for a period for 40 years

The net book value of the Group's fixed assets held under finance leases included in furniture, fixtures and other assets amounted to HK\$1,469,000 (2003: Nil).

12. Development Costs

	The Group	
	2004 HK\$'000	2003 HK\$'000
Cost		
At 1 January	95,389	58,757
Additions	50,691	36,632
Amount written off	(12,204)	–
At 31 December	133,876	95,389
Amortization		
At 1 January	3,059	595
Provided for the year	2,481	2,464
At 31 December	5,540	3,059
Net book value		
At 31 December	128,336	92,330

13. Patents

	The Group	
	2004 HK\$'000	2003 HK\$'000
Cost		
At 1 January	10,471	6,689
Additions	2,181	3,782
Acquired on acquisition of subsidiaries	56	–
Amount written off	(2,470)	–
Exchange difference	4	–
At 31 December	10,242	10,471
Amortization		
At 1 January	477	143
Provided for the year	348	334
Exchange difference	1	–
At 31 December	826	477
Net book value		
At 31 December	9,416	9,994

14. Goodwill

	The Group	
	2004 HK\$'000	2003 HK\$'000
Cost		
At 1 January	–	–
Arising on acquisition of subsidiaries	34,215	–
At 31 December	34,215	–

Goodwill arises from acquisition of 60% interest in Fertico Pty Limited ("Fertico") and 100% interest in Paton Fertilizers Pty Limited on 1 May 2004 and 1 July 2004 respectively. Discount on acquisition arising from acquisition of 51% interest in AquaTower Pty Limited which was acquired on 30 March 2004 is credited to the income statement. Details of the acquirees are set out in Appendix I.

14. Goodwill (Cont'd)

The total cost of acquisition of the subsidiaries during the year amounted to HK\$47,632,000 (2003: Nil) which comprises purchase consideration of HK\$44,748,000 and direct attributable acquisition costs of HK\$2,884,000.

Pursuant to the agreement for the acquisition of the interests in Fertico, the purchase consideration, of which AU\$4,000,000 was paid, is based on the net profits of Fertico for the period from 1 July 2004 to 30 June 2005 and is in the range from AU\$4,000,000 to AU\$14,400,000. However, the Directors' best estimate of the consideration would not be higher than AU\$4,000,000. Goodwill on acquisition of Fertico is calculated based on this amount.

15. Interests in Subsidiaries

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments in subsidiaries	1	1
Amounts due from subsidiaries	2,926,678	2,933,186
	2,926,679	2,933,187

Particulars regarding the principal subsidiaries are set out in Appendix I.

16. Interests in Associates

	The Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets of unlisted associates	27,585	24,567
Goodwill arising on acquisition of an associate	-	8,408
	27,585	32,975

Comparative amount of goodwill was released to the income statement upon the disposal of an associate during the year.

Particulars regarding the associates are set out in Appendix II.

17. Investments in Securities

	The Group	
	2004 HK\$'000	2003 HK\$'000
Non-trading:		
Debt securities – unlisted	1,273,810	1,303,565
Debt securities – listed overseas at market value	278,260	651,596
Equity securities – unlisted	59,809	–
Trading:		
Equity securities– listed in Hong Kong at market value	9,756	–
	1,621,635	1,955,161
Carrying amount analysed for reporting purpose as:		
Current	97,795	–
Non-current	1,523,840	1,955,161

18. Inventories

	The Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	15,299	3,714
Work in progress	1,110	63
Finished goods	25,075	6,328
	41,484	10,105

The cost of inventories recognized as an expense during the year was HK\$128,989,000 (2003: HK\$17,689,000).

19. Receivables and Prepayments

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables	45,772	10,049	–	–
Other receivables, deposits and prepayments	94,708	55,657	150	–
	140,480	65,706	150	–
Trade receivables:				
Aged 0 to 90 days	44,121	9,991	–	–
Aged more than 90 days	1,651	58	–	–

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

20. Payables and Accruals

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	23,954	4,653	–	–
Other payables and accrued charges	88,992	41,639	2,348	3,044
	112,946	46,292	2,348	3,044
Trade payables:				
Aged 0 to 90 days	22,673	4,653	–	–
Aged more than 90 days	1,281	–	–	–

21. Finance Lease Obligations

	The Group			
	Minimum lease payment		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Finance lease obligations payable				
within one year	437	–	371	–
within two to five year	692	–	621	–
	1,129	–	992	–
Less: Future finance charges	(137)	–	N/A	–
Present value of finance lease obligations	992	–	992	–
Carrying amount analysed for reporting purpose as:				
Current			371	–
Non-current			621	–

The finance leases are secured on certain fixed assets with an average lease term of 3-4 years. No residual value is expected at the end of the term.

22. Bank Loans

	The Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans repayable		
within 1 year	20,368	–
after 5 years	60,217	–
	80,585	–
Analysed as:		
Secured	61,785	–
Unsecured	18,800	–
	80,585	–
Carrying amount analysed for reporting purpose as:		
Current	20,368	–
Non-current	60,217	–

23. Loan from a Minority Shareholder

Loan from a minority shareholder is unsecured, interest free and not payable within one year.

24. Deferred Taxation

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

	Accelerated tax depreciation HK\$'000	Development costs HK\$'000	Tax losses HK\$'000	Total HK\$'000
The Group				
As at 1 January 2003	9,619	9,306	(18,925)	–
Charge to income statement	1,144	6,852	(7,996)	–
As at 31 December 2003	10,763	16,158	(26,921)	–
Charge to income statement	(154)	6,301	(6,001)	146
As at 31 December 2004	10,609	22,459	(32,922)	146

At the balance sheet date, the total un-utilized tax losses amounted to approximately HK\$819,244,000 (2003: HK\$528,733,000). A deferred tax asset has been recognized in respect of HK\$188,126,000 (2003: HK\$153,834,000) of such losses. No deferred tax asset has been recognized in respect of the remaining HK\$631,118,000 (2003: HK\$374,899,000) 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\$11,267,000 (2003: HK\$5,082,000) arising in Mainland China can only be carried forward for five years subsequent to the year in which the tax losses incur.

25. 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 2003	6,407,000	640,700
Shares issued under share option scheme	30	3
At 1 January 2004	6,407,030	640,703
Shares issued under share option scheme	352	35
As at 31 December 2004	6,407,382	640,738

26. Share Premium and Reserves

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Group					
2003					
At 1 January 2003	2,391,662	46,042	–	(284,320)	2,153,384
Shares issued under share option scheme	45	–	–	–	45
Realized on disposal/redemption of investments in securities	–	(11,579)	–	–	(11,579)
Surplus on revaluation of investments in securities	–	29,485	–	–	29,485
Exchange difference on translation of financial statements of overseas operations	–	–	350	–	350
Profit for the year	–	–	–	928	928
At 31 December 2003	2,391,707	63,948	350	(283,392)	2,172,613
2004					
At 1 January 2004	2,391,707	63,948	350	(283,392)	2,172,613
Shares issued under share option scheme	478	–	–	–	478
Realized on disposal/redemption of investments in securities	–	(70,711)	–	–	(70,711)
Surplus on revaluation of investments in securities	–	49,058	–	–	49,058
Exchange difference on translation of financial statements of overseas operations	–	–	1,600	–	1,600
Profit for the year	–	–	–	1,929	1,929
At 31 December 2004	2,392,185	42,295	1,950	(281,463)	2,154,967

At the balance sheet date, the accumulated losses of the Group included the Group's share of the undistributed retained profits of the associates amounting to HK\$2,114,000 (2003: HK\$41,000).

26. Share Premium and Reserves (Cont'd)

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Company			
2003			
At 1 January 2003	2,391,662	(96,511)	2,295,151
Shares issued under share option scheme	45	–	45
Loss for the year	–	(5,714)	(5,714)
At 31 December 2003	2,391,707	(102,225)	2,289,482
2004			
At 1 January 2004	2,391,707	(102,225)	2,289,482
Shares issued under share option scheme	478	–	478
Loss for the year	–	(6,150)	(6,150)
At 31 December 2004	2,392,185	(108,375)	2,283,810

27. Share Option Scheme

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

As at 31 December 2004, options to subscribe for an aggregate of 21,250,000 shares of the Company granted to certain continuous contract employees pursuant to the Scheme were outstanding, details of which are as follows:

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

27. Share Option Scheme (Cont'd)

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

- (i) up to 35% of the options in the first year after commencement of the option period;
- (ii) up to 70% of the options (including the options not exercised under the limit prescribed for in the previous period) in the second year after commencement of the option period;and
- (iii) up to 100% of the options (including the options not exercised under the limit prescribed for in the previous periods) in the third year and thereafter after the commencement of the option period.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised and no charge is recognized in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of options.

28. Pledge of Assets

Bank loan of HK\$61,785,000 (2003: Nil) is secured by a mortgage over the shares of a subsidiary.

Other loan is secured by a fixed and floating charge over all the assets of a subsidiary with carrying value of HK\$39,594,000.

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

29. Operating Lease Commitment

Leases are negotiated for a term ranging from one to two years and rentals are fixed for an average of one year. Minimum lease charges payable by the Group within one year and within one to two years under non-cancellable operating leases in respect of rented premises were HK\$4,434,000 (2003: HK\$560,000) and HK\$7,543,000 (2003: Nil) respectively.

30. Capital Commitment

	The Group	
	2004 HK\$'000	2003 HK\$'000
Capital commitment in respect of the acquisition of laboratory instrument, plant and equipment		
– contracted but not provided for	14,618	14,757
– authorized but not contracted for	979	–
	15,597	14,757

31. Retirement Benefits Scheme

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

The Group's cost incurred on employees retirement schemes for the year was HK\$8,905,000 (2003: HK\$7,356,000) and forfeited contribution during the year of HK\$1,273,000 (2003: HK\$778,000) was used to reduce the Group's contribution in the year.

32. Directors' Emoluments and Five Highest Paid Individuals

(a) Directors' emoluments

Directors' emoluments paid to the Company's Directors for the year ended 31 December 2004 were as follows:

Name of Director	Fees HK\$'000	Basic salaries and allowances HK\$'000	Bonuses HK\$'000	Retirement	Total emoluments 2004 HK\$'000	Total emoluments 2003 HK\$'000
				benefits scheme contributions HK\$'000		
Li Tzar Kuoi, Victor	70	–	–	–	70	50
Kam Hing Lam	70	4,200	–	–	4,270	4,250
Ip Tak Chuen, Edmond	70	1,800	–	–	1,870	1,850
Yu Ying Choi, Alan Abel	70	4,540	1,300	446	6,356	6,235
Pang Shiu Fun	70	4,163	1,200	407	5,840	5,482
Chu Kee Hung	70	2,895	825	284	4,074	3,817
Lam Hing Chau, Leon	70	1,976	550	194	2,790	2,625
Kwan Chiu Yin, Robert	89	–	–	–	89	50
Peter Peace Tulloch	70	–	–	–	70	50
Wong Yue-chim, Richard	140	–	–	–	140	100
Kwok Eva Lee	140	–	–	–	140	100
	929	19,574	3,875	1,331	25,709	24,609

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

(a) Directors' emoluments (Cont'd)

The directors' fees included an amount of HK\$70,000 (2003: HK\$50,000) for each director and an additional amount of HK\$70,000 (2003: HK\$50,000) for each Independent Non-executive Director who is also a member of the audit committee. Such fees would be proportioned according to the length of services of the directors during the year.

None of the Directors waived any emoluments in the year ended 31 December 2004. No incentives were paid by the Group to the Directors as inducement to join or upon joining the Group or as compensation for loss of office.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments, four (2003: four) of them are Directors whose emoluments are disclosed in note (a) above. The emoluments of the remaining one (2003: one) are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salary and other benefits	3,234	3,146
Bonus	3,000	500
Retirement benefits scheme contribution	240	240
	6,474	3,886

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.

33. Purchase of Subsidiaries

	HK\$'000
Assets and liabilities, the amounts of which are approximate to the carrying values immediately before the acquisition of subsidiaries, acquired are as follows:	
Fixed assets	86,735
Patents	56
Inventories	20,547
Receivables and prepayments	17,546
Bank balances and cash	5,490
Payable and accruals	(23,741)
Bank overdrafts	(1,410)
Finance lease obligations	(1,065)
Bank and other loans	(77,076)
Loan from a minority shareholder	(7,011)
Minority interests	(3,366)
	16,705
Goodwill on acquisition	34,215
Discount on acquisition	(3,288)
Total consideration	47,632
Discharged by:	
Cash payment	47,632
Less: cash and cash equivalents purchased	(4,080)
	43,552

The subsidiaries acquired during the year contributed HK\$64,366,000 to the Group's turnover and net loss of HK\$1,676,000 to the Group's profit from operations. Should the acquisition have been completed on 1 January 2004, the acquired subsidiaries would have contributed the Group's annual turnover and net loss of HK\$108,907,000 (unaudited) and HK\$4,063,000 (unaudited) respectively.

34. Major Non-cash Transaction

Part of the consideration for disposal of an associate was satisfied by a convertible note of HK\$15,000,000 and a promissory note of HK\$6,500,000.

35. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment turnover	155,032	23,692	5,478	3,871	169,117	164,705	-	-	329,627	192,268
Segment results	(44,695)	(46,257)	(29,989)	(30,246)	204,423	186,632	-	-	129,739	110,129
Other income									7,265	3,619
Business development expenditure	-	-	-	-	-	-	(26,007)	(22,002)	(26,007)	(22,002)
Research and development expenditure	-	-	-	-	-	-	(39,308)	(26,037)	(39,308)	(26,037)
Corporate expenses									(70,431)	(65,052)
Profit from operations									1,258	657
Finance costs									(4,438)	-
Gain on disposal of an associate									4,179	-
Share of results of associates	3,282	41	-	-	-	-	-	-	3,282	41
Profit before taxation									4,281	698
Taxation									(3,551)	-
Profit before minority interests									730	698
Minority interests									1,199	230
Profit attributable to shareholders									1,929	928

35. Segment Information (Cont'd)

(a) Business segments (Cont'd)

	Environment		Health		Investment		Unallocated		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	314,987	56,528	153,778	75,745	1,892,260	2,265,240	-	-	2,361,025	2,397,513
Goodwill	34,215	-	-	-	-	-	-	-	34,215	-
Interests in associates	27,585	9,154	-	23,821	-	-	-	-	27,585	32,975
Cash									442,850	240,258
Other assets									197,132	188,983
Total assets									3,062,807	2,859,729
Segment liabilities	(83,718)	(11,353)	(6,078)	(4,359)	-	-	-	-	(89,796)	(15,712)
Other liabilities									(128,023)	(30,580)
Total liabilities									(217,819)	(46,292)

	Environment		Health		Investment		Unallocated		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Other information										
Amortization of intangible assets	2,769	793	60	39	-	-	-	2,145	2,829	2,977
Depreciation	3,957	706	10,711	6,025	-	-	17,815	17,862	32,483	24,593
Capital additions	92,714	3,060	78,729	44,322	-	-	16,059	15,690	187,502	63,072

35. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	24,202	3,871	380,830	340,412	66,810	53,809
Mainland China	84,083	16,015	248,651	29,630	116,596	5,323
Other Asian countries	1,932	5,664	122,258	137,568	–	5
Australia	68,222	1,323	180,312	1,491	1,915	153
United States of America	622	690	270,709	137,392	–	–
Europe (Note)	150,566	164,705	1,860,047	2,213,236	2,181	3,782
	329,627	192,268	3,062,807	2,859,729	187,502	63,072

Note: including mainly financial instruments

36. Related Party Transactions

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

- The Group made sales of HK\$3,358,000 (2003: HK\$2,715,000) to Hutchison International Limited ("HIL") group. HIL is a wholly-owned subsidiary of Hutchison Whampoa Limited which is the associated company of a substantial shareholder of the Company, Cheung Kong (Holdings) Limited.
- The Group made sales of HK\$18,862,000 (2003: Nil) to Jiangsu Su Nong Agricultural Means Chain Company Ltd., an indirect associate of the Group.

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

37. Approval of Financial Statements

The financial statements set out on pages 54 to 88 were approved and authorized for issue by the Board of Directors on 11 March 2005.

PRINCIPAL SUBSIDIARIES

Appendix I

Principal Subsidiaries

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

Name	Place of incorporation	Issued ordinary share capital/ registered capital*	Effective percentage held by the Company indirectly	Principal activities
AquaTower Pty Ltd	Australia	AU\$2	51	Water treatment
# Beijing Green Vision EcoSciences Inc.	Mainland China	US\$300,000*	100	Trading of biotechnology products
# Beijing Vital Care Biotech Inc.	Mainland China	US\$4,300,000*	100	Trading of biotechnology products
Biocycle Resources Limited	British Virgin Islands	US\$1	100	Trading of biotechnology products
CK Biotech Laboratory Limited	Hong Kong	HK\$2	100	Research and development
CK Life Sciences Int'l., Inc.	British Virgin Islands	US\$1	100	Commercialization of biotechnology products
CK Life Sciences Limited	Hong Kong	HK\$10,000,000	100	Applied research, production, product development and commercialization
Fertico Pty. Limited	Australia	AU\$4,000,100	60	Trading of biotechnology products
Genero International Limited	British Virgin Islands	US\$1	100	Investment in financial instruments
Great Affluent Limited	British Virgin Islands	US\$1	100	Investment in financial instruments
## Jiangsu Technology Union Eco-fertilizer Limited	Mainland China	US\$12,787,000*	52.88	Trading of biotechnology products
Lincore Limited	British Virgin Islands	US\$1	100	Investment in financial instruments
NutriSmart Australia Pty Ltd	Australia	AU\$1	100	Trading of biotechnology products
Panform Limited	British Virgin Islands	US\$1	100	Investment in financial instruments
Paton Fertilizers Pty Limited	Australia	AU\$469,100	100	Trading of biotechnology products
PT Far East Agritech	Indonesia	US\$150,000	60	Trading of biotechnology products
Shinna Limited	British Virgin Islands	US\$1	100	Investment in financial instruments
Vital Care Hong Kong Limited	Hong Kong	HK\$2	100	Trading of biotechnology products
Ultra Biotech Limited	Isle of Man	£1	100	Ownership of patents/trademarks

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

Foreign investment enterprise registered in the Mainland China

Sino-foreign equity joint venture registered in the Mainland China

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

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

PRINCIPAL ASSOCIATES

Appendix II

Principal Associates

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

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

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

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS; USE OF PROCEEDS

Comparison of the Business Objectives with the Actual Business Progress

The following is a summary of the actual progress made in comparison with the business objectives as per the prospectus of the Company dated 4 July 2002 (the "Prospectus") for the period from 1 July 2004 to 31 December 2004.

Business objectives as set out in the Prospectus	Actual Business Progress
Product Objectives	
<p><i>Eco-agriculture — Fertilizer</i></p> <ul style="list-style-type: none"> Commence sales of alternative formulations 	<ul style="list-style-type: none"> Completing Phase I research for a new formulation Starting sales of alternative formulations Continuing research and development on other formulations
<p><i>Eco-agriculture — Animal feed additives</i></p> <ul style="list-style-type: none"> Market research on and preparation for sales in Canada or the United States Commence sales in Canada or the United States 	<ul style="list-style-type: none"> Market research continuing Preparations continuing
<p><i>Bioremediation</i></p> <ul style="list-style-type: none"> Continue research into new formulations Begin pre-sale trials in Brazil 	<ul style="list-style-type: none"> Continuing research and development on new formulations and applications Trials deferred
<p><i>Pharmaceuticals</i></p> <ul style="list-style-type: none"> Review data from Phase II clinical trials and prepare for Phase III clinical trial proposed submission Identify potential business partners 	<ul style="list-style-type: none"> Continuing one Phase II clinical trial on anti-HIV product and five Phase II clinical trial on anti-cancer product Continuing research and development of new immuno-enhancing and anti-cancer formulations Review of data indicate positive results for further development Target business partner identified
<p><i>Nutraceuticals</i></p> <ul style="list-style-type: none"> Sales begin in selected European markets 	<ul style="list-style-type: none"> Sales development priority changed to North America, where preparation for test marketing is underway Continuing research and development of new nutraceutical products
<p><i>Dermatologicals</i></p> <ul style="list-style-type: none"> Sales in Malaysia and Thailand 	<ul style="list-style-type: none"> Market research ongoing
Production Facilities and Human Resources	
<ul style="list-style-type: none"> Obtain ISO 9000 accreditation for the Group's manufacturing and laboratory processes 	<ul style="list-style-type: none"> Attained ISO 9000 accreditation for laboratory processes Obtained the ISO 9001:2000 accreditation Following the ISO 9001:2000 requirements and up-dating the documents

Use of Proceeds

In the second half of year 2004, the Group applied approximately HK\$157 million for its business expansion and research and development activities. Details of the fund application are as follows:

- Research and development
 - Approximately HK\$23 million for core research and development activities
 - Approximately HK\$15 million for clinical trials on pharmaceuticals
 - Approximately HK\$2 million for patent applications
- Approximately HK\$60 million for expansion of manufacturing and research and development facilities
- Approximately HK\$56 million for market development, brand building, sales and marketing

The above application of proceeds was in line with the business objectives as stated in the Prospectus of the Company; however, there were some variances on the actual amount spent as compared to those projected in the Prospectus due to the following reasons:

- Reschedule of the plans for research & development activities as well as manufacturing and research & development facilities to meet with the latest development in the market
- effective and efficient cost control measures
- timing differences in the fund application

CORPORATE INFORMATION

Board of Directors

Executive Directors

LI Tzar Kuoi, Victor

Chairman

KAM Hing Lam

President and Chief Executive Officer

IP Tak Chuen, Edmond

Senior Vice President and Chief Investment Officer

YU Ying Choi, Alan Abel

Vice President and Chief Operating Officer

PANG Shiu Fun

Vice President and Chief Technology Officer

CHU Kee Hung

Vice President and Chief Production Officer

LAM Hing Chau, Leon

Vice President and Chief Financial Officer

Non-executive Directors

KWAN Chiu Yin, Robert

Independent Non-executive Director

Peter Peace TULLOCH

Non-executive Director

WONG Yue-chim, Richard

Independent Non-executive Director

KWOK Eva Lee

Independent Non-executive Director

Colin Stevens RUSSEL

Independent Non-executive Director

Company Secretary

Eirene YEUNG

Qualified Accountant

LAM Hing Chau, Leon

Compliance Officer

LAM Hing Chau, Leon

Audit Committee

WONG Yue-chim, Richard

Chairman

KWOK Eva Lee

KWAN Chiu Yin, Robert

Colin Stevens RUSSEL

Remuneration Committee

KWOK Eva Lee

Chairman

Colin Stevens RUSSEL

Authorized Representatives

IP Tak Chuen, Edmond

Eirene YEUNG

Sponsor

Citigroup Global Markets Asia Limited

Auditors

Deloitte Touche Tohmatsu

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

JP Morgan International Bank

Canadian Imperial Bank of Commerce

Solicitors

Woo, Kwan, Lee & Lo

Registered Office

P.O. Box 309GT

Ugland House

South Church Street

Grand Cayman

Cayman Islands

Head Office

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

Principal Place of Business

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

Principal Share Registrar and Transfer Office

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

Branch Share Registrar and Transfer Office

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

Internet Address

<http://www.ck-lifesciences.com>

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

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

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

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



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