Notes to the Financial Statements

Year ended 31 December 2002

1. ORGANISATION AND OPERATIONS

MAXX Bioscience Holdings Limited (the "Company") was incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda (as amended) with its shares listed on The Stock Exchange of Hong Kong Limited since 19 December 1995.

At a Special General Meeting held on 17 May 2002, a special resolution was passed to change the name of the Company from "China Apollo Holdings Limited" to "MAXX Bioscience Holdings Limited" and the Chinese name of "曼盛生物科技集團有限公司" has been adopted for identification purpose.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the development, manufacture and sale of tonic and health products and pharmaceutical products in the People's Republic of China (the "PRC") and drug development.

During the year, there is a change of major shareholder. The directors consider Vision Ocean Investments Limited is the major shareholder of the Company as at the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared in accordance with the Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

A summary of the principal accounting policies adopted by the Group is set out below.

Adoption of statements of standard accounting practice

In the current year, the Group has adopted for the first time, the following SSAPs which are effective for the accounting period commencing on or after 1 January 2002.

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these SSAPs has resulted in a change in the format of presentation of the consolidated cash flow statement and preparation of the consolidated statement of changes in equity but has had no material effect on the results for the current year or prior accounting periods. Accordingly, no prior period adjustment has been required.

Statement of changes in equity

SSAP 1 (revised) "Presentation of financial statements" prescribes the preparation of statement of changes in equity in place for statement of recognised gains and losses that was previously required.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Adoption of statements of standard accounting practice (Continued)

Foreign currencies

SSAP 11 (revised) "Foreign currency translation" eliminates the choice of translating the income statements of overseas subsidiaries and associates at the closing rate for the period, the accounting policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current year or prior accounting periods.

Cash flow statements

Under SSAP 15 (revised) "Cash flow statements", cash flows are classified under three headings - operating, investing and financing, rather than the previous five headings. Interests received and interests paid, which were previously presented under a separate heading, are classified as investing and financing cash flows respectively. Cash flow arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Employee benefits

SSAP 34 "Employee benefits" introduces measurement rules for employee benefits, including retirement benefit plans. As the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost modified by the marking to market of certain investments in securities as explained in the accounting policies set out below.

Preparation of financial statements

The financial statements have been prepared on a going concern basis though the Group had net current liabilities of approximately HK$16,817,000 at the balance sheet date. Subsequent to the balance sheet date, the Company has successfully raised fund of approximately HK$14,100,000 by placing new shares. In addition, the Group has taken and will continue to take tight measures on cost control and the Group will dispose of certain properties in the PRC not related to the core businesses of the Group in order to generate adequate working capital.

In the opinion of the directors, these measures have improved and will continue to improve the Group's working capital and therefore the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the next twelve months from the balance sheet date. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

Investments in associates are accounted for using the equity method in the consolidated financial statements, whereby the investment is initially recorded at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and less any provision for impairment losses. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

In the Company's financial statements, investments in associates are carried at cost less any provision for impairment losses. The results of the associates are included in the income statement to the extent of dividends received and receivable.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Sale of goods is recognised when goods are delivered and title has passed.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rates applicable.

Dividend income is recognised when the right to receive payment has been established.

Rental income under operating leases is recognised in the period in which the properties are let out and on a straight-line basis over the period of the relevant leases.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvement are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Land use rights and buildings	4.5-5%
Plant and machinery	9-10%
Equipment	18-20%
Motor vehicles	18-20%
Others	18-20%

The useful lives of assets and depreciation method are reviewed periodically.

Intangible assets

Research and development costs

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

Costs incurred on development of projects relating to the design and testing of new or improved products are recognised as intangible assets where the technical feasibility and intention of completing the product under development have been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the assets that will generate probable future economic cash flows. Such development costs are amortised over the period in relation to the estimated economic benefits generated.

Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

Acquired technology know-how and proprietary rights of a chemical compound

Expenditures for acquisition of technology know-how and proprietary rights of a chemical compound, either separately or as part of a business combination, are recognised as intangible assets only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the costs of the assets can be measured reliably; otherwise, they are recognised as an expense when incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Acquired technology know-how and proprietary rights of a chemical compound (Continued)

Proprietary rights of a chemical compound acquired as part of business combination are stated at fair value at the date of acquisition less accumulated amortisation and any impairment loss.

Technology know-how acquired separately is stated at cost less accumulated amortisation and any impairment loss.

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exits or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher on its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost, which comprises all costs of purchases and, where applicable, cost of conversion and other costs incurred in bringing the inventories to their present location and condition is calculated using weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Investments in securities

Securities that are held for the purpose of generating a profit from short-term fluctuations in price are included in the balance sheet at their fair values. Any changes in the fair values of the securities are recognised in the consolidated income statement when they arise.

Upon disposal of the investments in securities, any profit and loss is accounted for in the consolidated income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Investments held for disposal

Investments held for disposal, which represent land use rights and self-constructed buildings in the PRC, are stated at lower of cost and net realisable value. Net realisable value is determined by reference to valuation by professional valuers less estimated cost necessary to make the sale.

Cash equivalents

For the purpose of cash flow statements, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. For balance sheet classification, cash equivalents represents assets similar in nature to cash, which are not restricted as to use.

Operating leases

Leases of assets under which substantially all the rewards and risks of ownership are retained by the lessor are classified as operating leases. Rental payable and receivable under operating leases are recognised as an expense and revenue on the straight-line basis over the lease terms.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Employee benefits - retirement benefits

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. Under the MPF Scheme, each of the Group (the "employer") and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Ordinance. The contributions from the employer and each of employees respectively are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary. The assets of the MPF Scheme are held separately from those of the Group and managed by an independent trustee.

The employees of the PRC subsidiaries in the PRC are covered by a Central Pension Scheme operated by the local government. The subsidiaries are required to contribute 18% of the average monthly salary to the local government to fund the benefits, which is the only obligation for the Group with respect to this pension scheme.

Contributions to defined contribution retirement benefit schemes are charged to the income statement as incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Warranty

The Group provides free replacement for products sold near the expiry date if the products turn bad after sale. Provision for warranty is accrued when the related sales are recognised. The provision is based on the life span of the Group products and the estimated consumption rate of the ultimate users as estimated by the directors based on historical experience and industry information.

Foreign currency

Subsidiaries established in the PRC maintain their books and records in Renminbi ("RMB"). The Company and other subsidiaries maintain their books and records in Hong Kong Dollars ("HK$") as functional currencies. Transactions in currencies other than the respective functional currencies are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated into the respective functional currencies at the applicable rates of exchange at the balance sheet date. Translational differences are included in the income statement.

The Group prepares its consolidated financial statements in Hong Kong Dollars. For the purpose of consolidation, the income statement items of those subsidiaries and associates with functional currencies other than Hong Kong Dollars are translated into Hong Kong Dollars using the average rate method, whereby the balance sheet items are translated at the applicable exchange rates at the balance sheet date. Exchange differences arising from such translation are dealt with as movements of reserve. Due to stable exchange rates between Hong Kong Dollars and Renminbi, no material translational differences arised upon consolidation.

Provisions

Provision are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provision are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Segments

Product segment is the distinguishable component that is engaged in providing a group of related products and that is subject to risks and returns that are different from those of other product segments. For management purposes the Group's turnover is divided into three major product segments, namely health products, health drinks and pharmaceutical products.

3. SEGMENT INFORMATION

	Turnover		Contribution to operating profit (loss)	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Health products	**70,197**	109,523	**4,485**	(5,060)
Health drinks	**6,716**	10,249	**(1,263)**	(610)
Pharmaceutical products	**3,583**	6,676	**(622)**	(1,636)
Others	**—**	704	**—**	177
	80,496	127,152	**2,600**	(7,129)
Other net income *(Note 4)*			**47,534**	8,273
Other operating expenses *(Note 5)*			**(240)**	(92,626)
Other unallocated expenses			**(81,162)**	(71,542)
Loss from ordinary activities before taxation			**(31,268)**	(163,024)

All turnover was derived in the PRC.

4. OTHER NET INCOME

	2002	2001
	HK$'000	*HK$'000*
Net reversal of impairment losses of property, plant and equipment *(Note 12)*	**29,466**	—
Write back of costs of investments held for disposal *(Note 19)*	**8,768**	—
Others	**9,300**	8,273
	47,534	8,273

5. OTHER OPERATING EXPENSES

	2002	2001
	HK$'000	*HK$'000*
Provision for impairment losses of property, plant and equipment	**—**	71,161
Write down of costs of investments held for disposal	**—**	19,028
Provision for impairment loss of interest in an unconsolidated subsidiary	**183**	1,037
Write off of goodwill upon acquisition of a subsidiary	**57**	—
Unrealised holding loss on investments in securities	**—**	1,400
	240	92,626

6. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation was determined after charging and (crediting) the followings:

	2002	2001
	HK$'000	*HK$'000*
Finance costs		
Interest for bank loans wholly repayable within five years	**3,322**	3,795
Interest for convertible debentures	**63**	—
Others		
Staff costs (excluding directors' emoluments)		
— salaries and wages	**21,502**	18,747
— staff and workers' bonus and welfare expenses	**2,911**	3,587
— contributions to retirement schemes	**1,598**	1,574
Write off of obsolete inventories	**—**	4,908
Depreciation on owned assets	**17,700**	17,683
Cost of inventories	**33,117**	43,593
Provision for doubtful receivables	**17,857**	20,219
Loss on write off of acquired technology know-how	**1,787**	—
Research and development costs expensed	**1,993**	5,285
Amortisation of intangible assets		
— acquired technology know-how	**201**	263
— acquired proprietary rights of a chemical compound	**2,375**	—
Operating lease rentals in respect of land and buildings	**3,053**	3,541
Auditors' remuneration	**921**	1,200
Rental income, net of outgoings	**(2,069)**	(829)
Dividend income from investments in securities	**(187)**	(210)
Interest income from		
— bank deposits	**(919)**	(1,453)
— others	**—**	(843)
Gain on disposal of investments in securities	**(1,812)**	—
Gain on disposal of property, plant and equipment	**(4,008)**	(4,941)
Exchange loss (gain)	**20**	(727)
Write back of provision for warranty	**—**	(6,514)

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

a. Details of directors' emoluments are as follows:

	2002 **HK$'000**	2001 HK$'000
Executive directors		
Salaries, allowances and benefits in kind	**3,255**	4,391
Pension scheme contributions	**45**	111
Bonus paid and payable	**353**	291
	3,653	4,793
Non-executive directors		
Fees	**414**	400
	4,067	5,193

During the year, a director has waived the right to receive emoluments of approximately HK$2,367,000 *(2001: Nil).*

b. Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	Number of directors **2002**	2001
Executive directors		
— Nil to HK$1,000,000	**10**	2
— HK$1,000,001 to HK$1,500,000	**1**	1
— HK$1,500,001 to HK$2,000,000	**—**	—
— HK$2,000,001 to HK$2,500,000	**—**	1
	11	4
Non-Executive directors		
— Nil to HK$1,000,000	**4**	2

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (Continued)

c. Details of emoluments paid to the five highest paid individuals (including directors and employees) are as follows:

	2002	2001
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**5,407**	4,994
Pension scheme contributions	**114**	111
Bonus paid and payable	**472**	278
	5,993	5,383

	2002	2001
Number of directors	**2**	3
Number of employees	**3**	2
	5	5

During the year, no emolument was paid to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

d. Analysis of emoluments paid to the five highest paid individuals (including directors and employees) by number of individuals and emolument ranges is as follows:

	Number of individuals	
	2002	2001
Nil to HK$1,000,000	**3**	3
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**—**	—
HK$2,000,001 to HK$2,500,000	**—**	1
HK$2,500,001 to HK$3,000,000	**1**	—
	5	5

8. TAXATION

The Company is exempted from taxation in Bermuda until 28 March 2016.

There is no Hong Kong Profits Tax liabilities for the year ended 31 December 2002 *(2001: Nil)* as the Group did not earn any income subject to Hong Kong Profits Tax.

The two principal subsidiaries of the Company are Guangdong Apollo Group Co., Ltd. ("Guangdong Apollo") and Guangdong Apollo Group Li Cheng Pharmaceutical Factory ("Li Cheng"). Guangdong Apollo is a Sino-foreign equity joint venture enterprise and is subject to PRC enterprise income tax at a reduced rate of 15%. Li Cheng is a collective enterprise established in the PRC and is subject to PRC enterprise income tax at a rate of 33%.

As Guangdong Apollo and Li Cheng did not earn any income subject to PRC enterprise income tax for the year ended 31 December 2002, no PRC enterprise income tax has been provided *(2001: Nil)*.

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Included in the net loss attributable to shareholders is a loss of approximately HK$32,121,000 *(2001: loss of approximately HK$155,739,000)* which has been dealt with in the financial statements of the Company.

10. DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2002 *(2001: Nil)*.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to ordinary shareholders of approximately HK$30,147,000 *(2001: loss of approximately HK$155,739,000)*, divided by the weighted average number of ordinary shares in issue during the year of 841,878,000 shares *(2001: 815,100,000 shares)*.

Diluted loss per share is not presented as there is no dilution effect on the potential ordinary shares arising from the conversion of convertible debentures into share capital or exercise of share options because the conversion prices and exercise prices of share options are greater than average market prices of the shares of the Company.

12. PROPERTY, PLANT AND EQUIPMENT

Group	Land use rights and buildings *HK$'000*	Plant and machinery *HK$'000*	Equipment *HK$'000*	Motor vehicles *HK$'000*	Others *HK$'000*	Total *HK$'000*
Cost						
At beginning of year	322,105	47,991	16,486	19,612	6,666	412,860
Reclassification	6,411	(187)	199	4	(16)	6,411
Additions	67	212	816	—	605	1,700
Disposals	(12,474)	(50)	(2,734)	(4,396)	(808)	(20,462)
At balance sheet date	**316,109**	**47,966**	**14,767**	**15,220**	**6,447**	**400,509**
Accumulated depreciation and impairment losses						
At beginning of year	157,220	28,187	13,324	15,856	5,977	220,564
Reclassification	6,422	(168)	208	(42)	(9)	6,411
Charge for the year	12,224	3,951	724	687	114	17,700
Impairment losses (reversed) provided	(32,354)	2,888	—	—	—	(29,466)
Disposals	(4,665)	(38)	(2,373)	(3,898)	(723)	(11,697)
At balance sheet date	**138,847**	**34,820**	**11,883**	**12,603**	**5,359**	**203,512**
Net book value						
At balance sheet date	**177,262**	**13,146**	**2,884**	**2,617**	**1,088**	**196,997**
At beginning of year	**164,885**	**19,804**	**3,162**	**3,756**	**689**	**192,296**

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

a. Analysis of net book value of land use rights and buildings is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Held outside Hong Kong on:		
Long-term lease	**69,052**	79,268
Medium-term lease	**108,210**	85,617
	177,262	164,885

b. The Group has engaged a firm of independent professional valuers to perform a valuation of land use rights and buildings, and plant and machinery as at the balance sheet date at open market value. Pursuant to the valuation, a reversal of impairment loss of approximately HK$32,354,000 on land use rights and buildings and an impairment loss of HK$2,888,000 on plant and machinery are recorded. The reversal of impairment losses, in the opinion of the directors, is due to the rise of prices of properties in general in the PRC in the year.

c. At the balance sheet date, the Group is in the process of applying for land use right certificates and building ownership certificates of certain land use rights and buildings with a net book value of approximately HK$17,585,000 *(2001: HK$16,692,000)*. In the legal opinion of the Company's lawyer, the Group has the rights to occupy, use and dispose of the property free from any prior consent from the relevant PRC authorities or at any additional costs.

	Equipment	**Others**	**Total**
Company	*HK$'000*	*HK$'000*	*HK$'000*
Cost			
Additions	135	412	547
Transfer from subsidiary	406	—	406
At balance sheet date	**541**	**412**	**953**
Accumulated depreciation			
Charge for the year and **at balance sheet date**	**(108)**	**(32)**	**(140)**
Net book value			
At balance sheet date	**433**	**380**	**813**

13. INTERESTS IN SUBSIDIARIES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Investments in unlisted shares, at cost	**5,335**	5,335	**444,829**	404,630
Due from subsidiaries	**—**	—	**250,812**	246,111
	5,335	5,335	**695,641**	650,741
Less: provision for impairment losses	**(5,180)**	(4,997)	**(483,093)**	(466,694)
	155	338	**212,548**	184,047
Due to subsidiaries	**—**	—	**(11,031)**	—
	155	338	**201,517**	184,047

Amounts due from and to subsidiaries are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

At the balance sheet date, particulars of subsidiaries of the Company are as follows:

Name	**Place of incorporation and principal country of operation**	**Percentage of equity interest held**	**Particulars of issued/paid-up capital**	**Principal activities**
Consolidated subsidiaries				
Directly held				
China Apollo (BVI) Limited	British Virgin Islands	100%	US$10	Investment holding
MAXX Management Services Limited	Hong Kong	100%	HK$100,000	Provision of management service and investment holding
MAXX Applied Science Technology Company Limited	Hong Kong	100%	HK$100,000	Investment holding
Biometrics Technology Limited	British Virgin Islands	100%	US$50,000	Investment holding

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and principal country of operation	Percentage of equity interest held	Particulars of issued/paid-up capital	Principal activities
Consolidated subsidiaries				
Indirectly held				
China Apollo Enterprises (Hong Kong) Limited	Hong Kong	100%	HK$30,000 (b)	Investment holding
Rainbow Profits Limited	British Virgin Islands	100%	US$10	Investment holding
China Apollo Advertising Limited	Hong Kong	100%	HK$2	Dormant
China Apollo International Trading Limited	Hong Kong	100%	HK$2	Dormant
Guangdong Apollo Group Co., Ltd. (a)	PRC	95%	HK$187,314,000	Manufacture and sale of health products in the PRC
Guangdong Apollo Group Li Cheng Pharmaceutical Factory (a)	PRC	95%	RMB15,300,000	Manufacture and sale of pharmaceutical products in the PRC
China Apollo Enterprises (Macau) Limited	Macau	100%	PTC$10,000	Dormant
China Apollo Enterprises (Singapore) Private Limited	Singapore	100%	US$2	Dormant
MAXX Life Sciences Investments Company Limited	Hong Kong	100%	HK$100,000	Dormant
MAXX Biotech Company Limited	Hong Kong	100%	HK$100,000	Personnel management

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and principal country of operation	Percentage of equity interest held	Particulars of issued/paid-up capital	Principal activities
Consolidated subsidiaries				
Indirectly held				
MAXX Medica (Shanghai) Limited	Hong Kong	100%	HK$100,000	Dormant
Joy Route Development Limited	British Virgin Islands	100%	US$100	Investment holding
Best Express Worldwide Limited	British Virgin Islands	70%	US$100	Research and development of pharmaceutical projects
Unconsolidated subsidiary				
Indirectly held				
Shanghai Apollo-Fudan High-Tech. Industry Co. Ltd. ("Apollo Fudan") (a) & (c)	PRC	70%	RMB3,000,000	Manufacture and sale of pyruvate calcium series products and other chemical intermediates

a. The legal structure of Guangdong Apollo is a Sino-foreign equity joint venture. The legal structure of Li Cheng is a collective enterprise and the legal structure of Apollo Fudan is a limited company established in the PRC.

b. Balance includes 1,000 non-voting deferred shares of $10 each. These shares have no voting rights and are not entitled to dividends or any distribution upon winding up unless a sum of $500,000,000,000 has first been distributed to the holders of ordinary shares.

c. In the opinion of the directors, the operating results and financial position of Apollo Fudan are not significant to the Group as a whole and therefore Apollo Fudan is excluded from consolidation. The consolidated income statement of the Group accounted for the results of Apollo Fudan to the extent of dividend received and receivable. Investment in Apollo Fudan is carried at cost less provision for impairment loss.

14. INTERESTS IN ASSOCIATES

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net assets of associates	**10,702**	12,007
Less: provision for impairment losses	**(5,370)**	(5,370)
	5,332	6,637

Details of the associates at the balance sheet date are as follows:

Name	Place of incorporation	Form of business structure	Percentage of equity interest held indirectly	Particulars of issued/paid-up capital	Principal activities
Data Logistics Limited	British Virgin Islands	Limited company	45%	US$100	Investment holding
Beijing Metrolink Embryo Biotech Company Limited	PRC	Sino-foreign equity joint venture	40%	RMB10,000,000	Biotech research and development of related technical know-how
Guangzhou Apollo Enterprise Company Limited	PRC	Limited company established in the PRC	25%	RMB3,800,000	Sale of chemical, health and electronic products

The principal place of operations of Beijing Metrolink Embryo Biotech Company Limited and Guangzhou Apollo Enterprise Company Limited is in the PRC. The principal place of operations of Data Logistics Limited is in Hong Kong.

15. INTANGIBLE ASSETS

Group	Acquired proprietary rights of chemical compound HK$'000	Acquired technology know-how HK$'000	Total HK$'000
Cost			
At beginning of year	—	3,915	3,915
Acquired from acquisition of a subsidiary	57,012	—	57,012
Write off	—	(3,915)	(3,915)
At balance sheet date	**57,012**	**—**	**57,012**
Accumulated amortisation			
At beginning of year	—	1,927	1,927
Charge for the year	2,375	201	2,576
Write off	—	(2,128)	(2,128)
At balance sheet date	**2,375**	**—**	**2,375**
Net book value			
At balance sheet date	**54,637**	**—**	**54,637**
At beginning of year	—	1,988	1,988

During the year, the Group acquired proprietary rights of a global patent, excluding Hong Kong and the PRC, under application, of a chemical compound and its related technology for development for the cure of cardio-vascular and cerebro-vascular diseases through the acquisition of Joy Route Development Limited which holds 70% interest in the said proprietary rights, for a consideration of HK$40,000,000. The consideration was based on a reference to an appraisal of the valuation of the proprietary rights carried out by an independent professional valuer. The acquired proprietary rights are amortised, on straight line basis, over 6 years.

HK$30,000,000 of the consideration was settled by cash from issue of convertible debentures as detailed in Note 24 while the remaining HK$10,000,000 was settled by issue of the Company's shares subsequent to the balance sheet date as detailed in Note 35.

16. INVENTORIES

	Group	
	2002 HK$'000	2001 HK$'000
Raw materials	**7,837**	9,202
Work-in-progress	**45**	55
Finished goods	**2,858**	3,863
Less: provision for inventory obsolescence	**(2,370)**	(2,159)
	8,370	10,961

At the balance sheet date, full provision of approximately of HK$2,370,000 was made to certain raw materials.

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**11,761**	21,720	**—**	—
Deposits, prepayments and other debtors	**4,976**	13,728	**264**	151
	16,737	35,448	**264**	151

The aging analysis of trade receivables is set out below:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within 90 days	**7,545**	8,088
91 — 180 days	**3,409**	13,627
181 — 365 days	**1,952**	5,419
Over 365 days	**10,684**	37,058
	23,590	64,192
Less: provision for doubtful receivables	**(11,829)**	(42,472)
	11,761	21,720

The normal credit period granted by the Group is on average 90 days from the date of invoice.

18. INVESTMENTS IN SECURITIES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Equity securities				
Listed in Hong Kong, at fair value	**—**	6,926	**—**	6,926
Unlisted, at cost	**9,586**	9,586	**—**	—
Total	**9,586**	16,512	**—**	6,926
Quoted market value of listed equity securities	**—**	6,926	**—**	6,926

19. INVESTMENTS HELD FOR DISPOSAL

Investments held for disposal represents land use rights and self-constructed buildings located in the PRC which are stated at net realisable value at the balance sheet date.

The Group has engaged a firm of independent professional valuers to perform valuation of the investments held for disposal at open market value for reference of the net realisable value. Pursuant to the valuation, a write back of cost of approximately HK$8,768,000 *(2001: write down of cost of approximately HK$19,028,000)* is recorded.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank balances and cash	**63,182**	64,911	**795**	1
Term deposits	**6,353**	24,237	**—**	—
As stated in the balance sheet	**69,535**	89,148	**795**	1
Pledged deposits	**1,414**	1,414	**—**	—
Bank overdrafts, unsecured	**(853)**	—	**—**	—
As stated in the cash flow statement	**70,096**	90,562	**795**	1

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**8,272**	12,259	**—**	—
Accrued charges and other creditors	**35,250**	51,648	**5,008**	623
	43,522	63,907	**5,008**	623

All trade payables were aged less than one year. Included in trade payable is a note payable of approximately HK$2,828,000 *(2001: approximately HK$2,828,000)*. It is secured by certain bank deposits as detailed in Note 34 to the financial statements.

22. SHORT-TERM BANK LOANS

All short-term bank loans at the balance sheet date are secured, denominated in Renminbi and granted by banks in the PRC. The short-term bank loans bear interest rates from 5.7525% to 6.372% per annum and wholly repayable within one year. At the balance sheet date, all the banking facilities were drawn down *(2001: approximately HK$51,575,000)*.

23. DEFERRED TAXATION

There is no significant unprovided deferred taxation.

24. CONVERTIBLE DEBENTURES

Pursuant to a subscription agreement dated 9 October 2002, the Company issued convertible debentures with principal amounts of HK$30,000,000 to Health Capital Investment Limited to finance part of the consideration for the acquisition of the 100% equity interest in Joy Route Development Limited.

The principal terms of the convertible debenture are as follows:

Issue price

The aggregate principal amount of the convertible debentures is HK$30,000,000, issued at par on 9 October 2002.

Term and maturity date

Unless previously redeemed, converted or purchased and cancelled, the convertible debentures will be redeemed in Hong Kong dollars at 100% of their principal amounts, plus accrued interest on 8 October 2004.

Interest

The convertible debentures bear interest at the rate of 3.5% per annum, and are payable semi-annually in arrears.

Conversion period

The conversion period commences after the date of the issue up to the maturity date.

Conversion rights

The debenture holder has the right at any time during the conversion period to convert the convertible debentures in whole or in part provided that no less than 1,000,000 shares or its multiple shall be converted for each conversion and the aggregate cumulated conversion of shares of the Company shall not exceed 20% of the entire share capital of 815,100,000 shares as at 23 May 2002. The conversion price is the higher of (i) HK$0.15 per share (Fixed Conversion Price) or (ii) 90% of the average of the closing prices per share during the 10 business days immediately prior to conversion (the "Floating Conversion Price").

Assuming full conversion of the convertible debentures at the Fixed Conversion Price, the number of shares to be issued will be 163,020,000, 20% of the outstanding issued share capital of the Company as at 23 May 2002 and approximately 16.67% of the issued share capital of the Company as enlarged by the issue of such shares.

24. CONVERTIBLE DEBENTURES (Continued)

Conversion during the year

On 31 October 2002, convertible debentures with principal amounts of approximately HK$13,712,000 were converted into 80,000,000 ordinary shares of HK$0.1 each at a conversion price of HK$0.1714 per share.

On 4 November 2002, convertible debentures with principal amounts of approximately HK$14,102,000 were converted into 83,000,000 ordinary shares of HK$0.1 each at a conversion price of HK$0.1699 per share.

25. PAYABLE FOR ACQUISITION OF A SUBSIDIARY

The amount represents the outstanding balance payable for acquiring Joy Route Development Limited as disclosed in Note 15. The payable was settled subsequent to the balance sheet date by way of shares of the Company issued as disclosed in Note 35 to the financial statements.

26. DUE TO THE MAJOR SHAREHOLDER

The amount due is unsecured, interest-free and the major shareholder has confirmed that it will not ask for repayment of the amount as long as the Group has insufficient working capital. In the opinion of the directors, no part of the amount will be repayable within the next twelve months from the balance sheet date.

27. ISSUED CAPITAL

	2002		2001	
	Number of shares '000	***HK$'000***	Number of shares *'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	**1,600,000**	**160,000**	1,600,000	160,000
Issued and fully paid or credited as fully paid:				
At beginning of year	**815,100**	**81,510**	815,100	81,510
New shares issued upon conversion of convertible debentures *(Note 24)*	**163,000**	**16,300**	—	—
At balance sheet date	**978,100**	**97,810**	815,100	81,510

28. SHARE OPTIONS

On 17 May 2002, the share option scheme adopted by the Company on 2 December 1995 (the "Old Scheme") was terminated and a new share option scheme (the "New Scheme") was adopted by shareholders of the Company. As a result, the Company can no longer grant any further options under the Old Scheme and the share options granted under the Old Scheme also lapsed during the year pursuant to the terms of the Old Scheme. Eligible participants of the New Scheme include the Company's executive directors and employees of the Group. Unless otherwise terminated or amended, the New Scheme will remain in force for ten years from the date of adoption.

28. SHARE OPTIONS (Continued)

Pursuant to the New Scheme, the overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the New Scheme and other share option schemes of the Company must not exceed 30% of the shares in issue from time to time. The shares which may be issued upon exercise of all options to be granted under the New Scheme and other share option schemes of the Company shall not exceed 10% of the shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant or grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue.

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is no later than 10 years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but may not be less than as required by Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange as amended on 1 September 2001 whereby if the Company wishes to continue to grant options under the New Scheme on or after 1 September 2001, it must also comply with the new requirement set out therein, including the subscription price must be not less than (i) the average of the closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer, (ii) closing price of the Company's shares on the date of offer and (iii) the nominal value of the Company's share.

Movements in share options during the year are as follows:

		Number of share options			
Date of grant	**Subscription price per share**	**Beginning of year**	**Granted during the year**	**Lapsed during the year**	**End of year**
Old Scheme					
4 March 1996	HK$1.44	3,500,000	—	3,500,000	—
New Scheme					
28 June 2002	HK$0.315	—	32,150,000	—	32,150,000

The share options granted during the year are exercisable over a period from 28 June 2002 to 27 July 2004.

29. RESERVES

	Share premium *HK$'000*	Statutory reserves *HK$'000*	Contributed surplus *HK$'000*	Cumulative translation adjustments *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
Group						
At beginning of year	208,417	148,158	249,906	(69,989)	(429,474)	107,018
Arising from issue of new shares from conversion of convertible debentures	11,514	—	—	—	—	11,514
Loss for the year	—	—	—	—	(30,147)	(30,147)
At balance sheet date	219,931	148,158	249,906	(69,989)	(459,621)	88,385
Company						
At beginning of year	208,417	—	409,520	—	(508,945)	108,992
Arising from issue of new shares from conversion of convertible debentures	11,514	—	—	—	—	11,514
Loss for the year	—	—	—	—	(32,121)	(32,121)
At balance sheet date	219,931	—	409,520	—	(541,066)	88,385

The accumulated losses attributable to the associates at the balance sheet date is approximately HK$7,128,000 *(2001: HK$5,823,000)* including the provision of impairment losses of approximately HK$5,370,000 *(2001: approximately HK$5,370,000)*.

Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution made out of contribution surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

As stipulated in the relevant laws and regulations for Sino-foreign equity joint venture enterprises, Guangdong Apollo and Li Cheng are required to maintain certain statutory reserves which include the general reserve fund and staff welfare and bonus fund. Appropriations to the general reserve fund and the staff welfare and bonus fund are made out of net profit as reported in the statutory accounts and charged to result before taxation respectively. The amounts of appropriations are determined by the respective board of directors. All statutory reserves are for specific purposes and are not distributable in the form of cash dividends. Provision for staff welfare and bonus is included in current liabilities in the consolidated balance sheet.

At the balance sheet date, none *(2001: Nil)* of the Company's reserves are available for distribution to the Company's shareholders.

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash (used in) generated from operations

	2002	2001
	HK$'000	*HK$'000*
Loss from ordinary activities before taxation	**(31,268)**	(163,024)
(Net reversal of) Provision for impairment loss of property, plant and equipment	**(29,466)**	71,161
Depreciation	**17,700**	17,683
Gain on disposal of property, plant and equipment	**(4,008)**	(4,941)
Interest income	**(919)**	(2,296)
Interest expenses	**3,385**	3,795
Dividend income from investments in securities	**(187)**	(210)
Provision for and write off of obsolete inventories	**211**	4,908
Provision for doubtful receivables	**17,857**	20,219
Amortisation of intangible assets	**2,576**	263
Gain on disposal of investments in securities	**(1,812)**	—
Provision for impairment loss of interest in an unconsolidated subsidiary	**183**	1,037
Share of losses of associates and provision for impairment loss of interests in associates	**1,305**	5,823
Unrealised loss on investments in securities	**—**	1,400
(Write back) Write down of cost of investments held for disposal	**(8,768)**	19,028
Write back of provision for warranty	**—**	(6,514)
Loss on write off of acquired technology know how	**1,787**	—
Write off of goodwill	**57**	—
	(31,367)	(31,668)
Changes in working capital:		
Trade and other receivables	**854**	64,237
Inventories	**2,380**	515
Provision for staff welfare and bonus	**186**	76
Trade and other payables	**(17,600)**	5,563
Cash (used in) generated from operations	**(45,547)**	38,723

30. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries

	2002 *HK$'000*	2001 *HK$'000*
Proprietary rights of a chemical compound	57,012	—
Cash and bank balances	916	—
Other payables	(447)	—
Minority interests	(17,338)	—
	40,143	—
Goodwill on acquisition	57	—
	40,200	—
Satisfied by:		
Cash	30,200	—
Payable for acquisition of a subsidiary	10,000	—
	40,200	—

The Goodwill was written off to the consolidated income statement during the year.

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2002 *HK$'000*	2001 *HK$'000*
Cash considerations	30,200	—
Cash and bank balances acquired	(916)	—
Net cash outflow in the acquisition of subsidiaries	29,284	—

31. MAJOR NON-CASH TRANSACTION

During the year, the Company has issued HK$30,000,000 *(2001: Nil)* convertible debentures at par. A sum of HK$16,300,000 *(2001: Nil)* convertible debentures has been converted into 163,000,000 *(2001: Nil)* ordinary shares of HK$0.1 each at a total conversion price of HK$27,814,000 *(2001: Nil)*.

During the year, the major shareholder of the Company paid expenses of approximately HK$3,232,000 *(2001: Nil)* on behalf of the Group and sold property, plant and equipment to the Group for approximately HK$522,000 *(2001: Nil)*. There is no cash flow involved by the Group in these transactions.

32. COMMITMENTS

a. Capital expenditure commitments

At the balance sheet date, the Group has an outstanding commitment contracted but not provided for in the financial statements in respect of investment in a new associate amounting to approximately HK$20,691,000 *(2001: Nil)*.

b. Operating lease commitments

At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases in respect of land and buildings, which are payable as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**1,432**	360
In the second to fifth years inclusive	**803**	300
	2,235	660

At the same time, the Group also leases out some of land and buildings. The future aggregate minimum rental receivable under non-cancellable operating leases are as follows:

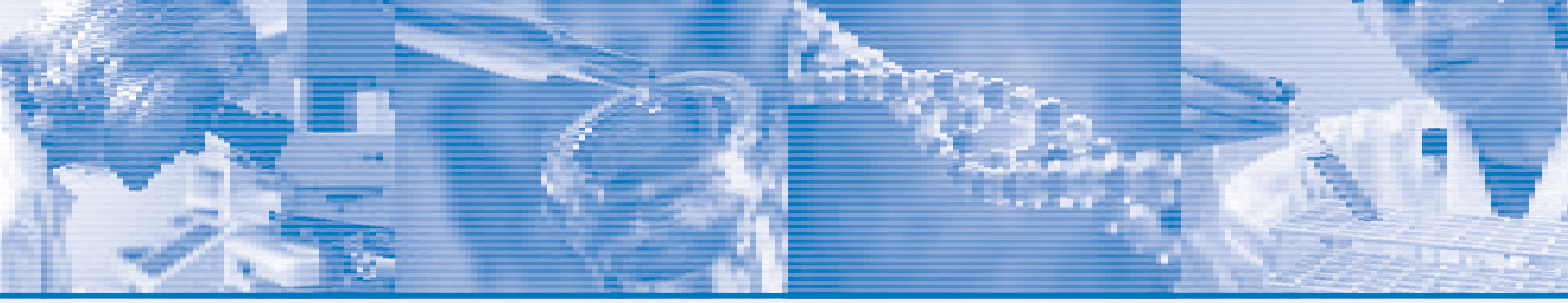
	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**3,791**	3,202
In the second to fifth years inclusive	**5,323**	6,356
Over five years	**810**	1,326
	9,924	10,884

33. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these financial statements, the Group has the following related party transactions:

During the year, the Group acquired two subsidiaries from companies in which the shareholder of the major shareholder of the Company has beneficial interests for HK$200,000 *(2001: Nil)*.

During the year, certain expenses of the Group amounting to approximately HK$3,232,000 *(2001: Nil)* were paid by the major shareholder of the Company on behalf of the Group at no charge. The major shareholder also sold property, plant and equipment to the Group for approximately HK$522,000 *(2001: Nil)* during the year.



34. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged bank deposits of approximately HK$1,414,000 *(2001: approximately HK$1,414,000)* to secure notes payable facilities granted by a bank and has pledged certain land use rights and buildings with an aggregate net book value of approximately HK$58,926,000 *(2001: HK$55,019,000)* and investments held for disposal with a carrying value of approximately HK$31,114,000 *(2001: HK$7,833,000)* to secure short-term bank loans granted by banks to the Group and a bank loan of approximately HK$4,714,000 *(2001: approximately HK$7,300,000)* granted to a third party.

35. SUBSEQUENT EVENTS

(a) On 8 January 2003, the Company entered into an agreement with a placing agent for a placement of 60,000,000 new ordinary shares (the "First Placing Shares") of HK$0.10 each of the Company at a price of HK$0.125 per share and all 60,000,000 new shares were issued and placed on 13 January 2003. The First Placing Shares represent approximately 5.71% of the Company's existing issued share capital on the date of placement and approximately 5.40% of the Company's issued capital as enlarged by the issue of the First Placing Shares and the fund raised is used as general working capital of the Group.

(b) By an ordinary resolution passed on 10 February 2003, the directors of the Company were authorised to issue and allot shares ("Consideration Shares") to Monaco International Group Limited or its nominee for the settlement of HK$10,000,000 for the balance of consideration for the acquisition of 100% equity interest in Joy Route Development Limited. As a result, 72,330,000 and 11,000,000 ordinary shares of the Company of HK$0.10 each at issue price of HK$0.12 per share were issued as Consideration Shares on 17 February 2003 and 13 March 2003, respectively.

(c) On 7 March 2003, the Company entered into an agreement with another placing agent for a placement of 60,000,000 new ordinary shares (the "Second Placing Shares") of HK$0.10 each of the Company at a price of HK$0.11 per share and all 60,000,000 new shares were issued and placed on 11 March 2003. The Second Placing Shares represent approximately 5.40% of the Company's existing issued share capital on the date of placement and approximately 5.08% of the Company's issued share capital as enlarged by the issue of the placing shares and the fund raised is used as general working capital of the Group.

36. COMPARATIVE FIGURES

Certain comparative figures of the other operating expenses and share of loss of associates and impairment loss of interests in associates as stated in the consolidated income statements and notes to the financial statements in respect of lease terms of land use rights and buildings and cash and cash equivalents have been restated to conform to the current year presentation. The directors are of the opinion that the restatements of these comparative figures are more appropriate for the usefulness of the financial statements.