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 (the "Stock Exchange") since 19 December 1995.

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 research and development of bioscience related projects.

The directors consider Vision Ocean Investments Limited ("Vision Ocean") is the major shareholder of the Company in which Ms. Lo Yuk Yee, Chairman and a director of the Company, is the beneficial owner.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

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

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

Adoption of statement of standard accounting practice

In the current year, the Group has adopted for the first time SSAP 12 (Revised) "Income taxes" which is effective for accounting period commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. SSAP 12 (Revised) requires the adoption of liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this SSAP has had no material effect on the results for the current or prior accounting periods. However the related note disclosure are now more extensive than previously required as shown in Note 8 to the financial statements.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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$45,301,000 at 31 December 2003. The Group has taken and will continue the following measures to ensure the Group will have sufficient funds for the research and development for Cycloargatroban and QuProbe detailed in Note 15 and adequate working capital for the operations of the Group:

i) to impose tight cost controls;

ii) to dispose of properties in the PRC not related to the Group's core business to provide working capital; and

iii) to raise funds as and when necessary such as the proposed Open Offer announced on 19 April 2004 and as detailed in Note 36(iii).

In addition, the directors do not foresee any circumstances that the banks in the PRC will not continue their bank loan facilities for the Group. Accordingly, 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 31 December 2003 and 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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's interest in the fair values of the identifiable assets and liabilities acquired as at the date of the exchange transaction. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation period and the amortisation method are reviewed annually at each financial year end.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

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 on transfer of risks and rewards of ownership which generally coincide with the time 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 the 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. Improvements 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 estimated net 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 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, using the straight-line method.

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 subsequent periods.

Acquired proprietary rights of chemical compound and diagnostic technology

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

These proprietary rights acquired as part of business combination are stated at fair value less accumulated amortisation and any impairment loss. The costs of these proprietary rights are amortised over 6 years, using the straight-line method.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of 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 income statement when they arise.

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

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 represent 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 current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the financial year end. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

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

Salaries, bonus and leave entitlements

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

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. 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 the 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.

Share option scheme

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 recorded in the income statement or balance sheet for their costs. Upon 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 are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the income statement or balance sheet.

Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Foreign currency

Subsidiaries established in the PRC maintain their books and records in Renminbi ("RMB") as functional currency. 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 financial year end. 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 arose upon consolidation.

Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's and the Company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

3. TURNOVER AND CONTRIBUTION TO OPERATING LOSS

	Turnover		Contribution to operating loss	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Sales of health products	**60,252**	70,197	**6,932**	4,485
Sales of health drinks	**4,789**	6,716	**(1,264)**	(1,263)
Sales of pharmaceutical products	**1,363**	3,583	**(921)**	(622)
	66,404	80,496	**4,747**	2,600
Other net income *(Note 4)*			**3,520**	47,534
Other operating expenses *(Note 5)*			**(21,385)**	(240)
Other unallocated expenses			**(81,295)**	(81,162)
Loss from ordinary activities before taxation			**(94,413)**	(31,268)

The Group is considered generating income in single business and all turnover is derived in the PRC. Accordingly, no segmental information is provided.

4. OTHER NET INCOME

	2003	2002
	HK$'000	*HK$'000*
Net reversal of impairment losses of property, plant and equipment	**—**	29,466
Write back of costs of investments held for disposal	**1,516**	8,768
Others	**2,004**	9,300
	3,520	47,534

5. OTHER OPERATING EXPENSES

	2003	2002
	HK$'000	*HK$'000*
Provision for impairment losses of property, plant and equipment *(Note 12)*	**998**	—
Unrealised holding loss on investments in securities	**5,863**	—
Provision for impairment loss of interest in an unconsolidated subsidiary	**155**	183
Write off of goodwill in a subsidiary	**—**	57
Write off of goodwill in an associate	**14,369**	—
	21,385	240

6. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	2003 HK$'000	2002 HK$'000
Finance costs		
Interest expenses for bank loans wholly repayable within five years	**2,718**	3,322
Interest for convertible debentures, convertible notes and promissory notes	**163**	63
Interest on other loans	**398**	—
	3,279	3,385
Others		
Staff costs (excluding directors' emoluments)		
— salaries and wages	**14,683**	21,502
— staff and workers' bonus and welfare expenses	**1,240**	2,911
— contributions to retirement schemes	**1,352**	1,598
Depreciation on owned assets	**14,419**	17,700
Cost of inventories	**28,966**	33,117
Provision for doubtful trade and other receivables	**8,715**	17,857
Write off of other receivables	**858**	—
Loss on write off of acquired technology know-how	**—**	1,787
Research and development costs expensed	**9,683**	1,993
Amortisation of intangible assets, included in administrative expenses		
— acquired technology know-how	**—**	201
— acquired proprietary rights of chemical compound and diagnostic technology	**10,703**	2,375
Operating lease rentals in respect of land and buildings	**2,287**	3,053
Auditors' remuneration	**763**	921
Rental income, net of outgoings of HK$2,361,000 *(2002: HK$2,893,000)*	**(4,013)**	(6,485)
Dividend income from investments in securities	**—**	(187)
Interest income from bank deposits	**(324)**	(919)
Gain on disposal of investments in securities	**—**	(1,812)
Loss on disposal of investments held for disposal	**173**	—
Loss (Gain) on disposal of property, plant and equipment	**1,542**	(4,008)
Exchange loss	**18**	20

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Details of directors' emoluments are as follows:

	2003	2002
	HK$'000	*HK$'000*
Executive directors		
Salaries, allowances and benefits in kind	**1,555**	3,255
Pension scheme contributions	**24**	45
Bonus paid and payable	**—**	353
	1,579	3,653
Independent non-executive directors		
Fees	**120**	414
	1,699	4,067

During the year, three executive directors *(2002: one executive director)* and one independent non-executive director *(2002: None)* have waived the right to receive emoluments totalling approximately HK$3,651,000 *(2002: approximately HK$2,367,000)*.

Under the Company's share option scheme, 11,410,000 share options with subscription price of HK$0.158 were granted to two executive directors and 7,380,000 share options with subscription price of HK$0.140 were granted to another executive director during the year.

Analysis of directors' emoluments by number of directors, including 2 directors *(2002: 9 directors)* resigned during the year and emolument ranges is as follows:

	Number of directors	
	2003	2002
Executive directors		
— Nil to HK$1,000,000	**5**	10
— HK$1,000,001 to HK$1,500,000	**—**	1
	5	11
Independent non-executive directors		
— Nil to HK$1,000,000	**4**	4

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

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

	2003	2002
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**4,493**	5,407
Pension scheme contributions	**99**	114
Bonus paid and payable	**—**	472
	4,592	5,993

	2003	2002
Number of directors	**1**	2
Number of employees	**4**	3
	5	5

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	
	2003	2002
Nil to HK$1,000,000	**4**	3
HK$1,000,001 to HK$1,500,000	**—**	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

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

8. TAXATION

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

No provision for Hong Kong profits tax has been made as the Company and the Company's subsidiaries in Hong Kong either had no assessable profits or incurred losses for taxation purposes.

The Company's two principal subsidiaries in the PRC, Guangdong Apollo Group Co., Ltd. ("Guangdong Apollo") and Guangdong Apollo Group Li Cheng Pharmaceutical Factory (which became an associate of the Group during the year as detailed in Note 14) are subject to PRC enterprise income tax at rates of 15% and 33%, respectively. No provision for PRC enterprise income tax has been made as these PRC subsidiaries incurred losses for taxation purposes.

Reconciliation of tax expenses

	2003 **HK$'000**	2002 *HK$'000*
Loss from ordinary activities before taxation	**(94,413)**	(31,268)
Income tax at applicable tax rate of 15% *(2002: 15%)*	**(14,162)**	(4,690)
Non-deductible expenses	**3,913**	3,099
Tax exempt revenue	**(535)**	(362)
Unrecognised tax losses	**8,320**	5,479
Unrecognised temporary differences	**3,339**	(3,022)
Effect of different tax rates	**(875)**	(504)
Tax expenses for the year	**—**	—

The applicable tax rate is the PRC enterprise income tax rate of 15% *(2002: 15%)* applicable to Guangdong Apollo as substantial operations of the Group is carried out by Guangdong Apollo in the PRC.

At the balance sheet date, the following temporary differences of the Group have not been recognised:

	2003 **HK$'000**	2002 *HK$'000*
Tax losses	**505,552**	525,219
Deductible temporary differences	**112,317**	109,665
	617,869	634,884

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits. The Company had no taxable temporary differences or tax losses at 31 December 2003 and 31 December 2002.

Except for unrecognised tax losses of approximately HK$450,884,000 *(2002: approximately HK$478,201,000)* which will expire in the next 5 years, other unrecognised tax losses and deductible temporary differences have no expiry date.

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Included in the net loss attributable to shareholders is a loss of approximately HK87,821,000 *(2002: loss of approximately HK$32,121,000)* 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 2003 *(2002: 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$88,156,000 *(2002: approximately HK$30,147,000)*, divided by the weighted average number of ordinary shares in issue during the year of 1,196,240,000 shares *(2002: 841,878,000 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 note into share capital or exercise of share options because the conversion prices of convertible notes and exercise prices of share options are greater than average market prices of the shares of the Company *(2002: Same)*.

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 1 January 2003	316,109	47,966	14,767	15,220	6,447	400,509
Additions	—	74	305	204	182	765
On disposal of a subsidiary	(32,021)	(9,130)	(2,532)	(88)	(466)	(44,237)
Disposals	(13,954)	(5,843)	(2,119)	(3,854)	(600)	(26,370)
At 31 December 2003	**270,134**	**33,067**	**10,421**	**11,482**	**5,563**	**330,667**
Accumulated depreciation and impairment losses						
At 1 January 2003	138,847	34,820	11,883	12,603	5,359	203,512
Charge for the year	10,366	2,734	531	575	213	14,419
Impairment losses provided	998	—	—	—	—	998
On disposal of a subsidiary	(17,591)	(6,101)	(2,217)	(80)	(374)	(26,363)
Disposals	(5,758)	(3,961)	(1,796)	(3,675)	(479)	(15,669)
At 31 December 2003	**126,862**	**27,492**	**8,401**	**9,423**	**4,719**	**176,897**
Net book value						
At 31 December 2003	**143,272**	**5,575**	**2,020**	**2,059**	**844**	**153,770**
At 31 December 2002	177,262	13,146	2,884	2,617	1,088	196,997

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Held outside Hong Kong on:		
Long-term leases	**49,886**	69,052
Medium-term leases	**93,386**	108,210
	143,272	177,262

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 at 31 December 2003 at open market value for reference for the directors' impairment review of these assets. With reference to the valuation, impairment losses of approximately HK$998,000 *(2002: reversal of impairment losses of approximatley HK$32,354,000)* on land use rights and buildings are recorded and no impairment loss is required for plant and machinery *(2002: impairment losses of approximately HK$2,888,000)*.

	Equipment	**Others**	**Total**
Company	*HK$'000*	*HK$'000*	*HK$'000*
Cost			
At 1 January 2003	541	412	953
Additions	36	—	36
At 31 December 2003	**577**	**412**	**989**
Accumulated depreciation			
At 1 January 2003	108	32	140
Charge for the year	116	82	198
At 31 December 2003	**224**	**114**	**338**
Net book value			
At 31 December 2003	**353**	**298**	**651**
At 31 December 2002	433	380	813

13. INTERESTS IN SUBSIDIARIES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Investments in unlisted shares, at cost	**5,335**	5,335	**538,561**	444,829
Due from subsidiaries	**—**	—	**256,073**	250,812
	5,335	5,335	**794,634**	695,641
Less: provision for impairment losses	**(5,335)**	(5,180)	**(561,615)**	(483,093)
	—	155	**233,019**	212,548
Due to subsidiaries	**—**	—	**(2,284)**	(11,031)
	—	155	**230,735**	201,517

All amounts due from and to subsidiaries are unsecured, interest-free and not repayable within the next twelve months from 31 December 2003 except for an amount of HK$4,268,000 *(2002: Nil)* due from a subsidiary which bears interest at prime rate plus 2% per annum.

At 31 December 2003, particulars of subsidiaries of the Company are as follows:

Name	Place of incorporation/ registration	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%	Ordinary shares US$10	Investment holding
MAXX Management Services Limited	Hong Kong	100%	Ordinary shares HK$100,000	Investment holding
Biometrics Technology Limited	British Virgin Islands	100%	Ordinary shares US$7,500	Investment holding
New Wealth Assets Limited	British Virgin Islands	86%	Ordinary shares US$1,000	Investment holding

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Percentage of equity interest held	Particulars of issued/paid-up capital	Principal activities
Consolidated subsidiaries *(Continued)*				
Indirectly held				
China Apollo Enterprises (Hong Kong) Limited	Hong Kong	100%	Ordinary shares HK$20,000 and Non-voting deferred shares HK$10,000 *(a)*	Investment holding
Guangdong Apollo Group Co., Ltd.	PRC	95%	Registered capital RMB194,983,457	Manufacture and sale of health products in the PRC
China Apollo Enterprises (Macau) Limited	Macau	100%	Ordinary shares PTC10,000	Dormant
China Apollo Enterprises (Singapore) Private Limited	Singapore	100%	Ordinary shares S$2	Dormant
MAXX Life Sciences Investments Company Limited	Hong Kong	100%	Ordinary shares HK$100,000	Dormant
MAXX Biotech Company Limited	Hong Kong	100%	Ordinary shares HK$100,000	Provision for personnel management
Joy Route Development Limited	British Virgin Islands	100%	Ordinary shares US$100	Investment holding
Best Express Worldwide Limited	British Virgin Islands	70%	Ordinary shares US$100	Research and development of pharmaceutical projects

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration	Percentage of equity interest held	Particulars of issued/paid-up capital	Principal activities
Consolidated subsidiaries *(Continued)*				
Indirectly held (Continued)				
MAXX Immunotech Limited	Hong Kong	90.2%	Ordinary shares HK$60,000 and Series-A Preferred shares HK$140,000 *(b)*	Development of diagnostic technology
Collingham Assets Limited	British Virgin Islands	100%	Ordinary shares US$10	Investment holding
AdvanDia Company Limited	Hong Kong	100%	Ordinary shares HK$100,000	Dormant
Profit Statistics Limited	British Virgin Islands	100%	Ordinary shares US$2,000	Investment holding
Unconsolidated subsidiary				
Indirectly held				
Shanghai Apollo-Fudan High-Tech. Industry Co., Ltd. *(c)*	PRC	66.5%	Registered Capital RMB3,000,000	Manufacture and sale of pyruvat calcium series products and other chemical intermediates

(a) The non-voting deferred shares of China Apollo Enterprises (Hong Kong) Limited have no voting rights and are not entitled to dividends or any distribution upon winding up unless a sum of HK$500,000,000,000 has first been distributed to the holders of ordinary shares.

(b) The Company effectively holds 90.20% equity interest in MAXX Immunotech Limited ("MAXX Immunotech") by holding 30% direct equity interest in MAXX Immuotech and 86% direct equity interest in New Wealth Assets Limited ("New Wealth") which holds 70% equity interests in MAXX Immunotech. The Series-A Preferred shares of MAXX Immunotech confer the holder the same rights as ordinary shares except Series-A Preferred shareholders have the priority to claim the assets of MAXX Immunotech upon winding up.

13. INTERESTS IN SUBSIDIARIES (Continued)

(c) In the opinion of the directors, the operating results and financial position of Shanghai Apollo-Fudan High-Tech. Industry Co., Ltd. ("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. At 31 December 2003, full provision of impairment loss for the investment in Apollo Fudan was made.

Guangdong Apollo is a Sino-foreign equity joint venture. Apollo Fudan is a limited liability company established in the PRC. Both of these subsidiaries operate principally in the PRC. Other subsidiaries are all private limited companies and operate principally in Hong Kong.

14. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Share of net assets of associates	**19,194**	10,702
Less: provision for impairment losses	**(5,370)**	(5,370)
	13,824	5,332

The movement of goodwill in relation to the acquisition of interest in an associate during the year is as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Goodwill arose at acquisition of interest in an associate	**14,369**	—
Goodwill written off *(Note 5)*	**(14,369)**	—
At 31 December	**—**	—

14. INTERESTS IN ASSOCIATES (Continued)

Details of the associates at 31 December 2003 are as follows:

Name	Place of incorporation/ Principal place of operation	Form of business structure	Percentage of equity interest held indirectly	Particulars of issued/paid-up capital	Principal activities
Data Logistics Limited	British Virgin Islands/ Hong Kong	Limited company	45%	Ordinary share US$100	Investment holding
Beijing Metrolink Embryo Biotech Company Limited	PRC/PRC	Sino-foreign equity joint venture	38%	Registered capital RMB10,000,000	Biotech research and development of related technical know-how
Guangzhou Apollo Enterprise Company Limited	PRC/PRC	Limited liability company established in the PRC	23.75%	Registered capital RMB3,800,000	Sale of chemical, health and electronic products
Guangdong Apollo Li Cheng Pharmaceutical Co., Ltd. *(a)*	PRC/PRC	Limited liability company established in the PRC	19%	Registered capital RMB12,000,000	Manufacture and sale of pharmaceutical products in the PRC
Shandong Hongyi Co., Ltd. *(b)*	PRC/PRC	Limited liability company established in the PRC	38%	Registered capital RMB50,000,000	Investment holding

(a) Guangdong Apollo Li Cheng Pharmaceutical Co., Ltd. ("Li Cheng") (formerly Guangdong Apollo Li Cheng Group Pharmaceutical Factory) was an indirectly held subsidiary of the Company and became an associate of the Company during the year after the Group disposed of 76% effective equity interest in Li Cheng. The form of business structure of Li Cheng was then changed from a collective enterprise to a limited liability company in the PRC.

(b) During the year, the Group acquired 38% effective equity interest in Shandong Hongyi Co., Ltd. ("Shandong Hongyi"), a limited liability company established in the PRC for a consideration of approximately HK$20,707,000. Shandong Hongyi has direct equity investments in two limited liability companies in the PRC being engaged in property development in Shanghai and sales of health products in the PRC. The Group has critically assessed the fair value of assets and liabilities of Shandong Hongyi at time of acquisition. The goodwill of HK$14,369,000 arose on consolidation, being the excess of the consideration over the fair value of the identifiable assets and liabilities was written off to consolidated income statement in the light that there is uncertainty that the future benefits generated by Shandong Hongyi will sufficiently cover the goodwill arose.

15. INTANGIBLE ASSETS

Group	**Acquired proprietary rights of chemical compound** *HK$'000*	**Acquired proprietary rights of diagnostic technology** *HK$'000*	**Total** *HK$'000*
Cost			
At 1 January 2003	57,012	—	57,012
Acquired from acquisition of subsidiaries	—	86,466	86,466
At 31 December 2003	**57,012**	**86,466**	**143,478**
Accumulated amortisation			
At 1 January 2003	2,375	—	2,375
Charge for the year	9,502	1,201	10,703
At 31 December 2003	**11,877**	**1,201**	**13,078**
Net book value			
At 31 December 2003	**45,135**	**85,265**	**130,400**
At 31 December 2002	54,637	—	54,637

The research testing carried out during the year on the chemical compound, Cycloargatroban, indicates that the compound is effective for treatment of cardio-vascular diseases. The Group intends to co-operate with pharmaceutical companies in Europe or the United States of America in the development and commercialisation of Cycloargatroban following the pre-clinical research stage. The cost of acquired proprietary rights of Cycloargatroban is amortised on the straight-line basis over 6 years.

During the year, pursuant to an ordinary resolution passed at an extraordinary general meeting at the Company held on 9 December 2003, the Group acquired from Payton Place Limited ("Payton Place"), a company beneficially owned by Ms. Lo Yuk Yee, chairman and a director of the Company, who is also the beneficial owner of Vision Ocean, a 90.20% effective equity interest in MAXX Immunotech which owns the proprietary rights of a genomic diagnostic platform technology called QuProbe licensed by MAXX Genetech Company Limited, a company in which Ms. Lo Yuk Yee has an equity interest of 70%. QuProbe, based on macro-array technology, aims to provide a rapid and cost-effective test for the detection of T-cell autoimmune diseases.

The total consideration of the acquisition of HK$78,000,000 was satisfied by the issue of the convertible notes of principal of HK$50,000,000 and promissory notes of principal of HK$28,000,000 as detailed in Note 25(b). The consideration was with reference to an appraisal of the valuation of QuProbe carried out by an independent professional valuer. The cost of acquired proprietary rights of QuProbe is amortised, on the straight-line basis over 6 years.

16. INVENTORIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	**3,199**	5,467
Work-in-progress	**841**	45
Finished goods	**1,022**	2,858
	5,062	8,370

At 31 December 2003, full provision of approximately HK$2,141,000 *(2002: HK$2,370,000)* was made to certain raw materials.

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables				
— from third parties	**5,915**	11,761	**—**	—
— from an associate	**5,713**	—	**—**	—
	11,628	11,761	**—**	—
Deposits, prepayments and other debtors	**5,319**	4,976	**360**	264
	16,947	16,737	**360**	264

The aging analysis of trade receivable is set out below:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within 90 days	**7,852**	7,545
91 — 180 days	**2,107**	3,409
181 — 365 days	**1,363**	1,952
Over 365 days	**10,464**	10,684
	21,786	23,590
Less: provision for doubtful receivables	**(10,158)**	(11,829)
	11,628	11,761

17. TRADE AND OTHER RECEIVABLES (Continued)

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

Included in deposits, prepayments and other debtors is a balance of consideration receivable from disposal of a subsidiary of approximately HK$3,582,000 (see Note 31(c)).

18. INVESTMENTS IN SECURITIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Unlisted equity securities, at fair value		
— in Hong Kong *(a)*	**16,000**	—
— in PRC	**3,723**	9,586
Total	**19,723**	9,586

(a) During the year, the Group acquired the entire issued share capital of Richford Investment Development Limited ("Richford") from Pro-Tex International Group Limited ("Pro-Tex"), an independent third party, for a consideration of HK$16,000,000. The consideration was satisfied by way of issue of 80,000,000 ordinary shares of HK$0.10 each of the Company for HK$0.10 per share as shown in Note 28 and issue of promissory note with principal of HK$8,000,000 by the Company to Pro-Tex as detailed in Note 25(a). Richford owns the license right in marketing and provision for technical support for a digital volumetric imaging three-dimensional microimager system in Asia.

As detailed in Note 36(i), the Group sold the entire issued share capital of Richford back to Pro-Tex subsequent to 31 December 2003 as the Group was unable to obtain sufficient technical support to optimise the application of the three-dimensional microimager system. Accordingly, the Group only had temporary control in Richford and the investment is classified as investments in securities under current assets and is not considered as a subsidiary of the Group.

19. INVESTMENTS HELD FOR DISPOSAL

	Group	
	2003	2002
	HK$'000	*HK$'000*
Cost	**59,393**	64,397
Provision for write down in value	**(29,175)**	(33,283)
	30,218	31,114

Investments held for disposal, stated at net realisable value at the balance sheet date, represent land use rights and self-constructed buildings located in the PRC held on medium-term leases. 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. With reference to the valuation, a write back of cost of approximately HK$1,516,000 *(2002: approximately HK$8,768,000)* is recorded.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank balances and cash	**42,670**	63,182	**3,307**	795
Term deposits	**1,000**	6,353	**—**	—
As stated in the balance sheet	**43,670**	69,535	**3,307**	795
Pledged deposits	**—**	1,414	**—**	—
Bank overdrafts, unsecured	**—**	(853)	**—**	—
As stated in the cash flow statement	**43,670**	70,096	**3,307**	795

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payable				
— to third parties	**3,609**	8,272	**—**	—
— to an associate	**260**	—	**—**	—
	3,869	8,272	**—**	—
Accrued charges and other creditors	**36,462**	35,250	**4,393**	5,008
	40,331	43,522	**4,393**	5,008

21. TRADE AND OTHER PAYABLES (Continued)

All trade payable were aged less than one year.

22. CONVERTIBLE DEBENTURES

Convertible debentures represent the unsettled outstanding principal balance of convertible debentures repayable to Health Capital Investment Limited, an independent third party. The convertible debentures bear interest at the rate of 3.5% per annum, and are payable semi-annually in arrears.

The debenture holder had the right at any time until 8 October 2004, the maturity date of the convertible debenture 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 163,000,000 shares. The conversion price was the higher of (i) HK$0.15 per share or (ii) 90% of the average of the closing prices of one share during the 10 business days immediately prior to conversion. All 163,000,000 shares were converted by the holder during 2002, by converting 80,000,000 ordinary shares at a conversion price of HK$0.1714 per share and 83,000,000 ordinary shares at a conversion price of HK$0.1699 per share.

23. SHORT-TERM BANK LOANS

All short-term bank loans at 31 December 2003 are secured, denominated in Renminbi and granted by banks in the PRC *(2002: Same)*. These short-term bank loans bear interest rates from 5.040% to 6.372% *(2002: 5.753%-6.372%)* per annum and wholly repayable within one year *(2002: Same)*.

24. NON-CURRENT LIABILITIES

		Group		**Company**	
	Note	**2003**	2002	**2003**	2002
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Convertible debentures	22	**—**	2,186	**—**	2,186
Promissory notes	25	**28,000**	—	**28,000**	—
Convertible notes	25	**50,000**	—	**50,000**	—
Payable for acquisition of a subsidiary	26	**—**	10,000	**—**	10,000
Due to the major shareholder	27	**1,018**	12,894	**—**	—
		79,018	25,080	**78,000**	12,186

25. PROMISSORY NOTES AND CONVERTIBLE NOTES

	Group and Company	
	2003	2002
	HK$'000	*HK$'000*
Classified under current liabilities		
Promissory notes *(a)*	**8,000**	—
Classified under non-current liabilities		
Promissory notes *(b)*	**28,000**	—
Convertible notes *(b)*	**50,000**	—
	78,000	—

(a) Promissory notes classified under current liabilities

As detailed in Note 18, the Group acquired during the year the entire share capital of Richford for a consideration of HK$16,000,000 from Pro-Tex. Part of the consideration was satisfied by way of issue of a promissory note of principal of HK$8,000,000 by the Company to Pro-Tex. The promissory note, with a maturity date on 12 November 2006, bears interest at the rate of 1.5% per annum and the interest is payable semi-annually in arrears.

As detailed in Note 36(i), the Group entered into a disposal agreement on 25 March 2004 with Pro-Tex to sell the entire issued capital of Richford back to Pro-Tex and the promissory note of principal of HK$8,000,000 was surrendered and cancelled. Accordingly the respective promissory note is classified as current liabilities.

(b) Promissory notes and convertible notes classified under non-current liabilities

Also as detailed in Note 15, the Group acquired a 90.2% effective equity interest in a company which owns QuProbe for a consideration of HK$78,000,000. The consideration was satisfied by the issue of convertible notes and promissory notes by the Company to Payton Place.

The principal terms of the convertible notes and promissory notes are as follows:

Issue price

The principal amounts of the convertible notes and promissory notes are HK$50,000,000 and HK$28,000,000, respectively, and were issued at par on 10 December 2003.

Term and maturity date

The Company shall repay the outstanding principal amounts of the convertible notes and promissory notes on 9 December 2006 (the "maturity date").

25. PROMISSORY NOTES AND CONVERTIBLE NOTES (Continued)

(b) Promissory notes and convertible notes classified under non-current liabilities (Continued)

Interest

The convertible notes and promissory notes bear interest on the outstanding principal from the date of issue at the rate of 1.5% per annum. Interest is payable semi-annually in arrears.

Redemption

The Company shall be entitled at any time and from time to time after one month from the date of issue of the convertible notes and promissory notes until the day prior to the maturity date by giving written notice not less than 7 banking days to the holders of the convertible notes or the promissory notes to redeem (in amounts of not less than HK$5,000,000 and an integral multiple of HK$1,000,000) the whole or part of the outstanding principal amounts of the convertible notes or the promissory notes.

Conversion of convertible notes and conversion price

The holder of the convertible notes will have the right at any time and from time to time by giving written notice to convert the whole or part of the outstanding principal amount of the convertible notes into shares of the Company at the conversion price from the day immediately following the issue of the convertible notes to the maturity date. The conversion price is initially HK$0.10 per share which is subject to adjustment for certain dilutive events. The shares to be issued upon conversion will rank pari passu in all respect with the existing shares. No conversion right is attached to the promissory notes.

Conversion during the year

No part of the convertible notes was converted into shares of the Company during the year.

26. PAYABLE FOR ACQUISITION OF A SUBSIDIARY

The balance of HK$10,000,000 payable for acquisition of Joy Route Development Limited in 2002 was settled by way of issue of 83,330,000 ordinary shares of HK$0.10 each of the Company at issue price of HK$0.12 per share during the year as shown in Note 28.

27. DUE TO THE MAJOR SHAREHOLDER

The amount due is unsecured, bears interest at prime rate plus 2% *(2002: 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 31 December 2003.

28. ISSUED CAPITAL

	2003		2002	
	Number of shares ***'000***	***HK$'000***	Number of shares *'000*	*HK$'000*
Authorised ordinary shares of HK$0.10 each:				
At 1 January	**1,600,000**	**160,000**	1,600,000	160,000
Increase in authorised share capital	**8,400,000**	**840,000**	—	—
At 31 December	**10,000,000**	**1,000,000**	1,600,000	160,000
Issued and fully paid or credited as fully paid:				
At 1 January	**978,100**	**97,810**	815,100	81,510
New shares issued for placements	**240,000**	**24,000**	—	—
New shares issued for settlement of payable for acquisition of Joy Route *(Note 26)*	**83,330**	**8,333**	—	—
New shares issued for acquisition of Richford *(Note 18)*	**80,000**	**8,000**	—	—
New shares issued upon conversion of convertible debentures *(Note 22)*	**—**	**—**	163,000	16,300
At 31 December	**1,381,430**	**138,143**	978,100	97,810

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 9 December 2003, the authorised share capital of the Company was increased to HK$1,000,000,000 by the creation of an additional 8,400,000,000 ordinary shares of HK$0.10 each.

During the year, the Company had issued and placed in aggregate 240,000,000 ordinary shares of HK$0.10 each of which the details are as follows:

(i) On 28 January 2003, 60,000,000 ordinary shares of HK$0.10 each were issued and placed to third parties at a price of HK$0.125 per share for general working capital;

(ii) On 26 March 2003, another 60,000,000 ordinary shares of HK$0.10 each were issued and placed to third parties at a price of HK$0.11 per share for general working capital;

(iii) On 18 September 2003, 63,000,000 ordinary shares of HK$0.10 each were issued and placed to third parties at a price of HK$0.10 per share for general working capital; and

(iv) On 23 September 2003, 57,000,000 ordinary shares of HK$0.10 each were issued and placed to third parties at a price of HK$0.10 per share for general working capital.

28. ISSUED CAPITAL (Continued)

All shares issued and placed during the year rank pari passu with the existing shares in all respect.

The Group originally intended to apply approximately HK$2,186,000 of the proceeds from the issue in (iii) and (iv) as above for early redemption of the convertible debentures (see Note 22). Because of subsequent development of biotechnology projects, the funds raised in the placements were used as working capital for other purposes.

29. SHARE OPTIONS

The Company adopted in 2002 a share option scheme (the "Share Option Scheme") of which the eligible participants include the Company's directors, employees of the Group and any advisor (professional or otherwise) or consultant, distributors, suppliers, agent, customers, joint venture partners, service provider to the Group who the board of directors considers, at its sole discretion have contributed or contribute to the Group. Unless otherwise terminated or amended, the Share Option Scheme remains in force to 16 May 2012.

Pursuant to the Share Option 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 Share Option Scheme and other share option schemes of the Company, if any, 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 Share Option Scheme and other share option schemes, if any, 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 not 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 shall not be less than the highest of (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.

29. SHARE OPTIONS (Continued)

Movements in share options during the year are as follows:

			Number of share options			
Date of grant	Exercisable period	Subscription price per share	At 1 January 2003	Granted during the year	Lapsed during the year	At 31 December 2003
28.06.2002	28.06.2003 — 27.07.2004	HK$0.315	32,150,000	—	5,500,000	26,650,000
21.01.2003	21.01.2003 — 20.01.2005	HK$0.158	—	29,320,000	—	29,320,000
18.02.2003	18.02.2003 — 17.02.2005	HK$0.140	—	18,510,000	—	18,510,000

30. RESERVES

Group	Share premium HK$'000	Statutory reserves HK$'000	Contributed surplus HK$'000	Exchange translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2002	208,417	148,158	249,906	(69,989)	(429,474)	107,018
Arising from issue of new shares upon conversion of convertible debentures	11,514	—	—	—	—	11,514
Net loss for the year	—	—	—	—	(30,147)	(30,147)
At 31 December 2002	219,931	148,158	249,906	(69,989)	(459,621)	88,385
Arising from issue of new shares for settlement of payable for acquisition of Joy Route	1,667	—	—	—	—	1,667
Arising from issue of new shares for placements	2,100	—	—	—	—	2,100
Net loss for the year	—	—	—	—	(88,156)	(88,156)
Released upon disposal of a subsidiary	—	—	—	335	—	335
At 31 December 2003	**223,698**	**148,158**	**249,906**	**(69,654)**	**(547,777)**	**4,331**
Company and subsidiaries	223,698	148,158	249,906	(69,654)	(538,880)	13,228
Associates	—	—	—	—	(8,897)	(8,897)
At 31 December 2003	**223,698**	**148,158**	**249,906**	**(69,654)**	**(547,777)**	**4,331**
Company and subsidiaries	219,931	148,158	249,906	(69,989)	(452,493)	95,513
Associates	—	—	—	—	(7,128)	(7,128)
At 31 December 2002	219,931	148,158	249,906	(69,989)	(459,621)	88,385

30. RESERVES (Continued)

The accumulated losses attributable to the associates at 31 December 2003 include the provision of accumulated impairment losses on interests in associates of approximately HK$5,370,000 *(2002: approximately HK$5,370,000) (see Note 14)*.

Company	**Share premium** *HK$'000*	**Contributed surplus** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2002	208,417	409,520	(508,945)	108,992
Arising from issue of new shares upon conversion of convertible debentures	11,514	—	—	11,514
Net loss for the year	—	—	(32,121)	(32,121)
At 31 December 2002	219,931	409,520	(541,066)	88,385
Arising from issue of new shares for settlement of payable for acquisition of Joy Route	1,667	—	—	1,667
Arising from issue of new shares for placements	2,100	—	—	2,100
Net loss for the year	—	—	(87,821)	(87,821)
At 31 December 2003	**223,698**	**409,520**	**(628,887)**	**4,331**

Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution made out of contributed 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 is 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 PRC statutory financial statements. 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 31 December 2003, none *(2002: Nil)* of the Company's reserves are available for distribution to the Company's shareholders.

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash used in operations

	2003 HK$'000	2002 HK$'000
Loss from ordinary activities before taxation	**(94,413)**	(31,268)
Provision for (Net reversal of) impairment loss on property, plant and equipment	**998**	(29,466)
Depreciation	**14,419**	17,700
Loss (Gain) on disposal of property, plant and equipment	**1,542**	(4,008)
Loss on disposal of investments held for disposal	**173**	—
Interest income	**(324)**	(919)
Interest expenses	**3,279**	3,385
Dividend income from investments in securities	**—**	(187)
(Write back) write off of obsolete inventories	**(229)**	211
Provision for doubtful trade and other receivables	**8,715**	17,857
Write off of other receivables	**858**	—
Amortisation of intangible assets	**10,703**	2,576
Gain on disposal of investment in securities	**—**	(1,812)
Provision for impairment loss of interest in an unconsolidated subsidiary	**155**	183
Share of losses of associates	**1,769**	1,305
Write back of cost of investments held for disposal	**(1,516)**	(8,768)
Unrealised holding loss on investments in securities	**5,863**	—
Loss on write off of acquired technology know how	**—**	1,787
Write off of goodwill in a subsidiary	**—**	57
Write off of goodwill in an associate	**14,369**	—
Loss on disposal of a subsidiary	**6,975**	—
	(26,664)	(31,367)
Changes in working capital:		
Trade and other receivables	**(6,951)**	854
Inventories	**1,442**	2,380
Provision for staff welfare and bonus	**(20)**	186
Trade and other payables	**(1,715)**	(17,600)
Cash used in operations	**(33,908)**	(45,547)

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries

	2003	2002
	HK$'000	*HK$'000*
Proprietary rights of diagnostic technology	**86,466**	—
Proprietary rights to chemical compound	**—**	57,012
Cash and bank balances	**8**	916
Other payables	**(45)**	(447)
Minority interests	**(8,429)**	(17,338)
	78,000	40,143
Goodwill on acquisition	**—**	57
	78,000	40,200
Satisfied by:		
Convertible notes	**50,000**	—
Promissory notes	**28,000**	—
Cash consideration	**—**	30,200
Payable for acquisition of subsidiaries	**—**	10,000
	78,000	40,200

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

	2003	2002
	HK$'000	*HK$'000*
Cash consideration paid	**—**	(30,200)
Cash and bank balances acquired	**8**	916
Net cash received from (used in) the acquisition of subsidiaries	**8**	(29,284)

The subsidiaries acquired during the year had no contribution to Group's turnover *(2002: Nil)* and have insignificant contribution to the net loss of the Group *(2002: Same)*.

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of subsidiaries

During the year, five inactive subsidiaries were de-registered with no gain or loss on disposal. During the year, the Group also disposed of 76% effective equity interest in Li Cheng to two independent third parties for a consideration of approximately HK$9,051,000.

	2003	2002
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	**17,874**	—
Inventories	**2,095**	—
Trade and other receivables	**750**	—
Cash and bank balances	**416**	—
Trade and other payables	**(1,521)**	—
Exchange translation reserve	**335**	—
	19,949	—
Retained by the Group as interest in an associate	**(3,923)**	—
Loss on disposal of a subsidiary	**(6,975)**	—
	9,051	—
Satisfied by:		
Cash received	**5,469**	—
Balance receivable for the consideration *(Note 17)*	**3,582**	—
	9,051	—

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of subsidiaries (Continued)

Analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary.

	2003	2002
	HK$'000	*HK$'000*
Cash consideration received	**5,469**	—
Cash and bank balances disposed of	**(416)**	—
Net cash received from disposal of a subsidiary	**5,053**	—

Li Cheng, disposed of during the year, contributed approximately HK$1,363,000 *(2002: approximately HK$3,583,000)* to the Group's turnover and approximately a loss of HK$468,000 *(2002: a loss of approximately HK$1,164,000)* to the net loss of the Group. Other inactive subsidiaries disposed of during the year had no contribution to the Group's turnover and had insignificant contribution to the net loss of the Group for the current and prior years.

32. SIGNIFICANT NON-CASH TRANSACTIONS

(i) During the year, the Company issued convertible notes of HK$50,000,000 and promissory notes of HK$28,000,000 for the acquisition of interests in New Wealth and MAXX Immunotech. No cash was involved in this transaction.

(ii) During the year, the Company issued 80,000,000 ordinary shares for HK$0.10 each and issued promissory notes with principal of HK$8,000,000 for the acquisition of entire issued capital of Richford. No cash was involved in this transaction.

33. COMMITMENTS

a. Capital expenditure commitments

	Group	
	2003	2002
	HK$'000	*HK$'000*
Capital commitment contracted but not provided for in the financial statements in respect of investment in a new associate	**—**	20,691

33. COMMITMENTS (Continued)

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	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**1,675**	1,432
In the second to fifth years inclusive	**575**	803
	2,250	2,235

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**4,510**	3,791
In the second to fifth years inclusive	**8,272**	5,323
Over five years	**3,347**	810
	16,129	9,924

34. RELATED PARTY TRANSACTIONS

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Sales to an associate	**33,096**	—
Purchases from an associate	**1,033**	—
Salaries and staff benefits paid to a beneficiary of a shareholder who was a former director of the Company	**2,137**	1,271
Consideration for acquiring subsidiaries from companies beneficially owned by a director of the Company who is also the beneficial owner of the major shareholder of the Company *(Note 15)*	**78,000**	200
Interest expense paid to the major shareholder of the Company	**318**	—
Expenses of the Group paid by the major shareholder of the Company on the Group's behalf	**—**	3,232
Consideration for property, plant and equipment acquired from the major shareholder of the Company	**—**	522

35. PLEDGE OF ASSETS

At 31 December 2003, the Group has pledged certain land use rights and buildings with an aggregate net book value of approximately HK$67,441,000 *(2002: HK$58,926,000)* and investments held for disposal with a carrying value of approximately HK$16,192,000 *(2002: HK$31,114,000)* to secure short-term bank loans granted by banks to the Group.

36. SIGNIFICANT SUBSEQUENT EVENTS

The Group had the following significant subsequent events after 31 December 2003 and up to the date of these financial statements.

(i) On 25 March 2004, the Group entered into the disposal agreement with Pro-Tex to sell the entire issued share capital of Richford for a consideration of HK$16,000,000, in which HK$8,000,000 has been settled by surrender and cancellation of the promissory notes with principal amount of HK$8,000,000 issued by the Company to Pro-Tex as included in Note 25(a). The remaining HK$8,000,000 was settled by an issue of promissory notes with an aggregate principal amount of HK$8,000,000 and maturity date of 24 March 2005 by Pro-Tex to the Group.

(ii) Pursuant to the special resolution passed at the special general meeting at 26 April 2004, the capital reorganisation of the Company took effect on 27 April 2004 which includes:

a. consolidation of every 20 ordinary shares of the Company of HK$0.10 each into 1 Consolidated Share of HK$2.00 each;

b. reduction in the nominal value of every then issued Consolidated Share from HK$2.00 to an Adjusted Share of HK$0.01 each and transfer of the resulting credit to the contributed surplus account of the Company;

c. subdivision of each authorised but unissued Consolidated Shares into 200 Adjusted Shares of HK$0.01 each;

d. cancellation of the entire amount standing to the credit of the share premium account of the Company and transfer of the resulting credit to the contributed surplus account of the Company; and

e. application of the contributed surplus account of the Company to set-off in full accumulated losses of the Company as reported in the audited financial statements as at 31 December 2003.

(iii) Pursuant to an announcement made by the Company on 19 April 2004, the Company proposed to raise approximately HK$16.57 million (before expenses) by way of an Open Offer on the basis of provisional allotment, on an assured basis, of three Open Offer Shares for every Adjusted Share held by the Qualifying Shareholders at the subscription price of HK$0.08 per Open Offer Share.