1. GENERAL INFORMATION

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 research and development, manufacture and sales of pharmaceutical and health products in the People's Republic of China (the "PRC") and trading of securities.

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

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs and Hong Kong Accounting Standards (collectively "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Preparation of financial statements

The financial statements have been prepared on a going concern basis though the Group had net current liabilities of HK$114,672,000 at 31 December 2004 (2003: HK$45,301,000). The Group has taken and will continue the following measures to ensure the Group will have adequate cash flows 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 businesses to provide working capital;

iii) to raise funds as and when necessary such as the open offer of shares subsequent to the year end and as disclosed in note 37; and

iv) to obtain borrowings from directors.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Preparation of financial statements (continued)

The directors are of the opinion that, in view of the measures taken to date, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

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 2004 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.

Interests in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interest in associates is stated at the Group's share of the net assets of the associates less unamortised goodwill and any identified impairment loss.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries or associates at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life, generally not exceeding twenty years. Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

Intangible assets

Research and development costs

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

Costs incurred on development of project 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; 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 impairment loss. The costs of these proprietary rights are amortised over 6 years, using the straight-line method.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Leases

As lessor

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the leases.

Amount due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the assets.

All other leases are classified as operating leases and the rental income is recognised on a straight-line basis over the relevant lease term.

As lessee

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Inventories

Inventories comprise stocks of raw materials and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and appropriate portion of production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Impairment

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable mount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arise, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Investments in securities

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purpose, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

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 and cash equivalents

Cash and cash equivalents are carried at cost. Cash and cash equivalents comprises cash at banks and on hand, demand deposits with banks and other financial institutions, short-term, highly liquid investments that are readily convertible to cash and with a maturity of three months or less from the date of investment, and bank overdrafts.

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.

3. 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 cost. 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 lapsed 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.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The income statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange translation reserve.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Recognition of revenue

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, on the following bases:

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

(ii) Revenue from sales of investments in securities is recognised on a trade-date basis.

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iv) Dividend income is recognised when the shareholder's right to receive payment is established.

(v) 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.

Taxation

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

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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

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

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

Related party transactions

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. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between the Group and the related parties.

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivables for goods sold by the Group to outside customers, less returns and allowances and net proceeds from sales of investments in securities.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Business segments

The Group is current organised into two divisions - (i) manufacture and sales of pharmaceutical and health products and (ii) trading of securities.

Business segments

Segment information about these businesses is presented below:

	Manufacture and sales of pharmaceutical and health products		Trading of securities		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS						
Segment assets	**171,468**	306,179	**7,355**	19,723	**178,823**	325,902
Interests in associates	**7,752**	13,824	**—**	—	**7,752**	13,824
Unallocated corporate assets	**—**	—	**—**	—	**83,521**	73,888
Consolidated total assets	**179,220**	320,003	**7,355**	19,723	**270,096**	413,614
LIABILITIES						
Segment liabilities	**93,155**	100,763	**—**	—	**93,155**	100,763
Unallocated corporate liabilities	**—**	—	**—**	—	**124,404**	139,176
Consolidated total liabilities	**93,155**	100,763	**—**	—	**217,559**	239,939

4. TURNOVER AND SEGMENT INFORMATION (continued)

	Manufacture and sales of pharmaceutical and health products		Trading of securities		Consolidated	
	2004 HK$'000	2003 HK$'000	**2004 HK$'000**	2003 HK$'000	**2004 HK$'000**	2003 HK$'000
SEGMENT REVENUE						
Sales to external customers	**42,528**	66,404	**20,634**	—	**63,162**	66,404
Other income	**—**	—	**3,591**	—	**3,591**	—
	42,528	66,404	**24,225**	—	**66,753**	66,404
SEGMENT RESULT	**(141,713)**	(69,787)	**4,302**	(5,863)	**(137,411)**	(75,650)
Other unallocated income					**16,136**	3,520
Unallocated corporate expenses					**(19,164)**	(10,260)
Loss from operations					**(140,439)**	(82,390)
Finance costs					**(2,731)**	(3,279)
Share of results of associates					**(6,072)**	(1,769)
Loss on disposal of a subsidiary					**—**	(6,975)
Loss before taxation					**(149,242)**	(94,413)
Taxation					**—**	—
Loss before minority interests					**(149,242)**	(94,413)
Minority interests					**19,023**	6,257
Net loss for the year attributable to shareholders					**(130,219)**	(88,156)

4. TURNOVER AND SEGMENT INFORMATION (continued)

OTHER INFORMATION

	Manufacture and sales of pharmaceutical and health products		Trading of securities		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital addition	**9,072**	765	**—**	—	**9,072**	765
Depreciation on property, plant and equipment	**18,578**	14,419	**—**	—	**18,578**	14,419
Amortisation on intangible assets	**23,912**	10,703	**—**	—	**23,912**	10,703
Impairment loss on land and buildings	**40,939**	998	**—**	—	**40,939**	998
Impairment loss on intangible assets	**35,633**	—	**—**	—	**35,633**	—
Impairment loss/(gain) on investment held for disposal	**2,969**	(1,516)	**—**	—	**2,969**	(1,516)
Loss on disposal of investment held for sales	**—**	173	**—**	—	**—**	173
Loss on disposal of property, plant and equipment	**2,247**	1,542	**—**	—	**2,247**	1,542

4. TURNOVER AND SEGMENT INFORMATION (continued)

Geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of operations, and assets are attributed to the segments based on the location of the assets.

The following table presents revenue and certain asset and capital expenditure information for the Group's geographical segments:

	The PRC except Hong Kong		Hong Kong		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue						
Sales to external customers	**42,528**	66,404	**20,634**	—	**63,162**	66,404
Other income	**3,591**	—	**—**	—	**3,591**	—
	46,119	66,404	**20,634**	—	**66,753**	66,404
OTHER SEGMENT INFORMATION						
Segment assets	**97,639**	171,461	**81,184**	154,441	**178,823**	325,902
Capital expenditure	**9,020**	765	**52**	—	**9,072**	765

5. OTHER NET INCOME

	Group	
	2004	2003
	HK$'000	HK$'000
Discount from early redemption of Convertible Notes and Promissory Notes (note 27(b))	**7,800**	—
Unrealised gain on investment in securities	**3,591**	—
Write back of costs of investments held for disposal	**—**	1,516
Net rental income	**3,995**	1,652
Others	**750**	352
	16,136	3,502

6. OTHER OPERATING EXPENSES

	Group	
	2004	2003
	HK$'000	HK$'000
Amortization of intangible assets	**23,912**	10,703
Impairment loss on property, plant and equipment	**40,939**	998
Impairment loss on intangible assets	**35,633**	—
Impairment loss on investment held for disposal	**2,969**	—
Provision on promissory note (note 27(a))	**8,000**	—
Unrealised holding loss on investments in securities	**—**	5,863
Impairment on interests in an unconsolidated subsidiary	**—**	155
Write off of goodwill in an associate	**—**	14,369
	111,453	32,088

7. LOSS FROM OPERATIONS

	Group	
	2004	2003
	HK$'000	HK$'000
Loss from operations has been arrived at after charging:		
Staff costs (excluding directors' remuneration)		
- salaries and wages	**12,757**	14,683
- staff and workers' bonus and welfare expenses	**730**	1,240
- contributions to retirement schemes	**188**	1,352
	13,675	17,275
Auditors' remuneration	**626**	763
Amortisation of intangible assets	**23,913**	10,703
Cost of inventories sold	**22,770**	28,966
Depreciation on property, plant and equipment	**18,578**	14,419
Written off of trade and other receivables	**3,932**	8,715
Provision on promissory notes (notes 27(a))	**8,000**	—
(Reversal)/provisoin of trade and other receivables	**—**	858
Research and development costs expensed	**4,622**	9,683
Operating lease rentals in respect of land and buildings	**1,183**	2,287
Loss on disposal of investments held for disposal	**—**	173
Loss on disposal of property, plant and equipment	**2,247**	1,542
Exchange loss	**—**	18
Impairment loss on intangible assets	**35,633**	—
Impairment loss on investment held for disposal	**2,969**	—
Impairment loss on property, plant and equipment	**40,939**	—
and after crediting		
Rental income, net of outgoings of HK$2,785,000 (2003: HK$2,361,000)	**(3,995)**	(1,652)
Interest income from bank deposits	**(167)**	(324)
Reversal of provision for doubtful debts	**(447)**	—

8. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	HK$'000
Interest expenses for bank loans	**2,502**	2,718
Interest for convertible debentures, convertible notes and promissory notes wholly repayable within 5 years	**159**	163
Interest on other loans wholly repayable within 5 years	**70**	398
	2,731	3,279

9. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries operate in Hong Kong have no assessable profits.

The subsidiaries operate in the PRC during the year are subject to PRC enterprise income tax at rates of 15%. No provision for PRC enterprise income tax has been made as these subsidiaries incurred losses during the year.

The taxation for the year is reconciled to the loss before taxation per the consolidated income statement as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Loss before taxation	**(149,242)**	(94,413)
Tax at the domestic income tax rate of 15% (2003:15%)	**(22,386)**	(14,162)
Tax effect of expenses that are not deductible in determining taxable profit	**2,864**	3,913
Tax effect of income that is not taxable in determining taxable profit	**(2,422)**	(535)
Unrecognised temporary differences	**15,539**	3,339
Tax effect of tax losses not recognised	**6,865**	8,320
Effect of different tax rates	**(460)**	(875)
Taxation for the year	**—**	—

The applicable tax rate of 15% (2003:15%) is used as substantial operations of the Group is carried out by the subsidiaries in the PRC.

9. TAXATION (continued)

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

	Group	
	2004	2003
	HK$'000	HK$'000
Tax losses	**547,460**	505,552
Deductible temporary differences	**215,910**	112,317
	763,370	617,869

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 to utilise the benefits.

The Company had no material taxable temporary differences or tax losses at 31 December 2004 and 31 December 2003.

10. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Included in the net loss attributable to shareholders is a loss of approximately HK$130,219,000 (2003: HK$87,821,000) which has been dealt with in the financial statements of the Company.

11. DIVIDEND

No interim dividend was paid during the year (2003: Nil). The directors do not recommend the payment of any final dividend for the year (2003: Nil).

12. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss of HK$130,219,000 (2003: HK$88,156,000) and on the weighted average of 199,857,663 (2003: 147,617,207) ordinary shares outstanding during the year.

The comparative amount for basic loss per share has been adjusted for the 3 for 1 open offer and capital reorganisation took place during the year.

(b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2003 and 2004 has not been presented as the potential ordinary shares had an anti-dilutive effect on the basic loss per share for both years.

13. DIRECTORS' REMUNERATION

Details of remuneration paid to the directors of the Company are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Executive directors		
Salaries, allowances and benefits-in-kind	**3,037**	1,555
Pension scheme contributions	**—**	24
	3,037	1,579
Independent non-executive directors		
Fees	**116**	120
	3,153	1,699

During the year, one executive director has waived the right to receive remuneration of approximately HK$30,000.

During the year ended 31 December 2003, three executive directors and one independent non-executive director have waived the right to receive remuneration totalling approximately HK$3,651,000.

Analysis of directors' remuneration by number of directors, including one director (2003: two directors) resigned during the year and remuneration ranges is as follows:

	Number of directors	
	2004	2003
Executive directors		
– HK$Nil - HK$1,000,000	**6**	5
– HK$2,500,001 to HK$3,000,000	**1**	—
	7	5
Independent non-executive directors		
– HK$Nil - HK$1,000,000	**5**	4

14. FIVE HIGHEST PAID INDIVIDUALS

The five individuals with the highest remuneration in the Group (including directors and employees) during the year are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Salaries, allowances and benefits-in-kind	**6,546**	4,493
Pension scheme contributions	**101**	99
	6,647	4,592

	2004	2003
Number of directors	**1**	1
Number of employees	**4**	4
	5	5

The remunerations fell within the following band:

	Number of individuals	
	2004	2003
HK$Nil - HK$1,000,000	**3**	4
HK$2,500,001 to HK$3,000,000	**2**	1
	5	5

No remuneration was paid by the Group to the respective five highest paid employees, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

15. 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						
As at 1 January 2004	270,134	33,067	10,421	11,482	5,563	330,667
Additions	6,928	1,576	517	—	51	9,072
Disposals	(24,249)	(3,059)	(1,887)	(2,072)	(398)	(31,665)
As at 31 December 2004	**252,813**	**31,584**	**9,051**	**9,410**	**5,216**	**308,074**
Accumulated depreciation and impairment losses						
As at 1 January 2004	126,862	27,492	8,401	9,423	4,719	176,897
Provided for the year	15,328	2,203	414	493	140	18,578
Eliminated on disposals	(10,234)	(3,059)	(1,647)	(1,699)	(303)	(16,942)
Impairment losses	40,939	—	—	—	—	40,939
As at 31 December 2004	**172,895**	**26,636**	**7,168**	**8,217**	**4,556**	**219,472**
Net book value						
As at 31 December 2004	**79,918**	**4,948**	**1,883**	**1,193**	**660**	**88,602**
As at 31 December 2003	143,272	5,575	2,020	2,059	844	153,770

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Equipment	Others	Total
	HK$'000	HK$'000	HK$'000
Cost			
As at 1 January 2004	577	412	989
Addition	51	—	51
As at 31 December 2004	**628**	**412**	**1,040**
Accumulated depreciation			
As at 1 January 2004	224	114	338
Provided for the year	125	83	208
As at 31 December 2004	**349**	**197**	**546**
Net book value			
As at 31 December 2004	**279**	**215**	**494**
As at 31 December 2003	353	298	651

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

	Group	
	2004	2003
	HK$'000	HK$'000
Held outside Hong Kong on:		
Long-term leases	**20,233**	49,886
Medium-term leases	**59,685**	93,386
	79,918	143,272

b) The Group has engaged a firm of independent professional valuers to perform a valuation on land use rights and buildings as at 31 December 2004 at open market value as reference for the directors' impairment review of these assets. With reference to the valuation, impairment losses of approximately HK$40,939,000 (2003: HK$998,000) on the land use rights and buildings are recorded and being charged to other operating expenses in the income statement.

16. INTERESTS IN SUBSIDIARIES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted shares, at cost	**5,335**	5,335	**538,561**	538,561
Amounts due from subsidiaries	**—**	—	**272,645**	256,073
	5,335	5,335	**811,206**	794,634
Less: Provision for impairment losses	**(5,335)**	(5,335)	**(688,613)**	(561,615)
	—	—	**122,593**	233,019
Amounts due to subsidiaries	**—**	—	**(18,632)**	(2,284)
	—	—	**103,961**	230,735

The amounts due from subsidiaries are unsecured, interest-free and not repayable within the next twelve months except for an amount of HK$3,949,000 (2003: HK$4,268,000) due from a subsidiary which bears interest at prime rate at an average of 5% during the year plus 2%, (2003: prime rate plus 2% per annum) per annum.

The following is a list of principal subsidiaries of the Company as at 31 December 2004:

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 and trading of securites
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

16. 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 (Note (a))	Hong Kong	100%	Ordinary shares HK$20,000 and Non-voting deferred shares HK$10,000	Investment holding
Guangdong Apollo Group Company Limited	PRC	95%	Registered capital RMB194,983,457	Manufacture and sale of health products in the PRC
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
MAXX Immunotech Limited (Note (b))	Hong Kong	90.2%	Ordinary shares HK$60,000 and Series-A Preferred shares HK$140,000	Development of diagnostic technology
Profit Statistics Limited	British Virgin Islands	100%	Ordinary shares US$2,000	Investment holding

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Percentage of equity interest held	Particulars of issued/ paid-up capital	Principal activities
Unconsolidated subsidiary				
Indirectly held				
Shanghai Apollo-Fudan High-Tech. Industry Co., Ltd. (Note (c))	PRC	66.5%	Registered capital RMB3,000,000	Dormant

(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.

(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 2004, full provision of impairment loss for the investment in Apollo Fudan was made.

Guangdong Apollo is a limited liability 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 private limited companies and operate principally in Hong Kong.

The above table lists the subsidiaries of the Company, which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets of associates	**13,122**	19,194
Less: Impairment losses	**(5,370)**	(5,370)
	7,752	13,824

Goodwill in relation to the acquisition of interest in an associate in prior year is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Goodwill arose at acquisition of interest in an associate	**14,369**	14,369
Goodwill written off	**(14,369)**	(14,369)
As at 31 December	**—**	—

Details of the associates at 31 December 2004 are as follows:

Name	**Place of incorporation/ operation**	**Form of business structure**	**Percentage of equity interest held**	**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	23.75%	Registered capital RMB3,800,000	Sale of chemical, health and electronic products

17. INTERESTS IN ASSOCIATES (continued)

Name	Place of incorporation / operation	Form of business structure	Percentage of equity interest held	Particulars of issued/ paid-up capital	Principal activities
Guangzhou Apollo Li Cheng Pharmaceutical Co., Ltd.	PRC/PRC	Limited liability company	19%	Registered capital RMB12,000,000	Manufacture and sales of pharmaceutical products in the PRC
Shangdong Hongyi Co., Limited	PRC/PRC	Limited liability company	38%	Registered capital RMB50,000,000	Investment holding

18. INTANGIBLE ASSETS

Group	Acquired proprietary rights of chemical compound HK$'000 (note (a))	Acquired proprietary rights of diagnostic technology HK$'000 (note (b))	Total HK$'000
Cost			
As at 1 January 2004 and at 31 December 2004	**57,012**	**86,466**	**143,478**
Accumulated amortisation and impairment loss			
As at 1 January 2004	11,877	1,201	13,078
Charge for the year	9,502	14,410	23,912
Impairment loss	35,633	—	35,633
As at 31 December 2004	**57,012**	**15,611**	**72,623**
Carrying value			
As at 31 December 2004	**—**	**70,855**	**70,855**
As at 31 December 2003	45,135	85,265	130,400

18. INTANGIBLE ASSETS (continued)

Notes:

(a) The Group intended 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 and subjected to impairment review every year.

Subsequent to the year ended 31 December 2004, the directors decided that the research and development of Cycloargatroban would not continue because the preclinical results of Cycloargatroban did not demonstrate the expected profile.

Due to the cessation of development of Cycloargatroban, the directors considered that there would be no economic benefit generated from Cycloargatroban in the future, impairment loss of HK$35,633,000 has been made on the carrying value and charged to income statement during the year.

(b) For the year ended 31 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. QuProbe, based on macro-array technology, aims to provide a rapid and cost-effective test for the detection of autoimmune diseases.

The total consideration of the acquisition of HK$78,000,000 was satisfied by the issue of the convertible notes of HK$50,000,000 (the "Convertible Notes") and promissory notes of HK$28,000,000 (the "Promissory Notes"). The Convertible Notes and Promissory Notes have been early redeemed as detailed in note 27(b). The consideration was with reference to an appraisal of the valuation of QuProbe carried out by an independent professional valuers. The cost of the acquired proprietary rights of QuProbe is amortised, on the straight-line basis over 6 years.

19. INVENTORIES

	Group	
	2004	2003
	HK$'000	HK$'000
Raw materials	**5,370**	5,340
Work-in-progress	**169**	841
Finished goods	**714**	1,022
	6,253	7,203
Less: provision for obsolete raw materials	**(2,670)**	(2,141)
	3,583	5,062

Inventories are stated at cost.

20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables				
- from third parties	**1,287**	5,915	**—**	—
- from an associate	**6,562**	5,713	**—**	—
	7,849	11,628	**—**	—
Deposits, prepayments and other receivables	**620**	5,319	**316**	360
	8,469	16,947	**316**	360

The aging analysis of trade receivable is set out below:

	Group	
	2004	2003
	HK$'000	HK$'000
Within 90 days	**6,735**	7,852
91 –180 days	**1,707**	2,107
181 – 365 days	**1,252**	1,363
Over 365 days	**7,866**	10,464
	17,560	21,786
Less: provision for doubtful debts	**(9,711)**	(10,158)
	7,849	11,628

The normal credit period granted by the Group is on an average 90 days.

21. INVESTMENTS IN SECURITIES

	Group	
	2004	2003
	HK$'000	HK$'000
Unlisted equity securities, at fair value (Note)	**—**	16,000
Listed equity securities, at fair value		
- in the PRC	**7,314**	3,723
Total	**7,314**	19,723

Note:

During the year ended 31 December 2003, 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 and issue of promissory note with principal of HK$8,000,000 by the Company to Pro-Tex as detailed in Note 27(a). Richford owns the license right in marketing and provision for technical support for a digital volumetric imaging three-dimensional microimager system in Asia.

During the year, the Group sold the entire issued share capital of Richford back to Pro-Tex as the Group was unable to obtain sufficient technical support to optimise the application of the three-dimensional microimager system.

22. INVESTMENTS HELD FOR DISPOSAL

	Group	
	2004	2003
	HK$'000	HK$'000
Cost	**59,393**	59,393
Impairment loss	**(32,144)**	(29,175)
	27,249	30,218

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 values by reference of the net realisable values. With reference to the valuation, an impairment loss of HK$2,969,000 (2003: written back of HK$1,516,000) is recorded.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**56,272**	42,670	**11,186**	3,307
Term deposits	**—**	1,000	**—**	—
	56,272	43,670	**11,186**	3,307

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payable				
— to third parties	**3,186**	3,609	**—**	—
— to an associate	**—**	260	**—**	—
	3,186	3,869	**—**	—
Accrued charges and other creditors	**29,536**	36,462	**3,005**	4,393
	32,722	40,331	**3,005**	4,393

All trade payables were aged less than one year.

25. CONVERTIBLE DEBENTURES

Convertible debentures represented the unsettled outstanding principal balance of convertible debentures repayable to Health Capital Investment Limited, an independent third party. The convertible debentures bore interest at the rate of 3.5% per annum, and were payable semi-annually in arrears. The debentures had been fully redeemed during the year.

26. SHORT-TERM BANK LOANS (SECURED)

All short-term bank loans are secured by land and buildings in the PRC as detailed in note 37, denominated in Renminbi and granted by banks in the PRC. These short-term bank loans bear interest rates from 5.040% to 6.786% (2003: 5.040% to 6.372%) per annum and are wholly repayable within one year.

27. PROMISSORY NOTES AND CONVERTIBLE NOTES

	Group and Company	
	2004	2003
	HK$'000	HK$'000
Classified under current liabilities:		
Promissory note - Richford (note (a))	**—**	8,000
Promissory Notes (note (b))	**25,200**	—
Convertible Notes (note (b))	**45,000**	—
	70,200	8,000
Classified under non-current liabilities:		
Promissory Notes (note (b))	**—**	28,000
Convertible Notes (note (b))	**—**	50,000
	—	78,000

(a) As detailed in Note 21, the Group acquired the entire share capital of Richford for a consideration of HK$16 million from Pro-Tex in last year. Part of the consideration was satisfied by way of issue of a promissory note of principal of HK$8 million by the Company to Pro-Tex ("Promissory note – Richford"). The promissory note, with a maturity date on 12 November 2006, interest-being at the rate of 1.5% per annum and the interest was payable semi-annually in arrears.

During the year, the Group entered into a disposal agreement with Pro-Tex to sell the entire issued capital of Richford back to Pro-Tex for a consideration of HK$16 million, of which HK$8 million has been settled by surrender and cancellation of the promissory note and the other HK$8 million has been settled by an issue of a promissory note with maturity date on 24 March 2005 by Pro-Tex to the Group.

Full provision has been made in relation to the HK$8 million promissory note receivable from Pro-Tex during the year.

(b) As detailed in Note 18(b), the Group acquired a 90.2% effective equity interest in a company which owns QuProbe for a consideration of HK$78,000,000 for the year ended 31 December 2003. The consideration was satisfied by the issue of the Convertible Notes and Promissory Notes by the Company to Payton Place.

The 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 would repay the outstanding principal amounts of the Convertible Notes and Promissory Notes on 9 December 2006 (the "maturity date").

27. PROMISSORY NOTES AND CONVERTIBLE NOTES (continued)

(b) (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 would be entitled at any 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 and 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 and Promissory Notes.

Conversion of convertible notes and conversion price

The holder of the Convertible Notes would 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 was HK$0.605 per share, as adjusted during the year, which was subject to adjustment for certain dilutive events. The shares to be issued upon conversion shall rank pari passu in all respect with the existing shares. No conversion right was attached to the Promissory Notes.

Early redemption

On 20 December 2004, the Company entered into an early redemption agreement with Payton Place in relation to the early redemption of the Convertible Notes and Promissory Notes. Pursuant to the early redemption agreement, the Convertible Notes and Promissory Notes shall be fully redeemed by payment of HK$70.2 million to Payton Place, represent a discount of 10% to the principal sum of both the Convertible Notes and the Promissory Notes and waive of interest payable to Payton Place of HK$1,173,000. The Convertible Notes and Promissory Notes were fully repaid subsequent to the balance sheet date. The redemption was settled by the proceeds of the open offer as detailed in note 37. The gain of HK$7.8 million arising from the discount received in the early redemption has been credited to the income statement in current year.

28. AMOUNTS DUE TO DIRECTORS

The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

29. AMOUNT DUE TO A CONTROLLING SHAREHOLDER

The amount due was unsecured, interest-bearing at prime rate, average 5% during the year, plus 2% per annum (2003: prime rate plus 2% per annum) and had been fully repaid during the year.

30. SHARE CAPITAL

	2004				2003	
	Ordinary shares of HK$0.01 each		Ordinary shares of HK$0.1 each		Ordinary shares of HK$0.1 each	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Authorised						
At beginning of year	—	—	10,000,000	1,000,000	1,600,000	160,000
Increase of authorised share capital	—	—	—	—	8,400,000	840,000
Capital reorganisation	100,000,000	1,000,000	(10,000,000)	(1,000,000)	—	
At end of year	100,000,000	1,000,000	—	—	10,000,000	1,000,000
Issued and fully paid						
At beginning of year	—	—	1,381,430	138,143	978,100	97,810
Capital reorganisation (note (a))	69,072	691	(1,381,430)	(138,143)	—	—
Issued upon a 3 for 1 open offer (note (b))	207,214	2,072	—	—	—	—
Placement of shares (note (c))	55,180	552	—	—	240,000	24,000
As consideration for acquistion of assets	—	—	—	—	163,330	16,333
Issued upon exercise of share options (note (d))	26,512	265	—	—	—	—
At end of year	357,978	3,580	—	—	1,381,430	138,143

30. SHARE CAPITAL (continued)

During the period, the following changes in the Company's issued share capital took place:

(a) Pursuant to a special resolution passed at a special general meeting on 26 April 2004, a capital reorganisation scheme (the "Capital Reorganisation") was implemented on 27 April 2004 which involved (i) a consolidation of every 20 existing shares of HK$0.10 each into 1 consolidated share of HK$2.00 each (the "Consolidated Share") (the "Share Consolidation"); (ii) a reduction in the nominal value of the then issued share capital from HK$2.00 per Consolidated Share to HK$0.01 per adjusted share (the "Adjusted Share"); (iii) a subdivision of each authorised but unissued Consolidated Share into 200 Adjusted Shares of HK$0.01 each; (iv) cancellation of the entire amount standing in credit of the share premium account of HK$223,698,000 of the Company as at 31 December 2003 (the "Share Premium Cancellation"); (v) application of the total credit arising from the Capital Reduction and Share Premium Cancellation of HK$361,150,000 to the contributed surplus account of the Company; and (vi) transfer a credit balance of HK$628,887,000 from the contributed surplus account to set off against the accumulated losses of the Company.

(b) Pursuant to an ordinary resolution passed at a special general meeting on 25 May 2004, the Company made an open offer of 207,214,500 shares of HK$0.01 each to shareholders at a subscription price of HK$0.08 per share on the basis of 3 open offer shares for every share held on 25 May 2004 ("Open Offer"). The Open Offer was completed on 16 June 2004. The net proceeds of approximately HK$15 million was used for the redemption of convertible debentures and as working capital of the Group.

(c) During the year, 55,180,000 new shares of HK$0.01 each were issued and placed at a price of HK$0.136 for general working capital.

(d) During the year, 26,512,000 shares of HK$0.01 each were issued upon the exercise of share options granted to certain employees and directors for general working capital.

31. 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 advisors (professional or otherwise) or consultants, distributors, suppliers, agents, customers, joint venture partners, service providers to the Group who the board of directors considers, at its sole discretion have contributed or will 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 of 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 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.

31. SHARE OPTIONS (continued)

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.

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 2004	Lapsed before Capital Reorganisation	Adjusted on capital reorganisation	Adjusted on open offer	Granted during the year	Lapsed during the year	Exercised during the year	At 31 December 2004
28.06.2002	28.06.2002 - 27.07.2004	HK$1.580	26,650,000	(1,500,000)	(23,892,500)	3,772,500	–	(5,030,000)	–	–
21.01.2003	21.01.2003 - 20.01.2005	HK$0.790	29,320,000	(6,780,000)	(21,413,000)	3,381,000	–	(2,552,000)	–	1,956,000
18.02.2003	18.02.2003 - 17.02.2005	HK$0.700	18,510,000	–	(17,584,500)	2,776,500	–	(3,702,000)	–	–
30.10.2004	30.10.2004 - 30.10.2006	HK$0.125	–	–	–	–	26,512,000	–	(26,512,000)	–

32. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2004 and 2003 are presented in the consolidated statement of changes in equity.

Company	**Share premium** HK'000	**Contributed surplus** HK'000 (Note)	**Accumulated loss** HK$'000	**Total** HK$'000
As at 1 January 2003	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)
As at 31 December 2003	223,698	409,520	(628,887)	4,331
Capital Reorganization (Note 31(a))	(223,698)	(267,737)	628,887	137,452
Arising from 3 for 1 open offer	14,505	—	—	14,505
Arising from placement of shares	6,953	—	—	6,953
Arising from exercise of share options	3,049	—	—	3,049
Net loss for the year	—	—	(130,219)	(130,219)
As at 31 December 2004	**24,507**	**141,783**	**(130,219)**	**36,071**

Note:

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.

At 31 December 2004, HK$11,564,000 (2003: Nil) of the Company's reserves are available for distribution to the Company's shareholders.

33. CONNECTED AND RELATED PARTY TRANSACTIONS

Except as disclosed in note 18, 27, 28 and 29 to the financial statements, the Group has the following significant related party transactions during the year:

	2004	2003
	HK$'000	HK$'000
Sales to Guangzhou Apollo Enterprise Company Limited, an associate	**29,555**	33,096
Purchases from Guangzhou Apollo Enterprise Company Limited, an associate	**—**	1,033
Salaries and staff benefit paid to Mr. Lok Fai, a former director of the Company	**2,092**	2,137
Consideration for acquiring subsidiaries from companies beneficially owned by Ms. Lo Yuk Yee, a director of the Company (Note 18(b))	**—**	78,000
Consultancy fee paid to a company which is beneficially owned by Ms. Lo Yuk Yee, a director of the Company	**950**	—
Interest expense paid to Vision Ocean, a controlling shareholder of the Company	**—**	318

In the opinion of the directors of the Company, the above transactions were entered into by the Group in the ordinary and normal coursed of its business and on normal commercial terms mutually agreed by both parties.

34. COMMITMENTS

The Group had future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004	2003
	HK$'000	HK$'000
Within one year	**1,228**	1,675
In the second to fifth years inclusive	**505**	575
	1,733	2,250

34. COMMITMENTS (continued)

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

	2004	2003
	HK$'000	HK$'000
Within one year	**4,553**	4,510
In the second to fifth years inclusive	**9,939**	8,272
Over five years	**5,400**	3,347
	19,892	16,129

35. SIGNIFICANT NON-CASH TRANSACTIONS

(a) The promissory note of HK$8 million payable to Pro-Tex has been cancelled and surrendered as part of the consideration received from the disposal of Richford as detailed in note 27(a).

(b) The Group received discounts of HK$7.8 million by an early redemption of Convertible Notes and Promissory Notes as detailed in note 27(b).

36. PLEDGE OF ASSETS

As at 31 December 2004, the Group has pledged certain of its land use rights and buildings with an aggregate net book value of HK$36,247,000 (2003: HK$67,441,000) and investments held for disposal with a carrying value of HK$15,569,000 (2003: HK$16,192,000) to secure its short-term bank loans.

37. POST BALANCE SHEET EVENTS

On 6 January 2005, the Company announced that the directors propose to raise approximately HK$78.8 million (before expenses) by issuing not less than 715,956,000 but not more than 719,868,000 offer shares at a price of HK$0.11 per offer share by way of an open offer, payable in full on application, on the basis of two offer shares for every existing share held by the qualifying shareholders on 22 February 2005.

On 8 March 2005, the directors announce that an aggregate of 669,233,492 offer share were accepted or applied for, representing approximately 93.47% of the total number of 715,956,000 offer shares under the open offer. The undersubscribed 46,722,508 offer shares were then taken up by the underwriters.

The net proceeds from the open offer is approximately HK$77 million, of which HK$70.2 million has been used for the early redemption of the Convertible Notes and Promissory Notes due to Payton Place and the remaining balance of approximately HK$6.8 million has been applied as the working capital of the Group.