NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

1. General Information

MAXX Bioscience Holdings Limited (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995. The address of the registered office and principal place of business of the Company are disclosed in "Corporate Information" section to the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the research and development, manufacturing and sales of pharmaceutical products in the PRC, trading of securities and properties investment.

The directors consider that Outwit Investments Limited ("Outwit") is the parent and ultimate holding company of the Company.

The financial statements are presented in Hong Kong dollars ("HK$"), and the functional currency of the Group is Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the financial statements in Hong Kong dollars as the shares of the Company are listed on the Stock Exchange.

2. Principal Accounting Policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinances.

(b) Basis of preparation

The financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(b) Basis of preparation *(continued)*

The applicable HKFRSs are set out below and the 2004 financial statements have been restated in accordance with the relevant requirements, where applicable.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKAS-INT 15	Operating Leases — Incentives
HKAS-INT 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37, 38, 40 and HKAS-INT 15 and 21 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the income statement, balance sheet, and statement of changes in equity.

- HKAS 2, 8, 16, 21, 28 and 40 affect certain disclosures of the financial statements.

- HKAS 7, 10, 12, 14, 18, 19, 23, 27, 33, 37, 38 and 40, and HKAS INT-15 and 21 do not have any impact as the Group's accounting policies already comply with the standards.

- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(b) Basis of preparation *(continued)*

HKAS 17 "Leases"

The adoption of HKAS 17 "Leases" has resulted in a change in accounting policy relating to leasehold land. In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "Interests in leasehold land held for own use under operating leases", which are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy is adopted retrospectively and reflected by way of prior period adjustment and restatement of comparative figures *(Note 2(c))*.

HKFRS 3 "Business Combinations"

Goodwill

Positive goodwill which arose on or after 1 January 2001 was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment.

In accordance with the relevant transitional provisions under HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of assets", the Group has applied the new policy in respect of positive goodwill prospectively from 1 January 2005. Comparative figures for 2004 have not been restated. The cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of goodwill. Positive goodwill is no longer amortised but is tested for impairment annually including the year of initial recognition, as well as when there are indications of impairment, at the cash generating unit level by applying a fair-value-based test in accordance with HKAS 36.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(b) Basis of preparation *(continued)*

HKAS 32 "Financial Instruments: Disclosure and Presentation"
HKAS 39 "Financial Instruments: Recognition and Measurement"

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated. The financial impact to the Group is detailed in Note 2(c) below.

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24

Prior to 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24. Under SSAP 24, debt securities that the Group intends and has the ability to hold to maturity ("held-to-maturity securities") are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of a discount or premium arising from the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment. Investments other than held-to-maturity securities are classified as investment securities or other investments. Securities which are held for an identified long-term purpose, are classified as investment securities. They are measured at subsequent reporting dates at cost, less any impairment loss that is other than temporary. Securities not classified as investment securities are classified as other investments. Other investments are measured at fair value at subsequent reporting dates, with unrealised gains and losses included in net profit or loss for the period.

From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "investments at fair value through profit or loss", "available-for-sale investments", "loans and receivables", or "held-to-maturity financial assets". "Investments at fair value through profit or loss" that are not part of a hedging relationship and "available-for-sale investments" are carried at fair value, with changes in fair values recognised in income statement and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. The change has no impact to the results of prior years and the accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(b) Basis of preparation *(continued)*

HKAS 32 "Financial Instruments: Disclosure and Presentation" *(continued)*
HKAS 39 "Financial Instruments: Recognition and Measurement" *(continued)*

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "investments at fair value through profit or loss", "available-for-sale investments", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition.

Derecognition

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005.

HKFRS 2 "Share-based Payment"

In the current year, the Group has applied HKFRS 2 which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. In relation to share options granted before 1 January 2005, the Group chooses not to apply HKFRS 2 with respect to share options granted on or before 7 November 2002 and vested before 1 January 2005.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(c) Summary of the effect of the changes in accounting policies

The effect of the changes in the accounting policies described in Note 2(b) above on the results for the current and prior year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Increase in amortisation of interests in leasehold land held for own use under operating leases	**111**	109
Decrease in depreciation arising from reclassification from property, plant and equipment to interests in leasehold land held for own use under operating leases	**(179)**	(174)
Increase in interest expenses on convertible notes	**–**	2,327
Decrease in discount on early redemption of convertible notes	**–**	5,000
(Decrease)/increase in net loss for the year	**(68)**	7,262
Attributable to:		
Equity holders of the Company	**(65)**	7,266
Minority interests	**(3)**	(4)
	(68)	7,262

Analysis of (decrease)/increase in loss for the year by line items presented according to their function.

	2005	2004
	HK$'000	*HK$'000*
Decrease in other income	**–**	5,000
Decrease in administrative expenses	**(68)**	(65)
Increase in finance costs	–	2,327
(Decrease)/increase in loss for the year	**(68)**	7,262

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(c) Summary of the effect of the changes in accounting policies *(continued)*

The cumulative effect of the application of the new HKFRSs on the balance sheet as at 31 December 2004 are summarised below:

	As at 31 December 2004 (originally stated)	Adjustments	As at 31 December 2004 (restated)
	HK$'000	*HK$'000*	*HK$'000*
Impact of HKAS 17			
Property, plant and equipment	88,602	(5,205)	83,397
Interests in leasehold land held for own use under operating leases	—	4,374	4,374
Total effects on net assets and liabilities	88,602	(831)	87,771
Accumulated losses	(66,940)	(789)	(67,729)
Minority interests	12,886	(42)	12,844
Total equity	(54,054)	(831)	(54,885)

The financial effects of the application of the HKAS 17 to the Group's equity on 1 January 2004 are summarised below:

	As originally stated	Adjustments	As restated
	HK$'000	*HK$'000*	*HK$'000*
Accumulated losses	(547,777)	(850)	(548,627)
Minority interests	31,201	(46)	31,155
Total effects on equity	(516,576)	(896)	(517,472)

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(d) Preparation of financial statements

The financial statements have been prepared on a going concern basis though the Group had net current liabilities of HK$104,442,000 31 December 2005 (2004: HK$114,672,000). 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 raise funds as and when necessary such as the open offer of shares during the year as disclosed in Note 36; and

(iii) to obtain necessary funding from bankers and holding company.

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.

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 2005 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.

(e) Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries (the "Group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

The Company's interests in subsidiaries are stated at cost less impairment loss, if any. All significant inter-company transactions and balances among group companies are eliminated on consolidation.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(f) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

(g) Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 December. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (ie the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the other operating expenses line item in the income statement, except to the extent they reverse gains previously recognised equity.

(h) Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and subject to impairment in the same way as goodwill arising on a business combination described above.

In the Company's balance sheet, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(i) Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong Dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

(j) Financial Instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as investments at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the income statement.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest rate method, less any identified impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(j) Financial Instruments *(continued)*

(i) Financial assets (continued)

Held-to-maturity financial assets: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investment are measured at amortised cost using effective interest rate method, less any identified impairment losses.

Available-for-sale: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for-sale investments constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the income statement. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

(ii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities were incurred. The Group's accounting policy for each category is as follows:

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated by the management, which are measured at fair value on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

- Bank loans and the debt element of convertible debt issued by the Group are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(j) Financial Instruments *(continued)*

(iii) Convertible notes

The proceeds received on issue of the Group's convertible notes are allocated into their liability and equity components. The amount initially attributed to the liabilities component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert. Subsequently, the liability component is accounted for as a financial liability measured at amortised cost.

The difference between the net proceeds of the convertible debt and the amount allocated to the liability component is credited direct to equity and is not subsequently remeasured. On conversion, the liability and equity elements are credited to share capital and share premium as appropriate.

(iv) Derecognition

The Group derecognise a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

(k) Employee benefits

(i) Defined contribution pension plan

Obligations for contributions to defined contribution retirement plan are recognised as an expense in the income statement as incurred.

(ii) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(l) Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(m) Leasing

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to the income statement on straight-line basis over the term of the relevant lease.

(n) Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over 20 years.

(o) Intangible assets

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within other operating expenses in the income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

In-process research and development programmes acquired in such combinations are recognised as an asset even if subsequent expenditure is written off because the criteria specified in the policy for research and development costs above are not met.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Acquired proprietary rights of chemical compound	6 years	Estimated discounted cash flow
Acquired proprietary rights of diagnostic technology	6 years	Estimated discounted cash flow
Acquired exclusive distribution right	10 years	Estimated discounted cash flow

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(p) Property, plant and equipment

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

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Buildings	4.5% — 5%
Plant and machinery	9% — 10%
Equipment	18% — 20%
Motor vehicles	18% — 20%
Others	18% — 20%

Repairs and maintenance costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

All non-qualifying expenditures and expenses incurred on other non-qualifying development activities are charged as expenses to the income statement in the period in which such expenses are incurred.

The gain or loss on disposal of a fixed asset other than leasehold building is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(q) Interests in leasehold land held for own use under operating leases

Interests in leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(r) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Weighted average cost is used to determine the cost of ordinarily interchangeable items.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(s) Investments held for disposal

Investments held for disposal, which represented land use rights and self-constructed buildings in the PRC, are stated at the 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.

(t) 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, on the following bases:

(i) Revenue from goods sold is recognised when title of goods sold has passed to the purchaser, which is at the time of delivery.

(ii) Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

(iii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(iv) Dividend income is recognised when the right to receive the dividend is established.

(v) Gains and losses on trading on investments at fair value through profit or loss are recognised on trade date basis and are calculated on average cost basis.

(u) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. 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. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

2. Principal Accounting Policies *(continued)*

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(w) Impairment losses (other than goodwill, intangible assets with indefinite useful lives and intangible assets that are not yet ready for use (see the accounting policies in respect of goodwill and intangible assets above))

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

3. Potential Impact Arising on the New Accounting Standards not yet Effective

The Group has not yet applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipated that the application of these new HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 Amendment	Capital disclosures
HKAS 19 Amendment	Actuarial gains and losses, Group plans and disclosures
HKAS 21 Amendment	Net investment in a foreign operation
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HKAS 39 & HKFRS 4 Amendments	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial instrument: Disclosures
HKFRS — Interpretation 4	Determining whether an arrangement contains a lease
HKFRS — Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) —Interpretation 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment
HK(IFRIC) — Interpretation 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies

4. Turnover and Segment Information

Turnover represents the net proceeds from sales of securities investments and net amounts received and receivable for goods sold.

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.

(a) Business segments

For management purpose, the Group is currently organised into three divisions, manufacturing and sales of pharmaceutical and health products, trading of securities and properties holding for earning rental income.

Segment information about these businesses is presented below:

	Manufacturing and sales of pharmaceutical and health products		Trading of securities		Properties holding for earning rental income		Consolidated	
Group	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
Assets								
Segment assets	**64,605**	123,165	**7,933**	7,355	**71,804**	73,911	**144,342**	204,431
Interests in associates	**4,311**	7,752	**–**	–	**–**	–	**4,311**	7,752
Unallocated corporate assets	**–**	–	**–**	–	**–**	–	**48,747**	57,082
Consolidated total assets	**68,916**	130,917	**7,933**	7,355	**71,804**	73,911	**197,400**	269,265
Liabilities								
Segment liabilities	**113,705**	93,155	**4**	–	**–**	–	**113,709**	93,155
Unallocated corporate liabilities	**–**	–	**–**	–	**–**	–	**60,986**	124,404
Consolidated total liabilities	**113,705**	93,155	**4**	–	**–**	–	**174,695**	217,559

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

4. Turnover and Segment Information *(continued)*

(a) Business segments *(continued)*

Group	Manufacturing and sales of pharmaceutical and health products		Trading of securities		Properties holding for earning rental income		Consolidated	
	2005 **HK$'000**	2004 HK$'000 (restated)	**2005** **HK$'000**	2004 HK$'000 (restated)	**2005** **HK$'000**	2004 HK$'000 (restated)	**2005** **HK$'000**	2004 HK$'000 (restated)
Segment Revenue								
Turnover	**44,617**	42,528	**1,767**	20,634	**–**	–	**46,384**	63,162
Other income	**–**	–	**470**	3,591	**4,445**	–	**4,915**	3,591
	44,617	42,528	**2,237**	24,225	**4,445**	–	**51,299**	66,753
Segment Result	**(95,234)**	(141,648)	**504**	4,302	**908**	–	**(93,822)**	(137,346)
Other unallocated income							**7,684**	7,545
Unallocated corporate expenses							**(16,147)**	(15,573)
Loss from operations							**(102,285)**	(145,374)
Share of results of associates	**(2,594)**	(6,072)	**–**	–	**–**	–	**(2,594)**	(6,072)
Finance costs							**(3,925)**	(5,058)
Loss before tax							**(108,804)**	(156,504)
Tax expense							**–**	–
Loss for the year							**(108,804)**	(156,504)

Other information	Manufacturing and sales of pharmaceutical and health products		Trading of securities		Properties holding for earning rental income		Consolidated	
	2005 **HK$'000**	2004 HK$'000 (restated)	**2005** **HK$'000**	2004 HK$'000 (restated)	**2005** **HK$'000**	2004 HK$'000 (restated)	**2005** **HK$'000**	2004 HK$'000 (restated)
Capital expenditure	**1,849**	9,072	**–**	–	**–**	–	**1,849**	9,072
Depreciation and amortisation	**20,303**	42,425	**–**	–	**3,537**	–	**23,840**	42,425
Impairment loss on property, plant and equipment	**–**	40,939	**–**	–	**–**	–	**–**	40,939
Impairment loss on investments held for disposal	**–**	2,969	**–**	–	**–**	–	**–**	2,969
Impairment loss on intangible assets	**56,445**	35,633	**–**	–	**–**	–	**56,445**	35,633
Gain on disposal of an associate	**3,716**	–	**–**	–	**–**	–	**3,716**	–
Impairment loss on trade and other receivables	**–**	3,485	**–**	–	**–**	–	**–**	3,485
Reversal of impairment loss on trade and other receivables	**1,542**	–	**–**	–	**–**	–	**1,542**	–
Impairment loss on inventories	**–**	529	**–**	–	**–**	–	**–**	529
Loss on disposal of property, plant and equipment	**–**	2,247	**–**	–	**–**	–	**–**	2,247
Gain on disposal of property, plant and equipment	**1,041**	–	**–**	–	**–**	–	**1,041**	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

4. Turnover and Segment Information *(continued)*

(b) 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.

Group	The PRC except Hong Kong 2005 HK$'000	The PRC except Hong Kong 2004 HK$'000	Hong Kong 2005 HK$'000	Hong Kong 2004 HK$'000	Consolidated 2005 HK$'000	Consolidated 2004 HK$'000
Segment revenue						
Turnover	**44,617**	42,528	**1,767**	20,634	**46,384**	63,162
Other income	**12,337**	8,265	**262**	2,871	**12,599**	11,136
	56,954	50,793	**2,029**	23,505	**58,983**	74,298
Segment assets	**180,487**	186,000	**16,913**	83,265	**197,400**	269,265
Capital expenditure	**1,849**	9,020	**–**	52	**1,849**	9,072

5. Other Income

	Group 2005 HK$'000	Group 2004 HK$'000
Net rental income	**4,445**	3,995
Gain on disposal of an associate	**3,716**	–
Reversal of impairment loss on trade and other receivables	**1,542**	–
Gain on disposal of property, plant and equipment	**1,041**	–
Change in fair value of investments at fair value through profit or loss	**470**	–
Unrealised holding gain on investments in securities	**–**	3,591
Discount on early redemption of promissory notes	**–**	2,800
Others	**1,385**	750
	12,599	11,136

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

6. Other Operating Expenses

	Group	
	2005	2004
	HK$'000	*HK$'000*
Amortisation of intangible assets	**15,110**	23,912
Impairment losses on property, plant and equipment	**—**	40,939
Impairment losses on intangible assets	**56,445**	35,633
Impairment losses on investments held for disposal	**—**	2,969
Impairment losses on promissory note	**—**	8,000
	71,555	111,453

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

7. Loss From Operations

	Group	
	2005	2004
	HK$'000	*HK$'000*
Loss from operations is stated after charging:		
Staff costs (excluding directors' emoluments) comprises:		
— Wages and salaries	**13,078**	13,487
— Contributions to retirement scheme	**393**	188
	13,471	13,675
Auditors' remuneration	**698**	626
Amortisation of intangible assets (included in other operating expenses)	**15,110**	23,912
Cost of inventories sold	**26,296**	42,597
Depreciation of property, plant and equipment	**5,082**	18,404
Depreciation of investment properties	**3,537**	—
Impairment loss on trade and other receivables	**—**	3,485
Research and development expenses	**1,979**	4,622
Operating lease rentals in respect of land and buildings	**1,479**	1,183
Loss on disposal of property, plant and equipment	**—**	2,247
Amortisation of interests in leasehold land held for own use under operating lease	**111**	109
Impairment loss on intangible assets (included in other operating expenses)	**56,445**	35,633
Impairment loss on investment held for disposal	**—**	2,969
Impairment loss on property, plant and equipment	**—**	40,939
Impairment loss on interests in associates (included in administrative expenses)	**3,181**	—
Impairment loss on promissory note	**—**	8,000
Impairment loss on goodwill (included in administrative expenses)	**2,929**	—
Impairment loss on inventories	**—**	529
and after crediting:		
Rental income	**7,694**	6,780
Less: direct operating expenses that generated rental income during the year	**(3,249)**	(2,785)
	4,445	3,995
Interest income	**534**	167
Gain on disposal of property, plant and equipment	**1,041**	—
Gain on disposal of an associate	**3,716**	—
Change in fair value of investments at fair value through profit or loss	**470**	—
Reversal of impairment loss on trade and other receivables	**1,542**	—

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

8. Finance Costs

	Group	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank loans	**3,010**	2,502
Interest on promissory notes *(Note 31)*	**—**	59
Interest on convertible notes *(Note 31)*	**—**	2,327
Interest on amount due to a director	**420**	—
Interest on amounts due to related companies	**52**	170
Interest on other loans	**443**	—
	3,925	5,058

9. Tax Expense

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

The subsidiaries operate in the PRC 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	
	2005	2004
	HK$'000	*HK$'000*
Loss before taxation	**(108,804)**	(156,504)
Tax calculated at the domestic income tax rate of 15% (2004:15%)	**(16,321)**	(23,475)
Tax effect of expenses that are not deductible in determining taxable profit	**2,632**	2,864
Tax effect of income that is not taxable in determining taxation profit	**(1,777)**	(2,422)
Unrecognised temporary differences	**12,522**	15,539
Tax effect of tax losses not recognised	**5,012**	8,138
Tax effect of utilisation of tax losses not previously recognised	**(4)**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,064)**	(644)
Taxation for the year	**—**	—

The applicable tax rate of 15% (2004:15%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

10. Dividend

No interim dividend was paid during the year (2004: Nil). The directors do not recommend the payment of any final dividend for the year (2004: Nil).

11. Loss Per Share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss of HK$97,214,000 (2004: restated — HK$137,485,000) and on the weighted average of 930,742,800 (2004: 199,857,663) ordinary shares outstanding during the year.

(b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2004 and 2005 has not been presented as the potential ordinary shares outstanding during the year had an anti-dilutive effect on the basic loss per share for both years.

12. Directors' Emoluments

(a) Directors' emoluments

	Group	
	2005	2004
	HK$'000	*HK$'000*
Details of directors' emoluments are as follows:		
Fees:		
Executive directors	**204**	3,037
Independent non-executive directors	**216**	116
	420	3,153
Other emoluments:		
Salaries and allowances	**—**	—
retirement benefits scheme contributions	**—**	—
	420	3,153

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

12. Directors Remuneration *(continued)*

(a) Directors' emoluments *(continued)*

Details of directors' emoluments for the year ended 31 December 2005 are as follows:

	Fees	Salaries and allowances	Retirement benefits schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Ms. He Jin Hong	**123**	**—**	**—**	**123**
Mr. Siu Siu Ling, Robert	**60**	**—**	**—**	**60**
Dr. Cao Wu	**21**	**—**	**—**	**21**
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	**135**	**—**	**—**	**135**
Mr. Wong Wai Kin	**30**	**—**	**—**	**30**
Mr. Ma Shiu Kin	**30**	**—**	**—**	**30**
Mr. Leung Wai Chuen	**21**	**—**	**—**	**21**
Total	**420**	**—**	**—**	**420**

In the year ended 31 December 2005, a director of the Company waived emoluments of HK$3,000,000.

Details of directors' emoluments for the year ended 31 December 2004 are as follows:

	Fees	Salaries and allowances	Retirement benefits schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Ms. Lo Yuk Yee	2,760	—	—	2,760
Ms. He Jin Hong	197	—	—	197
Mr. Siu Siu Ling, Robert	60	—	—	60
Dr. Cao Wu	20	—	—	20
Independent non-executive directors:				
Mr. Fong Chi Wah	66	—	—	66
Mr. Wong Wai Kin	25	—	—	25
Mr. Ma Shiu Kin	14	—	—	14
Mr. Leung Wai Chuen	11	—	—	11
Total	3,153	—	—	3,153

No directors waived any emoluments in the year ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

12. Directors Remuneration *(continued)*

(b) The five highest paid individuals do not include any director for the year ended 31 December 2005 and included one director for the year ended 31 December 2004. The emoluments of the five (2004: remaining four) highest paid individuals were as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Employees		
Salaries and allowances	**3,861**	3,546
Retirement benefits scheme contributions	**153**	101
	4,014	3,647

The emoluments of the remaining individuals (excluding directors) fell within the following bands:

	Number of individuals	
	2005	2004
HK$Nil — HK$1,000,000	**4**	3
HK$2,000,001 to HK$2,500,000	**1**	—
HK$2,500,001 to HK$3,000,000	**—**	1
	5	4

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

13. Property, Plant and Equipment

Group

	Buildings	Plant and machinery	Equipment	Motor vehicles	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1 January 2004 (as previously stated)	270,134	33,067	10,421	11,482	5,563	330,667
Transfer to interests in leasehold land held for own use under operating lease upon adoption of HKAS 17	(51,504)	–	–	–	–	(51,504)
At 1 January 2004 (restated)	218,630	33,067	10,421	11,482	5,563	279,163
Additions	6,928	1,576	517	–	51	9,072
Disposals	(24,249)	(3,059)	(1,887)	(2,072)	(398)	(31,665)
At 31 December 2004 (restated)	201,309	31,584	9,051	9,410	5,216	256,570
Exchange realignment	2,913	815	153	152	92	4,125
Additions	–	245	441	920	154	1,760
Transfer to investment properties	(91,533)	–	–	–	–	(91,533)
Acquired through acquisition of a subsidiary	–	–	–	–	90	90
Disposals	–	(1,380)	(1,517)	(3,618)	(120)	(6,635)
At 31 December 2005	**112,689**	**31,264**	**8,128**	**6,864**	**5,432**	**164,377**
Depreciation and impairment						
At 1 January 2004 (as previously stated)	126,862	27,492	8,401	9,423	4,719	176,897
Transfer to interests in leasehold land held for own use under operating lease upon adoption of HKAS 17	(46,125)	–	–	–	–	(46,125)
At 1 January 2004 (restated)	80,737	27,492	8,401	9,423	4,719	130,772
Provided for the year	15,154	2,203	414	493	140	18,404
Eliminated on disposals	(10,234)	(3,059)	(1,647)	(1,699)	(303)	(16,942)
Impairment loss	40,939	–	–	–	–	40,939
At 31 December 2004 (restated)	126,596	26,636	7,168	8,217	4,556	173,173
Exchange realignment	1,949	689	124	126	84	2,972
Provided for the year	1,999	2,271	439	272	101	5,082
Transfer to investment properties	(44,399)	–	–	–	–	(44,399)
Acquired through acquisition of a subsidiary	–	–	–	–	7	7
Eliminated on disposals	–	(1,225)	(1,350)	(3,157)	(108)	(5,840)
At 31 December 2005	**86,145**	**28,371**	**6,381**	**5,458**	**4,640**	**130,995**
Net book value						
At 31 December 2005	**26,544**	**2,893**	**1,747**	**1,406**	**792**	**33,382**
At 31 December 2004	74,713	4,948	1,883	1,193	660	83,397

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

13. Property, Plant and Equipment *(continued)*

The Group's interests in buildings are held under the following lease terms:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Held in the PRC under medium-term leases	**22,996**	43,019
Held in the PRC under long leases	**—**	9,753
Held in the PRC with unspecified lease terms	**3,548**	21,941
	26,544	74,713

Certain buildings in the Group have been pledged to banks to secure general borrowings granted to the Group as detailed in note 44.

Company

	Equipment	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January 2004	577	412	989
Additions	51	—	51
At 31 December 2004	628	412	1,040
Additions	—	—	—
At 31 December 2005	**628**	**412**	**1,040**
Accumulated depreciation			
At 1 January 2004	224	114	338
Provided for the year	125	83	208
At 31 December 2004	349	197	546
Provided for the year	126	82	208
At 31 December 2005	**475**	**279**	**754**
Net book value			
At 31 December 2005	**153**	**133**	**286**
At 31 December 2004	279	215	494

14. Interests in Leasehold Land held for Own Use under Operating Leases

The Group's interests in leasehold land held for own use under operating leases are held under the following lease terms:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Medium-term lease in the PRC	**4,350**	4,374

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

15. Investment Properties

	HK$'000
Cost	
At 1 January 2004 and at 31 December 2004	—
Transfer from property, plant and equipment *(Note 13)*	91,533
Transfer from investments held for disposal *(Note 25)*	59,393
Exchange realignment	1,240
At 31 December 2005	**152,166**
Depreciation and impairment	
At 1 January 2004 and 31 December 2004	—
Transfer from property, plant and equipment *(Note 13)*	44,399
Transfer from investments held for disposal *(Note 25)*	32,144
Provided for the year	3,537
Exchange realignment	282
At 31 December 2005	**80,362**
Carrying amounts	
At 31 December 2005	**71,804**
At 31 December 2004	—

The fair value of the Group's investment properties at 31 December 2005 was HK$101,346,000 which have been arrived at on the basis of a valuation carried out on that date by LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected with the Group, by reference to market evidence of transaction prices for similar properties.

The above investment properties are depreciated on a straight-line basis over 20 years.

Analysis of carrying value of investment properties is as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Held in the PRC under medium-term leases	**45,763**	—
Held in the PRC under long leases	**9,198**	—
Held in the PRC with unspecified lease terms	**16,843**	—
	71,804	—

Certain investment properties of the Group have been pledged to bank to secure the general borrowings granted to the Group as detailed in note 44.

During the year, gross rental income generated by these investment properties amounted to HK$7,694,000 (2004: Nil).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

16. Interests in Subsidiaries

	Company	
	2005	2004
	HK\$'000	*HK\$'000*
Unlisted shares, at cost	**552,561**	538,561
Impairment losses	**(525,259)**	(434,359)
	27,302	104,202
Amounts due from subsidiaries	**25,226**	272,645
Impairment losses	**(13,293)**	(254,254)
	11,933	18,391
Amounts due to subsidiaries	**(6,527)**	(18,632)

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

The following is a list of principal subsidiaries of the Company as at 31 December 2005:

Name	Place of incorporation/ registration	Form of business structure	Percentage of equity interest held	Particulars of issued/ paid-up capital	Principal activities
Directly held					
China Apollo (BVI) Limited	British Virgin Islands	Limited liability company	100%	Ordinary shares US\$10	Investment holding
MAXX Management Services Limited	Hong Kong	Limited liability company	100%	Ordinary shares HK\$100,000	Investment holding and trading of securities
Biometrics Technology Limited	British Virgin Islands	Limited liability company	100%	Ordinary shares US\$7,500	Investment holding
New Wealth Assets Limited	British Virgin Islands	Limited liability company	86%	Ordinary shares US\$1,000	Investment holding
Seapearl Trading Limited	Samoa	Limited liability company	100%	Ordinary shares US\$1	Distribution of health and pharmaceutical products
Indirectly held					
China Apollo Enterprises (Hong Kong) Limited *(Note (a))*	Hong Kong	Limited liability company	100%	Ordinary shares HK\$20,000 and non-voting deferred shares HK\$10,000	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

16. Interests in Subsidiaries *(continued)*

Name	Place of incorporation/ registration	Form of business structure	Percentage of equity interest held	Particulars of issued/ paid-up capital	Principal activities
***Indirectly held** (continued)*					
Guangdong Apollo Group Co., Limited ("Guangdong Apollo")	PRC	Limited liability enterprise	95%	Registered capital RMB194,983,457	Manufacture and sale of health products in the PRC
MAXX Biotech Company Limited	Hong Kong	Limited liability company	100%	Ordinary shares HK$100,000	Provision for personnel management
Joy Route Development Limited	British Virgin Islands	Limited liability company	100%	Ordinary shares US$100	Investment holding
MAXX Immunotech Limited *(Note (b))*	Hong Kong	Limited liability company	90.2%	Ordinary shares HK$60,000 and Series-A Preferred shares HK$140,000	Development of diagnostic technology

(a) The non-voting deferred shares 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.

Guangdong Apollo is a limited liability sino-foreign equity joint venture established in the PRC. This subsidiary operates 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.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

17. Interests in Associates

	Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets of associates	**12,862**	13,122
Impairment losses	**(8,551)**	(5,370)
	4,311	7,752

The amount of goodwill arising on acquisitions of associates is set out below:

	HK$'000
Cost	
At 1 January 2004 and at 31 December 2004	14,369
Elimination of accumulated impairment loss upon the application of HKFRS 3 *(Note 2 (b))*	(14,369)
Arising on acquisition of an associate	2,689
At 31 December 2005	**2,689**
Impairment	
At 1 January 2004 and at 31 December 2004	14,369
Elimination of accumulated impairment loss upon the application of HKFRS 3 *(Note 2 (b))*	(14,369)
Impairment loss recognised for the year	2,689
At 31 December 2005	**2,689**
Carrying values	
At 31 December 2005	**–**
At 31 December 2004	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

17. Interests in Associates *(continued)*

Details of the principal associates at 31 December 2005 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of equity interest attributable to the Group	Particulars of issued/ paid-up capital	Principal activities
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
Shandong Hongyi Co., Limited	PRC/PRC	Limited liability company	38%	Registered capital RMB50,000,000	Investment holding
山東天地健生物工程有限公司（「山東天地健」）*(Note)*	PRC/PRC	Limited liability company	56%	Registered capital RMB5,000,000	Sales of chemical and health products

Note:

Despite the Group has 56% indirect effective interest in 山東天地健, the Group has no control in this company. Therefore, it is classified as an associate of the Group.

The above table lists the associates of the Company, which, in the opinion of the directors, principally affected the results for the year. To give details of other associates would, in the opinion of the directors, result in particular of excessive length.

18. Goodwill

Group	*HK$'000*
Cost	
At 1 January 2004 and 31 December 2004	—
Arising on acquisition of subsidiaries *(Note 39)*	2,690
At 31 December 2005	2,690
Impairment	
At 1 January 2004 and 31 December 2004	—
Impairment loss recognised for the year	240
At 31 December 2005	**240**
Carrying Values	
At 31 December 2005	**2,450**
At 31 December 2004	—

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

19. Intangible Assets

Group	Acquired proprietary rights of chemical compound *HK$'000* *(Note (a))*	Acquired proprietary rights of diagnostic technology *HK$'000* *(Note (b))*	Acquired exclusive distribution right *HK$'000* *(Note (c))*	Total *HK$'000*
Cost				
As at 1 January 2004 and at 31 December 2004	57,012	86,466	—	143,478
Acquired on acquisition of a subsidiary *(Note 39)*	—	—	14,000	14,000
Disposed on disposal of a subsidiary	(57,012)	—	—	(57,012)
At 31 December 2005	**—**	**86,466**	**14,000**	**100,466**
Accumulated amortisation and impairment				
At 1 January 2004	11,877	1,201	—	13,078
Provided for the year	9,502	14,410	—	23,912
Impairment loss	35,633	—	—	35,633
At 31 December 2004	57,012	15,611	—	72,623
Provided for the year	—	14,410	700	15,110
Impairment loss	—	56,445	—	56,445
Eliminated on disposal of a subsidiary	(57,012)	—	—	(57,012)
As at 31 December 2005	**—**	**86,466**	**700**	**87,166**
Carrying value				
As at 31 December 2005	**—**	**—**	**13,300**	**13,300**
As at 31 December 2004	—	70,855	—	70,855

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

19. Intangible Assets *(continued)*

Notes:

(a) The research testing carried out in prior years on the chemical compound, Cycloargatroban, indicated that the compound was effective for treatment of cardio-vascular diseases. 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 pre-clinical 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 ended 31 December 2004.

(b) In the year ended 31 December 2003, the Group acquired from Payton Place Limited ("Payton Place"), a company beneficially owned by Ms. Lo Yuk Yee, a director of the Company, a company 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 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 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 31. The cost of the acquired proprietary rights of QuProbe is amortised, on the straight-line basis over 6 years.

However, in view of the additional resources required to invest in QuProbe in order to make it technically and commercially successful the Group decided after the year end date to suspend the development of QuProbe.

Due to the cessation of development of QuProbe, the directors considered that there would be no economic benefit generated from QuProbe in the future. Impairment loss of HK$56,445,000 has been made on the carrying value and charged to income statement during the year.

(c) In August 2005, the Group entered into an agreement with a third party to acquire Seapearl Trading Limited ("Seapearl") at a consideration of HK$14,000,000. Seapearl has an exclusive licence for the sale, distribution and marketing of all kinds of Chinese medicine or health products manufactured and supplied by Lei Yun Shang Medicine Company Limited in any parts of the world other than the PRC. The value of the acquired distribution rights is amortised on the straight-line basis over 10 years.

20. Impairment Testing on Intangible Assets

For the purpose of impairment testing of the acquired exclusive distribution right, the market value of the acquired distribution rights at 31 December 2005 were valued at HK$13,300,000 by BMI Appraisals Limited, a professional valuer independent to the Group. The recoverable amount of this unit has been determined based on the value in use calculation. That calculation uses cash flow projections on a 10-year period which represent the period covered by the distribution right, and at a discount rate of 14%. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the management's expectations for the market development.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

21. Inventories

	Group	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**5,760**	5,370
Work-in-progress	**43**	169
Finished goods	**1,398**	714
	7,201	6,253
Less: write down on obsolete raw materials	**(2,754)**	(2,670)
	4,447	3,583

22. Trade and Other Receivables

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables				
— from third parties	**820**	1,287	**—**	—
— from an associate	**5,079**	6,562	**—**	—
	5,899	7,849	**—**	—
Deposits, prepayments and other receivables	**1,874**	620	**303**	316
	7,773	8,469	**303**	316

The balance with an associate is unsecured, interest-free and on normal commercial terms.

The aging analysis of trade receivables is set out below:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within 90 days	**6,103**	6,735
91 — 180 days	**956**	1,707
181 — 365 days	**631**	1,252
Over 365 days	**4,731**	7,866
	12,421	17,560
Less: impairment of trade receivables	**(6,522)**	(9,711)
	5,899	7,849

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

22. Trade and Other Receivables *(continued)*

The Group's trade and other receivables that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong Dollars	**617**	479

23. Investments in Securities

Upon the application of HKAS 39 on 1 January 2005, investments in securities were reclassified to investments at fair value through profit or loss *(Note 24)*.

	Group	
	2005	2004
	HK$'000	*HK$'000*
Equity securities quoted in the PRC, at fair value	**—**	7,314

24. Investments at Fair Value through Profit or Loss

	Group	
	2005	2004
	HK$'000	*HK$'000*
Equity securities quoted in the PRC, at fair value	**7,933**	—

25. Investments held for Disposal

	Group	
	2005	2004
	HK$'000	*HK$'000*
Cost	**59,393**	59,393
Impairment losses	**(32,144)**	(32,144)
Transfer to investment properties *(Note 15)*	**(27,249)**	—
	—	27,249

Investments held for disposal, stated at net realisable value at the balance sheet date, represent self-constructed buildings located in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

26. Cash and Cash Equivalents

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank balances and cash	**47,650**	56,272	**135**	11,186

Group

Included in the cash and cash equivalents are the following amount denominated in a currency other than the functional currency of the company to which they relate:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong Dollar	**3,058**	12,781
United States Dollar	**173**	189

Company

The Company has no currency other than its functional currency.

27. Provisions for Staff Welfare and Bonus

	Group	
	2005	2004
	HK$'000	*HK$'000*
At the beginning of year	**60,433**	60,433
Utilisation of provision	**(96)**	—
Exchange realignment	**1,197**	—
At the end of year	**61,534**	60,433

The provision represents staff welfare and bonus provided in prior years for a subsidiary operating in the PRC under the relevant laws and regulations.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

28. Trade and Other Payables

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**3,059**	3,186	**—**	—
Accrued charges and other creditors	**45,485**	29,536	**2,807**	3,005
	48,544	32,722	**2,807**	3,005

All trade payables were aged less than one year.

The Group's trade and other payables that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong Dollar	**3,121**	3,435

29. Short-Term Bank Loans (Secured)

All short-term bank loans are secured by certain assets of the Group in the PRC as detailed in note 44, which are denominated in Renminbi and granted by banks in the PRC. These short-term bank loans bear fixed interest rates from 6.138% to 6.786% (2004: 5.040% to 6.786%) per annum and are wholly repayable within one year.

30. Other Loan (Unsecured)

The loan is denominated in Renminbi, unsecured, bearing interest at 5.58% per annum and repayable on demand.

31. Promissory Notes and Convertible Notes

	Group and Company	
	2005	2004
	HK$'000	*HK$'000*
Convertible Notes *(note)*	**—**	45,000
Promissory Notes *(note)*	**—**	25,200
	—	70,200

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

31. Promissory Notes and Convertible Notes *(continued)*

Note:

As detailed in Note 19(b), the Group acquired a 90.2% effective equity interest in a company which owns QuProbe for a consideration of HK$78,000,000 in 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 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.

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

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.

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, 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.

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, representing a discount of 10% to the principal sum of both the Convertible Notes and the Promissory Notes.

The convertible notes recognised in the balance sheet as at 31 December 2004 are calculated as follows:

	Group and Company *HK$'000*
Face value of convertible notes issued	50,000
Equity component	(7,327)
Liability component on initial recognition	42,673
Interest expense *(Note 8)*	2,327
Liability component at 31 December 2004	45,000

The fair value of the liability component of the convertible notes at 31 December 2004 amounted to HK$45,000,000. The fair value is calculated using cash flows discounted at a rate based on the Group's borrowings rate of 7%.

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 7% to the liability component. Interest payable to Payton Place was waived in accordance with the early termination agreement.

32. Amounts due to Directors

	Group and Company	
	2005 *HK$'000*	2004 *HK$'000*
Interest bearing loan at 18% per annum	**7,000**	—
Interest-free loan	**206**	3,101
	7,206	3,101

The amounts due are unsecured and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

33. Amounts due to Related Companies

The amounts due are unsecured, interest-bearing by reference to the best lending rate offered to the prime customers of the Hong Kong and Shanghai Banking Corporation Limited plus 2% are repayable on demand. The Company's director, Ms. Lo Yuk Yee, has beneficial interests in the related companies.

34. Amount due to Holding Company

The amount is unsecured, interest-free and repayable on demand.

35. Deferred Taxation

The following are the major deferred tax liabilities recognised and movement thereof during the current and prior year:

Group	**Convertible notes**	**Taxable temporary differences**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004	—	—	—
Charge to equity for the year	1,282	—	1,282
Release from equity for the year upon early redemption of convertible notes	(1,282)	—	(1,282)
At 31 December 2004	—	—	—
Arising on acquisition of a subsidiary *(Note 39)*	—	2,450	2,450
At 31 December 2005	—	2,450	2,450

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Tax losses	**579,446**	547,460
Deductible temporary differences	**230,640**	215,910
	810,086	763,370

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.

Company

	Convertible notes
	HK$'000
At 1 January 2004	—
Charge to equity for the year	1,282
Release from equity for the year upon early redemption of convertible notes	(1,282)
At 31 December 2004 and 31 December 2005	—

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

35. Deferred Taxation *(continued)*

The Company had no material temporary differences at 31 December 2005 and 31 December 2004.

At the balance sheet date, the Company has unused tax losses of HK$14,478,000 (2004: HK$8,679,000) available for offset against future profits.

Deferred tax assets have not been recognised in respect of the tax losses because it is not probable that future taxable profits will be available to utilise the benefits.

36. Share Capital

	2005 Ordinary shares of HK$0.01 each		2004 Ordinary shares of HK$0.01 each		2004 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	**100,000,000**	**1,000,000**	–	–	10,000,000	1,000,000
Capital Reorganisation *(Note (a))*	**–**	**–**	100,000,000	1,000,000	(10,000,000)	(1,000,000)
At end of year	**100,000,000**	**1,000,000**	100,000,000	1,000,000	–	–
Issued and fully paid						
At beginning of year	**357,978**	**3,580**	–	–	1,381,430	138,143
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	–	–
Issued upon exercise of share options *(Note (d))*	**–**	**–**	26,512	265	–	–
Issued upon a 2 for 1 open offer *(Note (e))*	**715,956**	**7,159**	–	–	–	–
At end of year	**1,073,934**	**10,739**	357,978	3,580	–	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

36. Share Capital *(continued)*

During the year the following changes in the Company's authorised and 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 certain loans and as working capital of the Group.

(c) In 2004, 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) In 2004, 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.

(e) In 2005, total number of 715,956,000 shares were issued under a 2 for 1 open offer. 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 and the remaining balance of approximately HK$6.8 million has been applied as the working capital of the Group.

37. 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

37. Share Options *(continued)*

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.

Movements in share options during the year ended 31 December 2005 are as follows:

			Number of share options		
Date of grant	Exercisable period	Subscription price per share	At 1 January 2005	Lapsed during the year	At 31 December 2005
21.01.2003	21.01.2003 — 20.01.2005	HK$0.790	1,956,000	(1,956,000)	—

Movements in share options during the year ended 31 December 2004 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	28.06.2003 – 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)	–

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

38. Reserves

Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2005 and 2004 are presented in the consolidated statement of changes in equity.

Company	Share premium	Contributed surplus	Convertible notes equity reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	223,698	409,520	—	(628,887)	4,331
Capital Reorganisation *(Note 36 (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
Deferred tax liability on recognition of equity component of convertible notes	—	—	(1,282)	—	(1,282)
Recognitions of equity component of convertible notes	—	—	7,327	—	7,327
Derecognition of deferred tax liability upon early redemption of convertible notes	—	—	1,282	—	1,282
Derecognition upon early redemption of convertible notes	—	—	(7,327)	7,327	—
Net loss for the year	—	—	—	(137,546)	(137,546)
At 31 December 2004	24,507	141,783	—	(130,219)	36,071
Issue of new share upon an open offer	71,596	—	—	—	71,596
Transaction costs attributable to issue of new shares	(1,646)	—	—	—	(1,646)
Net loss for the year	—	—	—	(94,141)	(94,141)
At 31 December 2005	94,457	141,783	—	(224,360)	11,880

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 realizable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Loss attributable to shareholders includes an amount of HK$94,141,000 (2004: HK$137,546,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

39. Acquisition of Subsidiaries

On 21 March 2005, the Group acquired 51.4% of the issued share capital of 深圳市太陽神銷售有限公司 for a consideration of HK$2,448,000 and on 26 August 2005 the Group acquired 100% of the issued share capital of Seapearl Trading Limited for a consideration of HK$14,000,000. The transactions have been accounted for using the purchase method of accounting.

Details of the net assets acquired by the Group were as follows:

	Aquirees' carrying amount before acquisitions *HK$'000*	**Fair value adjustments** *HK$'000*	**Fair value** *HK$'000*
Property, plant and equipment	83	—	83
Trade and other receivables	531	—	531
Inventories	174	—	174
Intangible assets	—	14,000	14,000
Cash and cash equivalence	3,537	—	3,537
Trade and other payables	(29)	—	(29)
Deferred taxation	—	(2,450)	(2,450)
Minority interests	(2,088)	—	(2,088)
Net assets	2,208	11,550	13,758
Goodwill *(Note 18)*			2,690
Total consideration			16,448
Satisfied by:			
Cash			16,448
Net cash outflow arising on acquisition:			
Cash consideration paid			16,448
Cash and cash equivalents acquired			(3,537)
			12,911

If the acquisitions had been completed on 1 January 2005, the total revenue for the Group would be increased by HK$146,000, and loss for the year would have been increased by HK$218,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

40. Disposal of Subsidiaries

The net assets of the subsidiaries at the date of disposals and as at 31 December 2004 were as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Net assets disposed of:		
Intangible assets	**—**	—
Bank balances and cash	**2**	95
Other receivables	**—**	6,964
Other payables	**—**	(1,255)
	2	5,804
Gain on disposal of subsidiaries	**102**	
Total consideration	**104**	
Satisfied by:		
Cash	**104**	
Net cash inflow arising on disposal:		
Cash consideration	**104**	
Bank balances and cash disposed of	**(2)**	
	102	

The subsidiaries disposed of during the year had no contribution to the Group's turnover and to the Group's loss from operations for the year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

41. Connected and Related Party Transactions

(a) Except as disclosed in notes 31, 32, 33 and 34 to the financial statements, the Group has the following significant related party transactions during the year:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Sales to Guangzhou Apollo Enterprise Company Limited, an associate	**30,814**	29,555
Salaries and staff benefit paid to Mr. Lok Fai, a former director of the Company	**2,426**	2,092
Consultancy fee paid to a company which are beneficially owned by Ms. Lo Yuk Yee, a director of the Company	**—**	950
Interest expense paid to related companies which is beneficially owed by Ms. Lo Yuk Yee, a director of the Company	**52**	170
Interest expense paid to Ms. Lo Yuk Yee, a director of the Company	**420**	—

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

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	**4,281**	9,496
Post-employment benefits	**154**	106
	4,435	9,602

The remuneration of directors and key management is determined by the Board of Directors having regard to the performance of individuals and market trends.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

42. Commitments

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

	2005	2004
	HK$'000	*HK$'000*
Within one year	**988**	1,228
In the second to fifth years inclusive	**275**	505
	1,263	1,733

At the same time, the Group also leases out some of the investment properties, which were classified as property, plant and equipment and properties held for disposal for last year. The future minimum rental receivable under non-cancellable operating leases are as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**6,064**	4,553
In the second to fifth years inclusive	**11,664**	9,939
Over five years	**4,885**	5,400
	22,613	19,892

43. Significant Non-Cash Transactions

There is no significant non-cash transaction for the current year.

Part of the consideration arising from the disposal of an investment in securities was settled by the promissory note payable of HK$8 million during the year 2004.

44. Pledge of Assets

The Group has pledged the following assets to secure the bank loans granted to the Group:

	2005	2004
	HK$'000	*HK$'000*
Interests in leasehold land held for own use under operating leases	**2,596**	—
Buildings	**16,715**	36,247
Investment properties	**35,774**	—
Investments held for disposal	**—**	15,569
	55,085	51,816

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

45. Financial Risk Management Objectives and Policies

The Group is exposed through its operations to one or more of the following financial risks:

- Fair value and cash flow interest rate risk
- Foreign exchange risk
- Liquidity risk
- Market price risk
- Credit risk

The Group does not hold or issue any financial derivatives for trading purpose nor use any derivatives or other instrument for hedging purpose.

Fair value and cash flow interest rate risk

The Group is exposed to cash flow interest rate risk on variable-rate bank loans and fair value interest rate risk on fixed-rate bank loans and convertible notes. The management monitors the related cash flow interest rate risk exposure closely and will consider hedging significant cash flow interest rate risk exposure should the need arise.

Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movement in exchange rate relating to investment and transaction denominated in foreign currencies. The Group's monetary assets, liabilities and transactions are mainly denominated in RMB and HKD. Though the exchange rate between RMB and HKD is not pegged, there is little fluctuation of exchange rate between RMB and HKD. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Liquidity risk

Internally generated cash flow, bank loans and convertible notes are the general sources of funds to finance the operations of the Group. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2005

45. Financial Risk Management Objectives and Policies *(continued)*

Fair value

The fair values of financial assets and financial liabilities reported in the balance sheet of the Group and the Company approximate their carrying amounts.

46. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgements that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are also discussed below.

Impairment loss on loans and receivables

The policy for impairment of loans and receivables of the Group is based on the evaluation of collectability and aging analysis of the loans and receivables and on management's judgment. A considerable amount of judgement is required in assessing the ultimate realisation of these loans and receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

47. Contingent Liabilities

According to the summons received by the Company on 4 August 2005, a claimant (the "Claimant") alleged that there was an unpaid balance of payment amounted to HK$2,000,000 against Ms. Lo Yuk Yee and a related company beneficially owned by Ms. Lo in relation to an agreement dated 14 April 2004 made amongst Ms. Lo, the related company and the Claimant, and alleged the Company made misrepresentation and seeked damages from the Company. The directors believed that the alleged claim against the Company is unsubstantiated and there would be no significant impact to the operation and financial position of the Group.

48. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 26 April 2006.