NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

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 addresses of the registered office and principal place of business of the Company are disclosed in "Corporate information" section of the annual report.

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

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$"), and the functional currency of the Group is Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the financial statements in HK$ as the shares of the Company are listed on the Stock Exchange. The financial statements are presented in thousands of units of HK$(HK$'000), unless otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised standards, amendments and interpretations ("new HKFRSs") which are effective for accounting period beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no significant impact on how the results or the financial position of the Group for current or previous accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2006 and which have not been adopted in these financial statements.

Hong Kong Accounting Standard 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The measurement basis used in the preparation of the financial statements is the historical cost basis, except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA. In addition, the 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) Fundamental uncertainty

The financial statements have been prepared on a going concern basis notwithstanding the net current liabilities of the Group of approximately HK$35,071,000 as at 31 December 2006. In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration the proposed arrangements which include, but are not limited to, the following:

1. the directors anticipate that the Group will generate positive cash flows from its businesses;

2. the directors have implemented measures to tighten cost controls over various distribution costs and administrative expenses and to improve the Group's positive cashflow position and operating results;

3. subsequent to the balance sheet date, on 30 January 2007 and 6 February 2007, the Group's major banks agreed to roll over their respective short-term loans of approximately HK$20,000,000, in aggregate, granted to the Group upon maturities on 31 January 2007 and 6 February 2007 for another one year up to 31 January 2008 and 6 February 2008, respectively;

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Fundamental uncertainty *(Continued)*

4. subsequent to the balance sheet date, in April 2007, the Group's ultimate holding company has confirmed to provide up to HK$20,000,000 loan facilities to the Group to enable it to meet its liabilities as and when they fall due; and

5. subsequent to the balance sheet date, in April 2007, the Group has taken steps to dispose of certain investment properties of the Group with aggregate values of approximately HK$65,683,000 as at 31 December 2006. The sales proceeds will be used to repay the Group's existing bank borrowings and improve its positive cashflow position.

On the basis that the Group obtained the continuing availability of the banking facilities provided by its banks and the implementation of other measures with a view to improve its working capital position and net financial position, the directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2006. Accordingly, the directors are satisfied that it is appropriate to prepare these 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.

(c) Principal accounting policies

Basis of consolidation and business combination

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 as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Basis of consolidation and business combination *(Continued)*

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent 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 losses, if any. All significant inter-company transactions and balances among group companies are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities of the relevant subsidiaries at date of acquisition. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Goodwill is capitalised as an intangible asset and presented separately in the consolidated balance sheet, with any impairment in carrying value being charged to the consolidated 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 consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Goodwill *(Continued)*

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating units to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Associates

An associate is an entity over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which is neither a subsidiary nor investment in a joint venture. Interest in an associate is initially recognised at cost and subsequently accounted for using the equity method.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

The Group's interest in an associate includes goodwill (net of any accumulated impairment losses) or fair value adjustment attributable to the share in the associate identified on acquisition. Any excess of the Group's share of net fair values of identified assets, liabilities and contigent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interests in the associate (including any long-term interests that, in substance, form part of the Group's net investment in an associate), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Associates *(Continued)*

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 are eliminated against the carrying value of the associate.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's accounting policies for each category are as follows:

Financial assets at 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. They are carried in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated 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. Impairment losses are reversed in subsequent periods when an increase in the assets' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset as the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Financial instruments *(Continued)*

(ii) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its 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 are 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 include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost, using the effective interest rate method.

- Bank loans 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 consolidated balance sheet. "Finance costs" 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.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Financial instruments *(Continued)*

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognistion of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are dercognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefits

(i) 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.

(ii) Retirement benefits scheme contribution

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

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 consolidated income statement over the vesting period, with a corresponding increase in equity (share option reserve). 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 consolidated income statement over the remaining vesting period, with a corresponding adjustment to share option reserve.

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

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expire date, the amount previously recognised in share option reserve will be transferred to retained profits.

Leasing

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rental payable under operating leases is charged to the consolidated income statement on straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straignt-line basis.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

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.

Intangible assets

Externally acquired intangible assets

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

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired. (See the accounting policies in respect of impairment losses as set out below)

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.

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

The significant intangibles recognised by the Group, their useful economic lives are as follows:

Intangible asset	Useful economic life
Acquired proprietary rights of chemical compound	6 years
Acquired proprietary rights of diagnostic technology	6 years
Acquired exclusive distribution right	10 years

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Intangible assets *(Continued)*

Externally acquired intangible assets (Continued)

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that assets. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

Gains or losses arising from derecognition of intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent 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 consolidated 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 consolidated income statement in the period in which such expenses are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on disposal of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated income statement.

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 consolidated income statement.

Inventories

Inventories are stated 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 method is used to determine the cost of ordinarily interchangeable items.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

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:

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is accrued on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's rights to receive the dividend payments have been established.

Revenue from trading of investments at fair value through profit or loss are recognised when the related brought and sold notes are executed.

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 tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

For the Year Ended 31 December 2006

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Principal accounting policies *(Continued)*

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

4. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(a) Business segments

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

Segment information about these businesses is presented below:

Group	Manufacturing and sales of pharmaceutical and health products		Properties holding for earning rental income		Trading of securities		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*
Assets								
Segment assets	**57,908**	64,605	**70,848**	71,804	**10,519**	7,933	**139,275**	144,342
Interests in associates	**3,680**	4,311	**–**	–	**–**	–	**3,680**	4,311
Unallocated corporate assets	**–**	–	**–**	–	**–**	–	**76,921**	48,747
Consolidated total assets	**61,588**	68,916	**70,848**	71,804	**10,519**	7,933	**219,876**	197,400
Liabilities								
Segment liabilities	**165,953**	113,705	**–**	–	**–**	4	**165,953**	113,709
Unallocated corporate liabilities	**–**	–	**–**	–	**–**	–	**42,003**	60,986
Total liabilities	**165,953**	113,705	**–**	–	**–**	4	**207,956**	174,695

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

4. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group	Manufacturing and sales of pharmaceutical and health products		Properties holding for earning rental income		Trading of securities		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*
Segment Revenue								
Turnover	**42,408**	44,617	**–**	–	**–**	1,767	**42,408**	46,384
Other income	**–**	–	**4,924**	4,445	**2,296**	470	**7,220**	4,915
	42,408	44,617	**4,924**	4,445	**2,296**	2,237	**49,628**	51,299
Segment Result	**(23,008)**	(95,234)	**1,228**	908	**2,296**	504	**(19,484)**	(93,822)
Reversal of impairment loss on leasehold land							**13,624**	–
Other unallocated income							**7,384**	7,684
Unallocated corporate expenses							**(8,302)**	(16,147)
Loss from operations							**(6,778)**	(102,285)
Finance costs							**(5,746)**	(3,925)
Share of results of associates	**338**	(2,594)	**–**	–	**–**	–	**338**	(2,594)
Loss before tax							**(12,186)**	(108,804)
Income tax							**245**	–
Loss for the year							**(11,941)**	(108,804)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

4. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Segment information about these businesses is presented below:

Group	Manufacturing and sales of pharmaceutical and health products		Properties holding for earning rental income		Trading of securities		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other Information								
Capital expenditure	1,686	1,760	–	–	–	–	1,686	1,760
Depreciation and amortisation	6,842	20,303	3,583	3,537	–	–	10,425	23,840
Impairment losses recognised for the year	2,238	62,555	–	–	–	–	2,238	62,555
Gain on disposal of subsidiaries/ partial disposal of a subsidiary	2,726	102	–	–	–	–	2,726	102
Gain on disposal of an associate	–	3,716	–	–	–	–	–	3,716
(Loss) gain on disposal of property, plant and equipment	(766)	1,041	–	–	–	–	(766)	1,041
Reversal of impairment losses on trade and other receivables	2,390	1,542	–	–	–	–	2,390	1,542
Change in fair value of investments at fair value through profit or loss	2,296	470	–	–	–	–	2,296	470

(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		Hong Kong		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Turnover	**42,408**	44,617	**–**	1,767	**42,408**	46,384
Other income	**28,228**	12,337	**–**	262	**28,228**	12,599
	70,636	56,954	**–**	2,029	**70,636**	58,983
Segment assets	**207,672**	180,487	**12,204**	16,913	**219,876**	197,400
Capital expenditure	**1,686**	1,760	**–**	–	**1,686**	1,760

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

5. OTHER INCOME

	Group	
	2006	2005
	HK$'000	*HK$'000*
Rental income	**8,001**	7,694
Less: direct operating expenses that generated rental income during the year	**(3,077)**	(3,249)
	4,924	4,445
Gain on disposal of an associate	**—**	3,716
Gain on disposal of subsidiaries *(Note 38)*	**1,845**	102
Gain on partial disposal of a subsidiary	**881**	—
Reversal of impairment losses on trade and other receivables	**2,390**	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	**2,296**	470
Exchange gain	**63**	109
Interest income	**906**	534
Others	**1,299**	640
	14,604	12,599

6. OTHER OPERATING EXPENSES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Amortisation of intangible assets	**1,400**	15,110
Impairment losses on intangible assets	**300**	56,445
	1,700	71,555

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

7. LOSS FROM OPERATIONS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Loss from operations is stated after charging:		
Staff costs (excluding directors' emoluments) comprises:		
— Wages and salaries	**9,474**	13,078
— Contributions to retirement scheme	**93**	393
	9,567	13,471
Auditors' remuneration	**420**	698
Share of tax of associate	**130**	170
Amortisation of intangible assets (included in other operating expenses)	**1,400**	15,110
Cost of inventories recognised as an expenses	**23,438**	26,296
Depreciation of property, plant and equipment	**5,327**	5,082
Depreciation of investment properties	**3,583**	3,537
Research and development expenses	**519**	1,979
Operating lease rentals in respect of land and buildings	**1,037**	1,479
Loss on disposal of property, plant and equipment	**766**	—
Amortisation of interests in leasehold land held for own use under operating lease	**115**	111
Impairment loss on intangible assets (included in other operating expenses)	**300**	56,445
Impairment loss on interests in associates (included in administrative expenses)	**—**	3,181
Impairment loss on goodwill arising from acquisition of an associate (included in administrative expenses)	**—**	2,689
Impairment loss on goodwill arising from acquisitions of subsidiaries (included in administrative expenses)	**1,938**	240

8. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interests wholly repayable within five years:		
— on bank loans	**3,911**	3,010
— on amount due to a director	**—**	420
— on amounts due to related companies	**—**	52
— on other loans	**1,835**	443
	5,746	3,925

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

9. INCOME TAX

	Group	
	2006	2005
	HK$'000	*HK$'000*
Deferred taxation — credited for the year *(Note 31)*	**(245)**	—

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 for both years.

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Loss before tax	**(12,186)**	(108,804)
Tax calculated at the domestic income tax rate of 15% (2005:15%)	**(1,828)**	(16,321)
Tax effect of expenses that are not deductible in determining taxable profit	**625**	2,632
Tax effect of income that is not taxable in determining taxation profit	**(480)**	(1,777)
Unrecognised temporary differences	**255**	12,522
Tax effect of tax losses not recognised	**1,700**	5,012
Tax effect of utilisation of tax losses not previously recognised	**—**	(4)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(517)**	(2,064)
Tax credit for the year	**(245)**	—

The applicable tax rate of 15% (2005:15%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

10. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2005: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK$10,650,000 (2005: approximately HK$97,214,000) and on 1,073,934,000 (2005: the weighted average of 930,742,800) ordinary shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the two years ended 31 December 2006 and 2005 has not been presented as there were no dilutive shares outstanding during the two years ended 31 December 2006 and 2005.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	Group	
	2006	2005
	HK$'000	*HK$'000*
Details of directors' emoluments are as follows:		
Fees:		
Executive directors	**183**	204
Independent non-executive directors	**240**	216
	423	420
Other emoluments		
Salaries and allowances	**–**	–
Retirement benefits scheme contributions	**–**	–
	423	420

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 (2005: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2006 are as follows:

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits schemes contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Ms. He Jin Hong	153	–	–	153
Mr. Ha Sze Tung Sharp Stone	–	–	–	–
Ms. Lo Yuk Yee (resigned on 29 June 2006)	–	–	–	–
Mr. Siu Siu Ling, Robert (resigned on 29 June 2006)	30	–	–	30
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	–	–	180
Mr. Wei Dong (appointed on 20 September 2006)	15	–	–	15
Mr. Yang Yue (appointed on 20 September 2006)	15	–	–	15
Mr. Wong Wai Kin (resigned on 29 June 2006)	15	–	–	15
Mr. Ma Shiu Kin (resigned on 29 June 2006)	15	–	–	15
Total	423	–	–	423

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

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits schemes contributions *HK$'000*	Total *HK$'000*
Executive directors:				
Mr. Ha Sze Tung Sharp Stone	–	–	–	–
Ms. He Jin Hong	123	–	–	123
Ms. Lo Yuk Yee	–	–	–	–
Mr. Siu Siu Ling, Robert	60	–	–	60
Dr. Cao Wu (resigned on 15 September 2005)	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 (resigned on 15 September 2005)	21	–	–	21
Total	420	–	–	420

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

During both years ended 31 December 2006 and 2005, no directors of the Company waived any emoluments, except that in the year ended 31 December 2005, Ms. Lo Yuk Yee, a director of the Company resigned on 29 June 2006, waived emoluments of approximately HK$3,000,000 (2006: nil).

(b) The five highest paid individuals do not include any director for the two years ended 31 December 2006 and 2005. The emoluments of the five (2005: five) highest paid individuals were as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Employees		
Salaries and allowances	**3,385**	3,861
Retirement benefits scheme contributions	**205**	153
	3,590	4,014

The emoluments of the five highest paid individuals are fell within the following bands:

	Number of individuals	
	2006	2005
Nil — HK$1,000,000	**4**	4
HK$1,000,001 — HK$2,000,000	**1**	—
HK$2,000,001 to HK$2,500,000	**—**	1
	5	5

During the two years ended 31 December 2005 and 2006, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

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 2005	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
Disposal	–	(1,380)	(1,517)	(3,618)	(120)	(6,635)
At 31 December 2005 and at 1 January 2006	112,689	31,264	8,128	6,864	5,432	164,377
Exchange realignment	4,643	2,477	270	236	189	7,815
Additions	–	373	1,049	152	112	1,686
Acquired through acquisition of a subsidiary	–	–	98	–	–	98
Disposal	(522)	(1,432)	(1,289)	(2,208)	(224)	(5,675)
At 31 December 2006	**116,810**	**32,682**	**8,256**	**5,044**	**5,509**	**168,301**
Depreciation and impairment						
At 1 January 2005	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 disposal	–	(1,225)	(1,350)	(3,157)	(108)	(5,840)
At 31 December 2005 and at 1 January 2006	86,145	28,371	6,381	5,458	4,640	130,995
Exchange realignment	2,171	1,322	225	184	161	4,063
Provided for the year	3,765	531	654	201	176	5,327
Eliminated on disposal	(229)	(1,232)	(967)	(2,032)	(193)	(4,653)
At 31 December 2006	**91,852**	**28,992**	**6,293**	**3,811**	**4,784**	**135,732**
Net carrying values						
At 31 December 2006	**24,958**	**3,690**	**1,963**	**1,233**	**725**	**32,569**
At 31 December 2005	26,544	2,893	1,747	1,406	792	33,382

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Held in the PRC with unspecified lease terms	**2,664**	3,548
Held in the PRC under medium-term leases	**22,294**	22,996
	24,958	26,544

Certain buildings in the Group have been pledged to banks to secure general borrowings granted to the Group as detailed in note 41.

Company	**Equipment**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 January 2005, 31 December 2005 and 31 December 2006	628	412	1,040
Accumulated depreciation			
At 1 January 2005	349	197	546
Provided for the year	126	82	208
At 31 December 2005 and at 1 January 2006	475	279	754
Provided for the year	126	82	208
At 31 December 2006	**601**	**361**	**962**
Net carrying values			
At 31 December 2006	**27**	**51**	**78**
At 31 December 2005	153	133	286

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

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	
Medium-term lease in the PRC	**2006**	2005
Net carrying amounts	***HK$'000***	*HK$'000*
At beginning of year	**4,350**	4,374
Reversal of impairment loss	**13,624**	—
Transfer to assets classified as held for sale	**(13,624)**	—
Exchange realignment	**43**	(24)
At end of year	**4,393**	4,350

	Group	
	2006	2005
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Non-current assets	**4,278**	4,235
Current assets	**115**	115
At 31 December	**4,393**	4,350

Certain leasehold land in the Group has been pledged to banks to secure general borrowings granted to the Group as detailed in note 41.

15. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cost		
At beginning of year	**75,375**	—
Transfer from property, plant and equipment	**—**	47,134
Transfer from investments held for disposal	**—**	27,249
Exchange realignment	**2,757**	992
At end of year	**78,132**	75,375
Accumulated depreciation and impairment losses		
At beginning of year	**3,571**	—
Provided for the year	**3,583**	3,537
Exchange realignment	**130**	34
At end of year	**7,284**	3,571
Net carrying amounts		
At 31 December	**70,848**	71,804

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

15. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties at 31 December 2006 was approximately HK$107,765,000 (2005: 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	
	2006	2005
	HK$'000	*HK$'000*
Held in the PRC under medium-term leases	**45,902**	45,763
Held in the PRC under long leases	**8,759**	9,198
Held in the PRC with unspecified lease terms	**16,187**	16,843
	70,848	71,804

Certain investment properties of the Group have been pledged to bank and financial institutions to secure the general borrowings granted to the Group as detailed in note 41.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**25,902**	552,561
Impairment losses recognised	**(13,302)**	(525,259)
	12,600	27,302
Amounts due from subsidiaries	**4,070**	25,226
Impairment losses recognised	**–**	(13,293)
	4,070	11,933
Amounts due to subsidiaries	**–**	(6,527)

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

16. INTERESTS IN SUBSIDIARIES *(Continued)*

The following is a list of principal subsidiaries of the Company as at 31 December 2006:

Name	Place of incorporation/ registration	Form of business structure	Percentage of effective equity interest held	Particulars of issued/ paid-up capital	Principal activities
China Apollo (BVI) Limited	British Virgin Islands	Limited liability company	100%	Ordinary shares US$10	Investment holding
Seapearl Trading Limited	Samoa	Limited liability company	100%	Ordinary shares US$1	Distribution of health and pharmaceutical products
China Apollo Enterprises (Hong Kong) Limited *(Note)*	Hong Kong	Limited liability company	100%	Ordinary shares HK$20,000 and non-voting deferred shares HK$10,000	Investment holding
Guangdong Apollo Group Co., Limited ("Guangdong Apollo")	PRC	Sino-foreign equity joint venture	95%	Registered capital RMB194,983,457	Manufacture and sale of health products in the PRC
深圳太陽神銷售有限公司	PRC	Limited liability company	48.83%	Registered capital RMB5,000,000	Supply and marketing of domestic commodities and materials

Note: 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.

During the year, the Group disposed Maxx Management Services Limited and Biometrics Technology Limited and their respective subsidiaries. Details of the assets and liabilities disposed of during the year are set out in note 38 to the financial statements.

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

For the Year Ended 31 December 2006

17. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net assets of associates	**12,231**	12,862
Impairment losses recognised	**(8,551)**	(8,551)
	3,680	4,311

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cost		
At beginning of year	**2,689**	–
Arising on acquisition of an associate	**–**	2,689
At end of year	**2,689**	2,689
Accumulated impairment losses		
At beginning of year	**2,689**	–
Impairment loss recognised for the year	**–**	2,689
At end of year	**2,689**	2,689
Net carrying amounts		
At 31 December	**–**	–

The directors reviewed certain associates' operations and financial positions as at 31 December 2005 based on value in use calculation. Due to unsatisfactory performance, an impairment loss of approximately HK$2,689,000 was made against the goodwill arising on acquisition of an associate during the year ended 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

17. INTERESTS IN ASSOCIATES *(Continued)*

The summarised unaudited financial information in respect of the Group's associates is set out below:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Total assets	**66,808**	71,578
Total liabilities	**(17,504)**	(16,594)
Net assets	**49,304**	54,984
Group's share of net assets of associates	**15,871**	17,655
Revenue	**69,802**	70,944
Loss for the year	**(2,913)**	(6,283)
Group's share of results of associates for the year	**338**	(2,594)
Unrecognised share of losses arising during the year	**(1,155)**	–

Details of the principal associates at 31 December 2006 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective 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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

17. INTERESTS IN ASSOCIATES *(Continued)*

Note: Despite the Group has 56% indirect effective interest in 山東天地健, the Group has no control in the Company. The directors of the Company consider that the Group does exercise significant influence over 山東天地健and it is therefore 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	
	2006	2005
	HK$'000	*HK$'000*
Cost		
At beginning of year	**2,690**	—
Arising on acquisition of subsidiaries *(Note 37)*	**1,938**	2,690
Adjustments to measurement of consideration for acquisition of a subsidiary in prior year *(Note)*	**(1,400)**	—
At end of year	**3,228**	2,690
Accumulated impairment losses		
At beginning of year	**240**	—
Impairment loss recognised for the year	**1,938**	240
At end of year	**2,178**	240
Net carrying amounts		
At 31 December	**1,050**	2,450

Note: During the year, an adjustment was made to the cost of acquisition of a subsidiary, Seapearl Trading Limited ("Seapearl"), on 26 August 2005 (the "Acquisition"). Pursuant to the sale and purchase agreement of the Acquisition, the vendor, a former sole shareholder of Seapearl, has guaranteed that the audited profit after tax (before any extraordinary items) of Seapearl for the year ended 30 June 2006 will not be less than HK$1,400,000 (the "Guaranteed Profit"). The Group will be compensated in cash by the vendor for the shortfall on the Guaranteed Profit up to HK$1,400,000. During the year ended 31 December 2005, Seapearl received a sum of HK$1,400,000 on completion of the Acquisition for the purpose of securing the Guaranteed Profit. As Seapearl has not commenced business as of 30 June 2006, the said sum of HK$1,400,000 held by the Group has been applied to compensate the Group for the shortfall during the year ended 31 December 2006. Accordingly, an adjustment to the cost of acquisition of Seapearl has been made during the year ended 31 December 2006, resulted in a decrease in amount of goodwill recognised of HK$1,400,000.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

18. GOODWILL *(Continued)*

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of goodwill was determined based on value-in-use calculation, which use cash flow forecast (the “Forecast”) based on financial budgets approved by management covering a period of ten-year with a discount rate and growth rate of 14% and 8% respectively. Cash flows beyond the five-year period are extrapolated using a steady 4% per annum growth rate. The discount rate used reflects specific risks relating to the business and the growth rate is in line with the Forecast adopted by the industry.

The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the goodwill.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

19. INTANGIBLE ASSETS

Group	Acquired proprietary rights of chemical compound *HK$'000*	Acquired proprietary rights of diagnostic technology *HK$'000* *(note (a))*	Acquired exclusive distribution right *HK$'000* *(note (b))*	Total *HK$'000*
Cost				
As at 1 January 2005	57,012	86,466	–	143,478
Acquired on acquisition of a subsidiary	–	–	14,000	14,000
Disposed on disposal of subsidiary	(57,012)	–	–	(57,012)
As at 31 December 2005 and 1 January 2006	–	86,466	14,000	100,466
Disposed on disposal of subsidiary	–	(86,466)	–	(86,466)
At 31 December 2005 and 1 January 2006, and 31 December 2006	–	–	14,000	14,000
Accumulated amortisation and impairment losses				
At 1 January 2005	57,012	15,611	–	72,623
Provided for the year	–	14,410	700	15,110
Impairment loss recognised	–	56,445	–	56,445
Disposed on disposal of subsidiary	(57,012)	–	–	(57,012)
At 31 December 2005 and 1 January 2006	–	86,466	700	87,166
Provided for the year	–	–	1,400	1,400
Impairment loss recognised	–	–	300	300
Disposed on disposal of a subsidiary	–	(86,466)	–	(86,466)
As at 31 December 2006	**–**	**–**	**2,400**	**2,400**
Net carrying amounts				
As at 31 December 2006	**–**	**–**	**11,600**	**11,600**
As at 31 December 2005	–	–	13,300	13,300

Notes:

(a) 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 former director of the Company, a company which owns the proprietary rights of a genomic diagnostic platform technology called QuProbe. QuProbe, based on macroarray technology, aims to provide a rapid and cost-effective test for the detection of T-cell autoimmune diseases.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

19. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

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 during the year ended 31 December 2005. 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 to suspend the development of QuProbe during the year ended 31 December 2006. 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 approximately HK$56,445,000 had been made on the carrying value and charged to consolidated income statement during the year ended 31 December 2005.

QuProbe has been disposed of during the year ended 31 December 2006 through the disposal of a subsidiary by the Group.

(b) In August 2005, the Group entered into an agreement with a third party to acquire a subsidiary at a consideration of HK$14,000,000. Such subsidiary has an exclusive licence for the sale, distribution and marketing of all kinds of Chinese medicine or health products manufactured and supplied by an independent third party 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.

Impairment testing on intangible assets

The directors of the Company had reviewed the carrying value of the Group's intangible assets as at 31 December 2006 with reference to the valuation carried out by BMI Appraisals Limited, a professional valuer independent to the Group. The recoverable amount of the intangible assets has been determined based on the value-in-use calculation and the intangible assets were valued at approximately HK$11,600,000.

Accordingly, an impairment loss of approximately HK$300,000 has been recognised in the consolidated income statement for the year ended 31 December 2006 (2005: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

20. ASSETS CLASSIFIED AS HELD FOR SALE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Net carrying amounts		
At beginning of year	**–**	–
Transfer from interests in leasehold land during the year	**13,624**	–
At end of year	**13,624**	–

The assets classified as held for sale represented the interests in leasehold land held for own use under operating leases which are expected to be disposed of in 2007. The net proceeds of disposal were expected to exceed the net carrying amount of the relevant assets and a deposit has been received for the sale of the relevant assets. The deposit received is included in other payables. Since the leasehold land was fully impaired in previous years, a reversal of approximately HK$13,624,000 impairment loss had been credited to the consolidated income statement.

As the sale transaction has not been completed as at 31 December 2006 and the directors expect that the leasehold land will be disposed of within a short period of time, the leasehold land is therefore classified under current assets as at 31 December 2006.

21. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**2,655**	3,006
Work-in-progress	**51**	43
Finished goods	**1,371**	1,398
	4,077	4,447

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

22. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables				
— from third parties	**51**	820	**—**	—
— from an associate	**5,791**	5,079	**—**	—
	5,842	5,899	**—**	—
Deposits, prepayments and other receivables	**2,267**	1,874	**303**	303
	8,109	7,773	**303**	303

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	
	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**6,603**	6,103
91 — 180 days	**605**	956
181 — 365 days	**293**	631
Over 365 days	**2,521**	4,731
	10,022	12,421
Less: accumulated impairment	**(4,180)**	(6,522)
	5,842	5,899

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

23. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Equity securities quoted in the PRC, at fair value	**10,519**	7,933

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

24. INVESTMENTS HELD FOR DISPOSAL

	Group	
	2006	2005
	HK$'000	*HK$'000*
Cost	**–**	59,393
Impairment losses recognised	**–**	(32,144)
Transfer to investment properties	**–**	(27,249)
	–	–

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

25. CASH AND CASH EQUIVALENTS

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	
	2006	2005
	HK$'000	*HK$'000*
Hong Kong Dollar	**2,842**	3,058
United States Dollar	**219**	173

Included in the cash and cash equivalents is bank deposit of approximately HK$2,000,000 (2005: nil) carries interest at a fixed rate at 3.4% (2005: nil).

Company

The Company has no currency other than its functional currency.

26. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payable	**3,108**	3,059	**–**	–
Accrued charges and other creditors	**51,395**	45,485	**1,305**	2,807
	54,503	48,544	**1,305**	2,807

All trade payables were aged less than one year.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

27. 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 41, which are denominated in RMB and granted by banks in the PRC. These short-term bank loans bear fixed interest rates from 6.138% to 7.020% (2005: 6.138% to 6.786%) per annum and are wholly repayable within one year.

28. OTHER LOANS — SECURED

Other loans comprise of (a) an amount of approximately HK$14,423,000 which was secured by the entire issued share capital of a Company's subsidiary, interest bearing at 1.5% per month and repayable on 12 May 2007; and (b) an amount of approximately RMB8,000,000 (equivalent to approximately HK$7,974,000) which was secured by certain investment properties of the Group, interest bearing at the prevailing market rates and repayable on 31 May 2007.

29. AMOUNTS DUE TO DIRECTORS

	Group and Company	
	2006	2005
	HK$'000	*HK$'000*
Interest bearing loan at 18% per annum	**—**	7,000
Interest-free loan	**—**	206
	—	7,206

The amounts due were unsecured and have been fully repaid during the year ended 31 December 2006.

30. AMOUNTS DUE TO RELATED COMPANIES

The amounts due were 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% and have been fully settled during the year ended 31 December 2006. A Company's former director, Ms. Lo Yuk Yee, has beneficial interests in the related companies.

31. DEFERRED TAXATION

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

	Group	
Movement of taxable temporary differences arising from the exclusive distribution right	**2006** ***HK$'000***	2005 *HK$'000*
At beginning of year	**2,450**	—
Arising on acquisition of a subsidiary	**—**	2,450
Credited to consolidated income statement	**(245)**	—
At end of year	**2,205**	2,450

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

31. DEFERRED TAXATION *(Continued)*

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Tax losses	**577,408**	579,446
Deductible temporary differences	**1,700**	230,640
	579,108	810,086

At 31 December 2005, the Company has unused tax losses of approximately HK$14,478,000 (2006: nil) available for offset against future profit. Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available to utilise the benefits.

The Company had no material temporary differences or tax losses at 31 December 2006 and 31 December 2005.

32. AMOUNT DUE TO HOLDING COMPANY

The amount is unsecured, interest-free and not repayable within the next twelve months from the balance sheet date. The directors consider that the fair value of amount due to holding company equal to its carrying amount as the impact of discounting is not significant.

33. PROVISION FOR STAFF WELFARE AND BONUS

	Group	
	2006	2005
	HK$'000	*HK$'000*
At the beginning of year	**61,534**	60,433
Utilisation of provision	**—**	(96)
Exchange realignment	**2,287**	1,197
At the end of year	**63,821**	61,534

Provision for staff welfare and bonus represents staff welfare and bonus provided in prior years for a subsidiary operated in the PRC under the relevant laws and regulations.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

34. SHARE CAPITAL

	2006 Ordinary shares of HK$0.01 each		2005 Ordinary shares of HK$0.01 each	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised				
At beginning of year/ at end of year	100,000,000	1,000,000	100,000,000	1,000,000
Issued and fully paid				
At beginning of year	1,073,934	10,739	357,978	3,580
Issued of shares upon a 2 for 1 open offer *(note)*	–	–	715,956	7,159
At end of year	1,073,934	10,739	1,073,934	10,739

Note: 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. These shares rank pari passu in all respects with other shares in issue.

35. SHARE OPTIONS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

35. SHARE OPTIONS *(Continued)*

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but shall not be less than the highest of (i) the average of the closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; (ii) closing price of the Company's shares on the date of offer; and (iii) the nominal value of the Company's share.

No share options had been granted to directors or employees during the year ended 31 December 2006. 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 January 2003	21 January 2003 to 20 January 2005	HK$0.790	1,956,000	(1,956,000)	–

36. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2006 and 2005 are presented in the consolidated statement of changes in equity.

Company

	Share premium	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	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)
Loss for the year	–	–	(94,141)	(94,141)
At 31 December 2005 and at 1 January 2006	94,457	141,783	(224,360)	11,880
Loss for the year	–	–	(17,657)	(17,657)
At 31 December 2006	94,457	141,783	(242,017)	(5,777)

Notes: 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 approximately HK$17,657,000 (2005: HK$94,141,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

37. ACQUISITION OF SUBSIDIARIES

(a) On 26 October 2006, the Group acquired the entire issued share capital of 廣東太陽神飲用水有限公司 at a cash consideration of HK$1. The transaction has been accounted for using the purchase method of accounting.

The fair values of the identifiable assets and liabilities of 廣東太陽神飲用水有限公司 acquired during the year ended 31 December 2006 have no significant differences from their respective carrying amounts.

The assets and liabilities of 廣東太陽神飲用水有限公司 arising from the acquisition are as follows:

	Acquiree's carrying amounts and fair values 2006 *HK$'000*
Property, plant and equipment	98
Trade and other receivables	607
Cash and cash equivalents	2
Trade and other payables	(2,645)
Net liabilities acquired	(1,938)
Goodwill *(Note 18)*	1,938
Total consideration	–
Satisfied by:	
Cash	–

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition is as follows:

Cash consideration paid	–
Cash and cash equivalents acquired	2
Net cash inflow	2

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

The subsidiary acquired during the year ended 31 December 2006 had no significant contribution to the Group's revenue and loss before tax for the period from 26 October 2006 to 31 December 2006.

If the acquisition had been completed on 1 January 2006, there had no significant effect on the Group's revenue and loss for the year. 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 2006, nor is it intended to be a projection of future results.

(b) 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 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	Fair value adjustments	Fair value
	HK$'000	*HK$'000*	*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
Net cash outflow			(12,911)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

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.

38. DISPOSAL OF SUBSIDIARIES

The net assets of the subsidiaries at the respective dates of disposals were as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Net assets disposed of:		
Bank balances and cash	**–**	2
Other payables	**(1,845)**	–
	(1,845)	2
Gain on disposal of subsidiaries	**1,845**	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 both years had no contribution to the Group's turnover and to the Group's loss from operations for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

39. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) Except as disclosed elsewhere in these financial statements, the Group has the following significant related party transactions during the year:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Sales to Guangzhou Apollo Enterprise Company Limited, an associate	**30,541**	30,814
Salaries and staff benefit paid to Mr. Lok Fai, a former director of the Company	**–**	2,426
Interest expense paid to related companies which is beneficially owned by Ms. Lo Yuk Yee, a former director of the Company	**–**	52
Interest expense paid to Ms. Lo Yuk Yee, a former 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:

	2006	2005
	HK$'000	*HK$'000*
Short-term benefits	**1,283**	4,281
Post-employment benefits	**45**	154
	1,328	4,435

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

For the Year Ended 31 December 2006

40. COMMITMENTS

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**980**	988	**29**	86
In the second to fifth years inclusive	**420**	275	**–**	29
	1,400	1,263	**29**	115

At the same time, the Group also leases out its investment properties, the rental income earned during the year was approximately HK$8,001,000 (2005: approximately HK$7,694,000). These investment properties are expected to generate rental yields of 11% on an ongoing basis (2005: 11%). The future minimum rental receivable under non-cancellable operating leases are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**6,929**	6,064
In the second to fifth years inclusive	**13,025**	11,664
Over five years	**1,142**	4,885
	21,096	22,613

41. PLEDGE OF ASSETS

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interests in leasehold land held for own use under operating leases	**2,621**	2,596
Buildings	**15,546**	16,715
Investment properties	**67,258**	35,774
	85,425	55,085

In addition, at the balance sheet date, a Company's subsidiary's shares were also pledged for loan facilities granted to the Group. That subsidiary had net assets of approximately HK$7,958,000 as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

- Fair value 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 interest rate risk

The Group is exposed to fair value interest rate risk on fixed-rate bank loans. 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 HK$. Though the exchange rate between RMB and HK$ is not pegged, there is little fluctuation of exchange rate between RMB and HK$. 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 flows, bank and other loans are the general sources of funds to finance the operations of the Group. The Group is exposed to liquidity risk as its financial assets due within one year is less than its financial liabilities due within one year. The Group had net current liabilities of approximately HK$35,071,000 as at 31 December 2006. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations and to obtain continuing financial supports from its bankers and its ultimate holding company.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the 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.

Fair value

The fair values of financial assets and financial liabilities reported in the balance sheets of the Group and the Company approximate their carrying amounts due to their immediate or short-term maturities.

43. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, 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.

Estimated useful lives of property, plant and equipment and intangible assets (other than goodwill)

The Group has significant property, plant and equipment and intangible assets (other than goodwill). The Group is required to estimate the useful lives of property, plant and equipment and intangible assets (other than goodwill) in order to ascertain the amount of depreciation and amortization charges for each reporting period. A significant amount of these assets have estimated useful lives that extend beyond 10 years.

The useful lives are estimated at the time of purchase of these assets after considering future technology changes, business developments and the Group's strategies. The Group performs annual reviews to assess the appropriateness of the estimated useful lives. Such review takes into account any unexpected adverse changes in circumstances or events, including declines in projected operating results, negative industry or economic trends, rapid advancement in technology and significant downturns in the Company's stock price. The Group extends or shortens the useful lives and/or makes impairment provisions according to the results of the review.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

43. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment loss on trade and other receivables

The policy for impairment of trade 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. During the year ended 31 December 2006, an impairment loss of approximately HK$1,938,000 (2005: approximately HK$2,929,000) has been fully provided.

Estimated impairment of assets (other than goodwill)

At each balance sheet date, the Group reviews internal and external sources of information to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— interests in leasehold land held for own use under operating leases;

— intangible assets; and

— investments in subsidiaries and associates

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset exceeds its recoverable amounts.

The sources utilised to identify indications of impairment are often subjective in nature and the Group is required to use judgement in applying such information to its business. The Group's interpretation of this information has a direct impact on whether an impairment assessment is performed as at any given balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2006

43. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of assets (other than goodwill) *(Continued)*

If an indication of impairment is identified, such information is further subject to an exercise that requires the Group to estimate the recoverable value, representing the greater of the asset's fair value less cost to sell or its value in use. Depending on the Group's assessment of the overall materiality of the asset under review and complexity of deriving reasonable estimates of the recoverable value, the Group may perform such assessment utilising internal resources or the Group may engage external advisors to counsel the Group in making this assessment. Regardless of the resources utilised, the Group is required to make many assumptions to make this assessment, including the utilisation of such asset, the cash flows to be generated, appropriate market discount rates and the projected market and regulatory conditions. Changes in any of these assumptions could result in a material change to future estimates of the recoverable value of any asset.

44. 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 approximately HK$2,000,000 against the former director, 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 made a claim against the Company for damages.

The Company has not received any further notice in respect of the claim against the Company as at and for the year ended 31 December 2006, 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. Accordingly, no provision has been made in these financial statements.