MAXX BIOSCIENCE HOLDINGS LIMITED
曼 盛 生 物 科 技 集 團 有 限 公 司
Stock code: 512

Annual Report 2007

Contents

EXECUTIVE DIRECTORS

Ms He Jin Hong *(Deputy Chairman)*
Mr Ha Sze Tung Sharp Stone

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie
Mr Wei Dong

COMPANY SECRETARY

Mr Lau Wing Yuen

AUTHORISED REPRESENTATIVES

Mr Ha Sze Tung Sharp Stone
Mr Lau Wing Yuen

AUDITORS

SHINEWING (HK) CPA Limited

LEGAL ADVISERS

Li & Partners Solicitors
Conyers, Dill & Pearman

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road
Pembroke HM08, Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, Hopewell Centre
183 Queen's Road East, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL OFFICE

Room 2501A, Hopewell Centre
183 Queen's Road East, Hong Kong

BUSINESS REVIEW

For the year ended 31 December 2007, the Group's pharmaceutical and health products business recorded a turnover of approximately HK$49,045,000 (2006: HK$42,408,000) which represents an increase of 16% as compared with last year. Such increase was mainly due to the increase in sales of the mineral water product line and the appreciation of Renminbi during the year.

Gross profit of the Group's pharmaceutical and health products business for the year under review was HK$22,654,000 (2006: HK$18,970,000). The gross margin achieved during the year was about 46% (2006: 45%).

The Group reported a consolidated loss attributable to equity holders of the Company of HK$52,030,000 as compared with a loss of HK$10,650,000 for last year. Such increase was mainly attributable to the increase in impairment loss on intangible asset by HK$10,200,000, the expenditures of approximately HK$9,000,000 on marketing and promotion, research and development of the mineral water product line and the reversal of impairment loss on leasehold land of HK$13,624,000 recorded in 2006.

PROSPECTS

The Group will continue to streamline its operation by cutting cost and down-sizing unprofitable business and at the same time looking for profitable business opportunities to maximise the interest of shareholders.

Following the change in the controlling shareholder of the Company in December 2005 and the completion of the mandatory unconditional cash offer by Outwit Investments Limited ("Outwit") in March 2006, Outwit is currently conducting a review on the Group's business activities and assets and is formulating business plans and strategies for the future business development of the Group.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2007, the Group had current assets of HK$83,787,000 (31 December 2006: HK$95,851,000) and current liabilities of HK$159,245,000 (31 December 2006: HK$130,922,000). The current ratio was 0.53 at 31 December 2007 as compared with 0.73 at 31 December 2006.

The Group's cash and bank balances as at 31 December 2007 amounted to HK$67,282,000 (31 December 2006: HK$59,407,000), of which 3% were denominated in Hong Kong and United States Dollars and 97% in Renminbi.

As at 31 December 2007, the Group had outstanding short term bank loans of HK$92,307,000 (31 December 2006: HK$54,022,000), all of which were in Renminbi and granted by banks in the PRC. The interest rates charged by banks ranged from 6.44% to 7.34% (for the year ended 31 December 2006: 6.14% to 7.02%) per annum. These bank loans were pledged by properties of the Group with a net book value of HK$88,332,000 (31 December 2006: HK$85,425,000). The gearing ratio of the Group, measured by bank borrowings and other short term loans as a percentage of issued share capital, was 994% at 31 December 2007 as compared with 712% at 31 December 2006.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to foreign exchange fluctuation is relatively low.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2007, the Group employed about 300 staff and workers in Hong Kong and the PRC. The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities at 31 December 2007 are set out in Note 39 to the consolidated financial statements.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to our management and staff for their dedication and contribution to the Group and our shareholders and business associates for their continued support throughout the year.

He Jin Hong
Deputy Chairman

Hong Kong, 15 April 2008

EXECUTIVE DIRECTORS

Ms He Jin Hong, aged 50, is the Deputy Chairman of the Group. She is the manager of the investment management department of Guangdong Apollo Group Company Limited ("Apollo"), the principal subsidiary of the Group. Ms He is an auditor and a fellow Chartered Financial Practitioner. She graduated from China Broadcasting and Television College and holds a MBA degree from the Open University of Hong Kong. Ms He is responsible for investment management of Apollo. Prior to joining Apollo in May 1992, she worked for China Tourist Service Company (Guangdong) Branch as head of the audit department. She had over 25 years' experience in financial management and auditing.

Mr Ha Sze Tung Sharp Stone, aged 43, is an executive director of the Company since November 2004. Mr Ha has over 10 years of experience in export trading and project financing in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms So Tosi Wan, Winnie, aged 45, joined the Company in March 2005. She is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr Wei Dong, aged 37, joined the Company in September 2006. He graduated from Northeastern University in the PRC and holds a master's degree in Business Administration from Beijing Institute of Technology. He has over 10 years of experience in corporate management.

SENIOR MANAGEMENT

Mr Shao Yan, aged 45, is the General Manager of the Group. Mr Shao joined the Company in March 2008 and is responsible for overseeing the entire operations and general management of the Group. Mr Shao holds a master's degree Business Administration from Guanghua School of Management of the Peking University and is a Ph.D. candidate of School of Politics and International Studies of the Beijing Normal University. He has over 20 years of experience in corporate management and venture capital investment.

Mr Lau Wing Yuen, aged 43, is the Financial Controller of the Group. Mr Lau joined the Company in April 2005 and is responsible for finance, tax and accounting matters. Mr Lau holds a Bachelor degree with major in Economics and Management Studies from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has over 20 years of experience in finance and auditing.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to adopting and maintaining a high standard of corporate governance practices and procedures. During the year ended 31 December 2007, the Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), except for the following deviations:

Code provision A.2.1

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, the positions of chairman and chief executive officer are vacant and the Board is identifying suitable candidates to take up the posts.

Code provision A.4.1 and A.4.2

Under the code provision A.4.1, non-executive directors should be appointed for a specific term. Currently, non-executive Directors are not appointed for a specific term. This constitutes a deviation from code provision A.4.1. However, they are subject to retirement by rotation at each annual general meeting under the bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

CORPORATE GOVERNANCE REPORT

This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 23 of the Listing Rules as follows:

BOARD OF DIRECTORS

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

During the year ended 31 December 2007, the Board comprised of 5 directors, with 2 executive directors and 3 independent non-executive directors. The Board believes that the balance between executive and non-executive directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors are independent and meet the independent guidelines set out in the Listing Rules.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference for the purpose of monitoring the integrity of the consolidated financial statements and overseeing the financial reporting process and the internal control system of the Group. The Audit Committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

During the year ended 31 December 2007, the Audit Committee consisted of three independent non-executive directors namely, Ms So Tosi Wan, Winnie (Chairman), Mr Wei Dong and Mr Yang Yue. Ms So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2007 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual consolidated financial statements. The Audit Committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the consolidated financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual consolidated financial statements.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 20 September 2006 with written terms of reference. During the year ended 31 December 2007, the Remuneration Committee is chaired by Mr Ha Sze Tung Sharp Stone with two independent non-executive directors namely, Mr Wei Dong and Mr Yang Yue as members.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all directors and senior management and reviewing specific remuneration package of all directors and senior management including any compensation payable for loss or termination of their office and appointment. The Remuneration Committee met twice during the year to review the remuneration policy for all directors and senior management.

The remuneration of directors and senior management comprises salary, pensions and discretionary bonus. Details of the directors' emoluments for the year ended 31 December 2007 are set out in Note 16 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company has not established a nomination committee. The Board is responsible for selecting suitable candidates to act as directors based on their qualification, experience and potential contribution to the Company.

ATTENDANCE RECORD AT BOARD, AUDIT AND REMUNERATION COMMITTEES MEETINGS

	Meetings Attended/Held		
Directors	Board	Audit Committee	Remuneration Committee
Ms He Jin Hong	4/4	N/A	N/A
Mr Ha Sze Tung Sharp Stone	4/4	N/A	2/2
Ms So Tosi Wan, Winnie	4/4	2/2	N/A
Mr Wei Dong	4/4	2/2	2/2
Mr Yang Yue	3/4	1/2	1/2

AUDITORS' REMUNERATION

Audit fees for the year under review payable to the auditors of the Company, SHINEWING (HK) CPA Limited, amounted to HK$530,000.

FINANCIAL REPORTING

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently.

INTERNAL CONTROL

The Board has the overall responsibility for maintaining an effective internal control system to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication and ensure compliance with applicable legislation and regulations. The internal control system provides a reasonable but not absolute assurance against material errors, losses or fraud.

The Board has reviewed the effectiveness of the internal control system and will conduct an annual review on the system in order to make it effective and practical.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by directors. Having made specific enquiry of all directors, the directors have complied with the required standard set out in the Model Code during the year.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company establishes different communication channels with shareholders and investors. Printed copies of the annual and interim reports and circulars are sent to shareholders. Shareholders are encouraged to attend the annual general meeting of the Company which allows the directors to meet and communicate with shareholders.

The directors are pleased to present their report together with the audited consolidated financial statements of Maxx Bioscience Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in Notes 40 and 20 to the consolidated financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out on pages 15 to 77.

DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil). No interim dividend was declared during the year (2006: Nil).

RESERVES

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 18.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 34 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2007 are set out in Notes 40 and 20 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

BANK LOANS AND OTHER LOAN

Particulars of bank loans and other loan of the Group during the year are set out in Notes 29 and 30 to the consolidated financial statements respectively.

DIRECTORS

The directors who held office during the year and up to the date of this report are:

Executive directors

Ms He Jin Hong
Mr Ha Sze Tung Sharp Stone

Independent non-executive directors

Ms So Tosi Wan, Winnie
Mr Wei Dong
Mr Yang Yue (Resigned on 28 March 2008)

In accordance with the Company's bye-law 87(1), Ms He Jin Hong and Mr Wei Dong retire from the Board by rotation and, being eligible, offers themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether direct or indirect, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 17 May 2002 under which the Board may, at its discretion, offer to grant employees and directors of the Group and other eligible persons options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

No share options were granted or exercised under the share option scheme during the year ended 31 December 2007 and there were no outstanding share options as at 31 December 2007.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following persons (other than the directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions in the shares of the Company:

Name	**Number of shares held**	**Percentage of the Company's issued share capital**
Outwit Investments Limited	746,979,654	69.56%
Mr Hu Kaijun *(Note)*	746,979,654	69.56%

Note: These shares are held by Outwit Investments Limited, the entire issued share capital of which is wholly owned by Mr Hu Kaijun.

Save as disclosed herein, no other person is recorded in the register kept pursuant to Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company as at 31 December 2007.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the five largest customers of the Group accounted for approximately 93% (2006: 87%) of the Group's total turnover, with the largest customer accounted for approximately 77% (2006: 72%).

The five largest suppliers, for the year ended 31 December 2007, accounted for approximately 69% (2006: 46%) of the Group's total purchases, with the largest supplier accounted for approximately 27% (2006: 20%).

None of the directors, their associates, or any shareholders of the Company which to the knowledge of the directors owned more than 5% of the Company's share capital had an interest in these major customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 6 to 8.

AUDITORS

The accounts for the year ended 31 December 2005 were audited by BDO McCabe Lo Limited which resigned on 18 October 2006 as a consensus about the auditors' remuneration could not be reached. On a special general meeting held on 28 November 2006, the shareholders approved the appointment of SHINEWING (HK) CPA Limited as auditors of the Company. The accounts for both years ended 31 December 2007 and 2006 were audited by SHINEWING (HK) CPA Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as auditors of the Company.

On behalf of the Board

Ha Sze Tung Sharp Stone
Director

Hong Kong, 15 April 2008

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF MAXX BIOSCIENCE HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Maxx Bioscience Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 15 to 77, which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, because of the matter described in the basis for fundamental uncertainty relating to the going concern paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered as at 31 December 2007, the net current liabilities position of approximately HK$75,458,000 and the net liabilities position of approximately HK$41,843,000 of the Group and the accuracy of the disclosures made in note 3 to the consolidated financial statements concerning the adoptions of going concern basis on which the consolidated financial statements have been prepared. The Group's consolidated financial statements have been prepared on a going concern basis. The validity of which is dependant upon the successful outcome of the measures undertaken as described in note 3 to the consolidated financial statements to ensure that adequate cash resources are available to the Group to enable it to meet its future working capital and financial requirements. The consolidated financial statements do not include any adjustments that would result from the failure of such measures.

If the going concern basis is not appropriate, adjustments would have been made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net liabilities of the Group at 31 December 2007. We consider that appropriate disclosures have been made but because of the significant uncertainty relating to whether the going concern basis adopted in the consolidated financial statements is appropriate, we have disclaimed our opinion.

Disclaimer of opinion: disclaimer on view given by consolidated financial statements

Because of the significance of the fundamental uncertainty relating to the going concern basis paragraph, we do not express an opinion on the consolidated financial statements as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
15 April 2008

	Notes	2007 HK$'000	2006 HK$'000
Turnover	8	**49,045**	42,408
Cost of sales		**(26,391)**	(23,438)
Gross profit		**22,654**	18,970
Other income	9	**16,883**	14,604
Reversal of impairment loss on interests in leasehold land	18	**—**	13,624
Loss on disposal of investment at fair value through profit or loss		**(827)**	—
Distribution costs		**(26,347)**	(17,319)
Administrative expenses		**(48,285)**	(34,957)
Other operating expenses	10	**(11,600)**	(1,700)
Share of results of associates		**660**	338
Finance costs	11	**(9,228)**	(5,746)
Loss before tax	12	**(56,090)**	(12,186)
Income tax	13	**2,205**	245
Loss for the year		**(53,885)**	(11,941)
Attributable to:			
— Equity holders of the Company		**(52,030)**	(10,650)
— Minority interests		**(1,855)**	(1,291)
		(53,885)	(11,941)
Loss per share	15		
Basic		**(HK$0.05)**	(HK$0.01)
Diluted		**N/A**	N/A

Consolidated Balance Sheet
As At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	17	**35,441**	32,569
Interests in leasehold land held for own use under operating leases	18	**4,435**	4,278
Investment properties	19	**70,696**	70,848
Interests in associates	20	**4,340**	3,680
Goodwill	21	**—**	1,050
Intangible assets	22	**—**	11,600
		114,912	124,025
Current assets			
Inventories	24	**8,078**	4,077
Trade and other receivables	25	**8,308**	8,109
Interests in leasehold land held for own use under operating leases – current portion	18	**119**	115
Investments at fair value through profit or loss	26	**—**	10,519
Cash and cash equivalents	27	**67,282**	59,407
		83,787	82,227
Assets classified as held for sale	23	**—**	13,624
		83,787	95,851
Current liabilities			
Trade and other payables	28	**52,515**	54,503
Short-term bank loans – secured	29	**92,307**	54,022
Other loan – secured	30	**14,423**	22,397
		159,245	130,922
Net current liabilities		**(75,458)**	(35,071)
Total assets less current liabilities		**39,454**	88,954
Non-current liabilities			
Deferred taxation	31	**—**	2,205
Amount due to holding company	32	**13,408**	11,008
Provision for staff welfare and bonus	33	**67,889**	63,821
		81,297	77,034
Net (liabilities) assets		**(41,843)**	11,920

Consolidated Balance Sheet

As At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Capital and reserves			
Share capital	34	**10,739**	10,739
Reserves		**(53,562)**	(1,648)
Equity attributable to equity holders of the Company		**(42,823)**	9,091
Minority interests		**980**	2,829
		(41,843)	11,920

The consolidated financial statements on pages 15 to 77 were approved and authorised for issue by the Board of Directors on 15 April 2008 and are signed on its behalf by:

Ha Sze Tung Sharp Stone
Director

He Jin Hong
Director

Consolidated Statement of Changes in Equity

For The Year Ended 31 December 2007

	Share capital	Share premium	Statutory reserves	Translation reserve	Accumulated losses	Equity attributable to equity holders of the Company	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000* *(note)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	10,739	94,457	148,158	(69,108)	(164,943)	19,303	3,402	22,705
Exchange differences arising on conversion of foreign operations	—	—	—	438	—	438	303	741
Loss for the year	—	—	—	—	(10,650)	(10,650)	(1,291)	(11,941)
Total recognised income and expense for the year	—	—	—	438	(10,650)	(10,212)	(988)	(11,200)
Capital contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	1,296	1,296
Partial disposal of a subsidiary	—	—	—	—	—	—	(881)	(881)
At 31 December 2006 and 1 January 2007	10,739	94,457	148,158	(68,670)	(175,593)	9,091	2,829	11,920
Exchange differences arising on conversion of foreign operations	—	—	—	116	—	116	6	122
Loss for the year	—	—	—	—	(52,030)	(52,030)	(1,855)	(53,885)
Total recognised income and expense for the year	—	—	—	116	(52,030)	(51,914)	(1,849)	(53,763)
At 31 December 2007	10,739	94,457	148,158	(68,554)	(227,623)	(42,823)	980	(41,843)

Note:

As stipulated in the relevant laws and regulations, certain subsidiaries operating in the People's Republic of China (the "PRC") are required to maintain certain statutory reserves which include the general reserve fund and staff welfare and bonus fund. Appropriations to the general reserve fund and the staff welfare and bonus fund are made out of net profit as reported in the PRC statutory financial statements. The amounts of appropriations are determined by the respective board of directors. All statutory reserves are for specific purposes and are not distributable in the form of dividends. Starting from 1 January 2006, the Group is not required to transfer any net profit to statutory welfare fund in accordance with the amendment in the PRC Companies Ordinance.

Consolidated Cash Flow Statement
For The Year Ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Operating activities			
Loss before tax		**(56,090)**	(12,186)
Adjustments for:			
Amortisation of intangible assets		**1,400**	1,400
Amortisation of interests in leasehold land held for own use under operating leases		**119**	115
Change in fair value of investments at fair value through profit or loss		**—**	(2,296)
Loss on disposal of investments at fair value through profit or loss		**827**	—
Depreciation of investment properties		**4,722**	3,583
Depreciation of property, plant and equipment		**3,832**	5,327
Finance costs		**9,228**	5,746
(Gain) loss on disposal of property, plant and equipment		**(818)**	766
Gain on disposal of subsidiaries		**—**	(1,845)
Gain on partial disposal of a subsidiary		**—**	(881)
Impairment loss of goodwill arising from acquisitions of subsidiaries		**1,050**	1,938
Impairment loss on intangible assets		**10,200**	300
Impairment loss on property, plant and equipment		**1,107**	—
Interest income		**(561)**	(906)
Gain on disposal of assets classified as held for sale		**(7,622)**	—
Reversal of impairment loss on interests in leasehold land		**—**	(13,624)
Reversal of impairment loss on trade and other receivables		**(2,567)**	(2,390)
Share of results of associates		**(660)**	(338)
Operating cash flows before movements in working capital		**(35,833)**	(15,291)
(Increase) decrease in inventories		**(4,001)**	370
Decrease in trade and other receivables		**2,369**	2,661
Increase in trade and other payables		**20,392**	6,559
Decrease in provision for staff welfare and bonus		**(11)**	—
Net cash used in operating activities		**(17,084)**	(5,701)
Investing activities			
Proceeds from disposal of investments at fair value through profit or loss		**9,692**	—
Proceeds from disposal of property, plant and equipment		**2,165**	256
Interest income received		**561**	906
Purchase of property, plant and equipment		**(7,078)**	(1,686)
Dividend received from an associate		**—**	969
Net cash inflow from acquisition of subsidiaries	*41*	**—**	2
Net cash from investing activities		**5,340**	447

	2007	2006
	HK$'000	*HK$'000*
Financing activities		
New short-term bank loans borrowed	**92,307**	54,022
Advance from holding company	**2,400**	10,208
Repayments of short-term bank loans	**(57,506)**	(43,462)
Interest paid	**(9,228)**	(5,746)
Repayment of other loans	**(8,488)**	(10,063)
New other loans borrowed	**—**	22,397
Capital contributions from minority shareholders of subsidiaries	**—**	1,296
Decrease in amounts due to directors	**—**	(7,206)
Decrease in amounts due to related companies	**—**	(636)
Net cash from financing activities	**19,485**	20,810
Net increase in cash and cash equivalents	**7,741**	15,556
Cash and cash equivalents at beginning of year	**59,407**	47,650
Effect of foreign exchange rate changes	**134**	(3,799)
Cash and cash equivalents at end of year, representing		
Bank balances and cash	**67,282**	59,407

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 to 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 investment and trading of securities.

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

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new INTs") (herein collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment

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

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-INT 11	HKFRS 2 — Group and Treasury Share Transactions[3]
HK(IFRIC)-INT 12	Service Concession Arrangements[4]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[5]
HK(IFRIC)-INT 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 March 2007.
[4] Effective for annual periods beginning on or after 1 January 2008.
[5] Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

3. BASIS OF PREPARATION

As at 31 December 2007, the Group had net current liabilities of approximately HK$75,458,000 and had net liabilities of approximately HK$41,843,000. Further, the Group incurred a loss of approximately HK$53,885,000 (2006: HK$11,941,000) for the year ended 31 December 2007. Nevertheless, the consolidated financial statements have been prepared on a going concern basis.

3. BASIS OF PREPARATION *(Continued)*

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; and

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

On the basis that the Group obtained the continuing availability of the banking facilities provided by its banks and the Group's ultimate holding company 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 2007. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments that might be necessary should the Group be unable to continue as a going concern.

4. PRINCIPAL ACCOUNTING POLICIES

The measurement basis used in the preparation of the consolidated 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 consolidated financial statements have been prepared in accordance with all applicable HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinances.

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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Basis of consolidation and business combination *(Continued)*

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.

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 date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated 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 the 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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

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 unit 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 the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and 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.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the consolidated 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.

4. 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 market place. The Group's accounting policies for each category are as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss ("FVTPL") represent investment held for trading. At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, which changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Loans and receivables *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period. Income is recognised on an effective basis for debt instruments.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(i) Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Trade and other receivable recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(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's financial liabilities are generally classified as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

(ii) Financial liabilities and equity (Continued)

Other financial liabilities

Other financial liabilities (including trade and other payables, bank and other loans and amount due to holding company) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

(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 derecognition 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 derecognised 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.

Provisions

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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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.

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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Rentals payable under operating leases are charged to the consolidated income statement on a 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.

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

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset 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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Research and development expenditures

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

An item of property, plant and equipment is derecognised upon disposal of when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

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.

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 customer, 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.

Interest income from a financial asset excluding investments at FVTPL 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.

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

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Income taxes

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

The tax currently payable is based on the profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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.

4. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Provisions and contingent liabilities *(Continued)*

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 on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill)

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. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. 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.

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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in note 4, the directors of the Company are required to make the following key assumptions that have significant effect on the amounts recognised in the consolidated 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.

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 amortisation charges for each reporting period. A significant amount of these assets have estimated useful lives that extend beyond 10 years.

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

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

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.

Estimated PRC land appreciation tax

Determining the land appreciation tax liability on the disposal of the assets classified as held for sale requires an estimation of the assessable amount that is taxable for tax purpose. The Group is required to estimate the assessable portion of the total consideration received and had considered a land appreciation tax liability of approximately HK$6,637,000 will be payable on the transaction.

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 2007, an impairment loss of approximately HK$1,050,000 (2006: HK$1,938,000) has been provided.

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

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.

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.

During the year ended 31 December 2007, the directors of the Company had made assessment on the expected return and future cash flows from the intangible asset of exclusive distribution right held, and had considered that there would be no future economic benefit generated from the asset. Accordingly, an impairment of HK$10,200,000 had been provided in the consolidated income statement.

Land appreciation taxes

PRC land appreciation taxes was levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of leasehold land less development expenditures.

During the year ended 31 December 2007, the Group is subject to land appreciation taxes in the PRC which has been included in administrative expenses of the Group due to disposal of a leasehold land. The Group has not finalised its land appreciation tax returns with the tax authorities. Accordingly, significant judgment is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain. The Group recognises the liability based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated financial statements in the periods in which such determination is made.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank and other loans disclosed in note 29 and 30, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through raise of new loans or repayment of existing loans.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Loan and receivables (including cash and cash equivalents)		
Trade and other receivables	**6,435**	6,033
Investments at fair value through profit or loss	**—**	10,519
Bank deposits, bank balances and cash	**67,282**	59,407
Financial liabilities		
Other financial liabilities		
Trade and other payables	**45,309**	49,280
Short-term bank loans — secured	**92,307**	54,022
Other loan — secured	**14,423**	22,397
Amount due to holding company	**13,408**	11,008

(b) Financial Risk Management Objectives and Policies

The Group's major financial instruments include equity, bank and other loans, trade and other receivables, bank balances and cash, trade and other payables and amount due to holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial Risk Management Objectives and Policies *(Continued)*

i. Fair value of financial assets and financial liabilities

The directors consider the fair values of trade and other receivables, bank balances and cash, trade and other payables, bank and other loans reported in the consolidated balance sheet approximate their carrying amounts due to their immediate or short-term maturities.

The directors consider the fair value of amount due to holding company equal to its carrying amount as the impact of discounting is not significant.

ii. Foreign currency risk

The Group's presentation currency is HK$, however, the Group's functional currency is RMB in which most of the transactions are denominated. Certain bank balances, trade and other receivables and trade and other payables are denominated in the functional currency as at 31 December 2007. The functional currency is also used to settle expenses for PRC operations.

The Group currently does not have any RMB hedging policy but the management monitors RMB exchange exposure and will consider hedging significant RMB exposure should the need arise.

iii. Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in exchange rate of HK$ against RMB while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at each balance sheet date for a 5% change in foreign currency rates.

	2007	2006
	HK$'000	*HK$'000*
Increase (decrease) in profit for the year		
— if HK$ weakens against RMB	**710**	760
— if HK$ strengthens against RMB	**(710)**	(760)

A change of 5% in exchange rate of HK$ against RMB does not affect other components of equity.

iv. Liquidity risk

The Group is exposed to liquidity risk as at 31 December 2007 as its financial assets due within one year was less than its financial liabilities due within one year. At 31 December 2007, maximum banking facilities in an aggregate amount of approximately HK$92 million (2006: approximately HK$64 million) were available from the Group's principal bankers, of which approximately HK$92 million (2006: HK$62 million) has been utilised.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial Risk Management Objectives and Policies *(Continued)*

iv. *Liquidity risk* *(Continued)*

The Group had net current liabilities of approximately HK$75,458,000 as at 31 December 2007 (2006: HK$35,071,000). The liquidity of the Group is primarily dependent on bank borrowings and the continuing financial supports from its holding company as the significant sources of liquidity.

The following table details the contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

As at 31 December 2007

	Total contractual undiscounted cash flow	Within one year or on demand	More than one year less than two years
	HK$'000	*HK$'000*	*HK$'000*
Trade and other payables	**52,515**	**52,515**	—
Short-term bank loans — secured	**95,725**	**95,725**	—
Other loan — secured	**16,803**	**16,803**	—
Amount due to holding company	**13,408**	—	**13,408**
	178,451	**165,043**	**13,408**

As at 31 December 2006

	Total contractual undiscounted cash flow	Within one year or on demand	More than one year less than two years
	HK$'000	*HK$'000*	*HK$'000*
Trade and other payables	54,503	54,503	—
Short-term bank loans — secured	56,223	56,223	—
Other loans — secured	23,854	23,854	—
Amount due to holding company	11,008	—	11,008
	145,588	134,580	11,008

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial Risk Management Objectives and Policies *(Continued)*

v. Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk.

The Group's current credit practices include assessment and valuation of customer's credit reliability and periodic review of their financial status to determine credit limits to be granted.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

Significant concentration of credit risk

As at 31 December 2007, the Group has certain concentration of credit risk as 74% (2006: 71%) of the Group's total trade and other receivables balance is due from the Group's largest customer.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt 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 credit risk on liquid funds, including balances with non-bank financial institutions is limited because the counterparties are banks and financial institutions with high credit ratings and good reputation.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial Risk Management Objectives and Policies *(Continued)*

vi. Interest rate risk

Risk profile

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's fair value interest-rate risk mainly arises from bank and other loans as detailed in notes 29 and 30. Bank and other loans were issued at fixed rates expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no loans which bear floating interest rates. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

Sensitivity analysis

At 31 December 2007, it is estimated that a general increase or decrease of one percentage in interest rates, with all other variables held constant, would decrease or increase the Group's profit for the year and retained profits by approximately HK$92,000 (2006: HK$57,000).

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for 2006.

8. TURNOVER AND SEGMENT INFORMATION

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

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

(a) Business segments

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

Segment information about these businesses is presented below:

	Manufacturing and sales of pharmaceutical and health products		**Properties holding for earning rental income**		**Trading of securities**		**Consolidated**	
Group	**2007** ***HK$'000***	2006 *HK$'000*	**2007** ***HK$'000***	2006 *HK$'000*	**2007** ***HK$'000***	2006 *HK$'000*	**2007** ***HK$'000***	2006 *HK$'000*
Assets								
Segment assets	**52,564**	57,908	**70,696**	70,848	**—**	10,519	**123,260**	139,275
Interests in associates	**4,340**	3,680	**—**	—	**—**	—	**4,340**	3,680
Unallocated corporate assets	**—**	—	**—**	—	**—**	—	**71,099**	76,921
Consolidated total assets	**56,904**	61,588	**70,696**	70,848	**—**	10,519	**198,699**	219,876
Liabilities								
Segment liabilities	**207,039**	165,953	**—**	—	**—**	—	**207,039**	165,953
Unallocated corporate liabilities	**—**	—	**—**	—	**—**	—	**33,503**	42,003
Total liabilities	**207,039**	165,953	**—**	—	**—**	—	**240,542**	207,956
Segment Revenue								
Turnover	**49,045**	42,408	**—**	—	**—**	—	**49,045**	42,408
Other income	**—**	—	**4,744**	4,924	**—**	2,296	**4,744**	7,220
	49,045	42,408	**4,744**	4,924	**—**	2,296	**53,789**	49,628
Segment Result	**(30,271)**	(23,008)	**22**	1,228	**(827)**	2,296	**(31,076)**	(19,484)
Reversal of impairment loss on interests in leasehold land							**—**	13,624
Other unallocated income							**12,139**	7,384
Unallocated corporate expenses							**(28,585)**	(8,302)
Finance costs							**(9,228)**	(5,746)
Share of results of associates	**660**	338					**660**	338
Loss before tax							**(56,090)**	(12,186)
Income tax							**2,205**	245
Loss for the year							**(53,885)**	(11,941)

8. 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	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	***HK$'000***	HK$'000	***HK$'000***	HK$'000	***HK$'000***	HK$'000
OTHER INFORMATION								
Capital expenditure	**7,078**	1,686	**—**	—	**—**	—	**7,078**	1,686
Depreciation and amortisation	**5,351**	6,842	**4,722**	3,583	**—**	—	**10,073**	10,425
Impairment loss recognised for the year	**12,357**	2,238	**—**	—	**—**	—	**12,357**	2,238
Gain on disposal of subsidiaries/partial disposal of a subsidiary	**—**	2,726	**—**	—	**—**	—	**—**	2,726
Gain (loss) on disposal of property, plant and equipment	**818**	(766)	**—**	—	**—**	—	**818**	(766)
Gain on disposal of assets classified as held for sale	**7,622**	—	**—**	—	**—**	—	**7,622**	—
Reversal of impairment losses on trade and other receivables	**2,567**	2,390	**—**	—	**—**	—	**2,567**	2,390
Change in fair value of investments at fair value through profit or loss	**—**	—	**—**	—	**—**	2,296	**—**	2,296
Loss on disposal of investments at fair value through profit or loss	**—**	—	**—**	—	**(827)**	—	**(827)**	—

8. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

	The PRC except Hong Kong		Hong Kong		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue						
Turnover	**49,045**	42,408	**—**	—	**49,045**	42,408
Other income	**16,883**	28,228	**—**	—	**16,883**	28,228
	65,928	70,636	**—**	—	**65,928**	70,636
Segment assets	**190,996**	207,672	**7,703**	12,204	**198,699**	219,876
Capital expenditure	**7,078**	1,686	**—**	—	**7,078**	1,686

9. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Rental income	**7,790**	8,001
Less: direct operating expenses that generated rental income during the year	**(3,046)**	(3,077)
	4,744	4,924
Gain on disposal of subsidiaries *(Note 42)*	**—**	1,845
Gain on partial disposal of a subsidiary	**—**	881
Gain on disposal of assets classified as held for sale	**7,622**	—
Reversal of impairment loss on trade and other receivables	**2,567**	2,390
Gain on disposal of property, plant and equipment	**818**	—
Change in fair value of investments at fair value through profit or loss	**—**	2,296
Exchange gain	**—**	63
Interest income	**561**	906
Others	**571**	1,299
	16,883	14,604

10. OTHER OPERATING EXPENSES

	2007	2006
	HK$'000	*HK$'000*
Amortisation of intangible assets	**1,400**	1,400
Impairment loss on intangible assets	**10,200**	300
	11,600	1,700

11. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interests wholly repayable within five years:		
— on bank loans	**4,970**	3,911
— on other loans	**4,258**	1,835
	9,228	5,746

12. LOSS BEFORE TAX

	2007 *HK$'000*	2006 *HK$'000*
Loss before tax is stated after charging (crediting):		
Staff costs (excluding directors' emoluments) comprises:		
— Wages and salaries	**13,473**	9,474
— Contributions to retirement scheme	**565**	93
	14,038	9,567
Auditors' remuneration	**530**	420
Share of tax of an associate	**127**	130
Amortisation of intangible assets (included in other operating expenses)	**1,400**	1,400
Cost of inventories recognised as an expense	**26,391**	23,438
Depreciation of property, plant and equipment	**3,832**	5,327
Depreciation of investment properties	**4,722**	3,583
Research and development expenses	**3,118**	519
Operating lease rentals in respect of land and buildings	**566**	1,037
Amortisation of interests in leasehold land held for own use under operating leases	**119**	115
Impairment loss on intangible assets (included in other operating expenses)	**10,200**	300
Impairment loss on goodwill arising from acquisitions of subsidiaries (included in administrative expenses)	**1,050**	1,938
Impairment loss on property, plant and equipment (included in administrative expenses)	**1,107**	—
(Gain) loss on disposal of property, plant and equipment	**(818)**	766

13. INCOME TAX

	2007 *HK$'000*	2006 *HK$'000*
Deferred taxation — credited for the year *(Note 31)*	**(2,205)**	(245)

No provision for Hong Kong profits tax has been made in the consolidated 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 rates of 15%. No provision for PRC enterprise income tax has been made as these subsidiaries incurred losses during both years.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises to 25%. The tax rate of certain subsidiaries will change from 33% to 25% from 1 January 2008.

13. INCOME TAX *(Continued)*

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

	2007	2006
	HK$'000	*HK$'000*
Loss before tax	**(56,090)**	(12,186)
Tax calculated at the domestic income tax rate of 15% (2006: 15%)	**(8,414)**	(1,828)
Tax effect of expenses that are not deductible in determining taxable profit	**203**	625
Tax effect of income that is not taxable in determining taxation profit	**(222)**	(480)
Tax effect of deductible temporary differences not recognised	**1,696**	255
Tax effect of tax losses not recognised	**4,704**	1,700
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(172)**	(517)
Tax credit for the year	**(2,205)**	(245)

The applicable tax rate of 15% (2006: 15%) is used as operations of the Group are substantially carried out by the subsidiaries in the PRC.

14. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date (2006: Nil).

15. 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$52,030,000 (2006: approximately HK$10,650,000) and on the weighted average of 1,073,934,000 ordinary shares in issue during both years ended 31 December 2007 and 2006.

(b) Diluted loss per share

Diluted loss per share for both years ended 31 December 2007 and 2006 has not been presented as there were no dilutive shares outstanding during both years ended 31 December 2007 and 2006.

16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:	**2007** **HK$'000**	2006 HK$'000
Fees:		
Executive directors	**154**	183
Independent non-executive directors	**300**	240
	454	423
Other emoluments		
Salaries and allowances	**—**	—
Retirement benefits scheme contributions	**—**	—
	454	423

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 for both years ended 31 December 2007 and 2006.

The emoluments paid or payable to each of the five (2006: nine) directors were 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	**154**	**—**	**—**	**154**
Mr. Ha Sze Tung Sharp Stone	**—**	**—**	**—**	**—**
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	**180**	**—**	**—**	**180**
Mr. Wei Dong	**60**	**—**	**—**	**60**
Mr. Yang Yue (resigned on 28 March 2008)	**60**	**—**	**—**	**60**
Total	**454**	**—**	**—**	**454**

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

(a) Directors' emoluments *(Continued)*

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

	Fees	Salaries and allowances	Retirement benefits schemes contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Ms. He Jin Hong	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

During both years ended 31 December 2007 and 2006, no directors of the Company waived any emoluments.

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

(b) The five highest paid individuals do not include any directors for both years ended 31 December 2007 and 2006. The emoluments of the five (2006: five) highest paid individuals were as follows:

	2007	2006
	HK$'000	*HK$'000*
Employees		
Salaries and allowances	**3,466**	3,385
Retirement benefits scheme contributions	**152**	205
	3,618	3,590

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

	2007	2006
	HK$'000	*HK$'000*
Nil — HK$1,000,000	**4**	4
HK$1,500,001 — HK$2,000,000	**1**	1
	5	5

During both years ended 31 December 2007 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.

17. PROPERTY, PLANT AND EQUIPMENT

	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 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
Disposals	(522)	(1,432)	(1,289)	(2,208)	(224)	(5,675)
At 31 December 2006 and at 1 January 2007	116,810	32,682	8,256	5,044	5,509	168,301
Exchange realignment	7,534	2,108	488	325	307	10,762
Additions	1,056	5,095	872	21	34	7,078
Disposals	(3,270)	(670)	(1,301)	(116)	(421)	(5,778)
At 31 December 2007	122,130	39,215	8,315	5,274	5,429	180,363
Accumulated depreciation and impairment						
At 1 January 2006	86,145	28,371	6,381	5,458	4,640	130,995
Exchange realignment	2,171	1,322	224	184	162	4,063
Depreciation provided for the year	3,765	531	654	201	176	5,327
Eliminated on disposal	(229)	(1,232)	(966)	(2,032)	(194)	(4,653)
At 31 December 2006 and at 1 January 2007	91,852	28,992	6,293	3,811	4,784	135,732
Exchange realignment	5,925	1,870	363	244	280	8,682
Impairment loss recognised for the year	—	1,107	—	—	—	1,107
Depreciation provided for the year	1,492	1,542	432	216	150	3,832
Eliminated on disposals	(2,417)	(603)	(1,150)	(49)	(212)	(4,431)
At 31 December 2007	96,852	32,908	5,938	4,222	5,002	144,922
Carrying values						
At 31 December 2007	25,278	6,307	2,377	1,052	427	35,441
At 31 December 2006	24,958	3,690	1,963	1,233	725	32,569

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

Property, plant and equipment are depreciated 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%

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

	2007	2006
	HK$'000	*HK$'000*
Held in the PRC with unspecified lease terms	**3,542**	2,664
Held in the PRC under medium-term leases	**21,736**	22,294
	25,278	24,958

Certain buildings in the Group have been pledged to banks to secure general bank loans granted to the Group as detailed in note 38.

18. 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 medium lease terms in the PRC:

	2007	2006
	HK$'000	*HK$'000*
At beginning of year	**4,393**	4,350
Reversal of impairment loss	**—**	13,624
Transfer to assets classified as held for sale	**(21,220)**	(13,624)
Transfer of impairment loss to assets classified as held for sale	**21,220**	—
Amortisation for the year	**(119)**	(115)
Exchange realignment	**280**	158
At end of year	**4,554**	4,393

Certain leasehold land in the Group has been pledged to banks to secure general bank loans granted to the Group as detailed in note 38.

	2007	2006
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current assets	**119**	115
Non-current assets	**4,435**	4,278
	4,554	4,393

19. INVESTMENT PROPERTIES

	2007	2006
	HK$'000	*HK$'000*
Cost		
At beginning of year	78,132	75,375
Exchange realignment	5,040	2,757
At end of year	83,172	78,132
Accumulated depreciation and impairment		
At beginning of year	7,284	3,571
Provided for the year	4,722	3,583
Exchange realignment	470	130
At end of year	12,476	7,284
Carrying values		
At 31 December	70,696	70,848

The fair value of the Group's investment properties at 31 December 2007 was approximately HK$108,556,000 (2006: HK$107,765,000) 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:

	2007	2006
	HK$'000	*HK$'000*
Held in the PRC under medium-term leases	44,618	45,902
Held in the PRC under long leases	9,183	8,759
Held in the PRC with unspecified lease terms	16,895	16,187
	70,696	70,848

Certain investment properties of the Group have been pledged to bank and financial institutions to secure the general bank loans granted to the Group as detailed in note 38.

20. INTERESTS IN ASSOCIATES

	2007	2006
	HK$'000	*HK$'000*
Share of net assets of associates	**12,891**	12,231
Impairment loss recognised	**(8,551)**	(8,551)
	4,340	3,680

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

	HK$'000
Cost	
At 1 January 2006, 31 December 2006 and 31 December 2007	**2,689**
Accumulated impairment loss	
At 1 January 2006, 31 December 2006 and 31 December 2007	**2,689**
Carrying values	
At 31 December 2007 and 2006	—

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 acquisitions of associates during the year ended 31 December 2006.

20. INTERESTS IN ASSOCIATES *(Continued)*

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

	2007	2006
	HK$'000	*HK$'000*
Total assets	**76,600**	66,808
Total liabilities	**(25,158)**	(17,504)
Net assets	**(51,442)**	49,304
Group's share of net assets of associates	**(17,241)**	15,871
Revenue	**(82,766)**	69,802
Loss for the year	**(600)**	(2,913)
Group's share of results of associates for the year	**660**	338
Unrecognised share of losses of associates arising during the year	**(1,780)**	(1,155)
Accumulated unrecognised share of losses of associates	**(2,935)**	(1,155)

Details of the principal associates at 31 December 2007 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

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 山東天地建 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.

21. GOODWILL

	2007	2006
	HK$'000	*HK$'000*
Cost		
At beginning of year	**3,228**	2,690
Arising on acquisition of subsidiaries *(Note 41)*	**—**	1,938
Adjustments to measurement of consideration for acquisition of a subsidiary in prior year *(Note)*	**—**	(1,400)
At end of year	**3,228**	3,228
Accumulated impairment loss		
At beginning of year	**2,178**	240
Impairment loss recognised for the year	**1,050**	1,938
At end of year	**3,228**	2,178
Carrying values		
At 31 December	**—**	1,050

Note: During the year of 2006, an adjustment was made to the cost of acquisition of a subsidiary, Seapearl Trading Limited ("Seapearl"), on 26 August 2006 (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 2007 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 2006, 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.

21. GOODWILL *(Continued)*

For the year ended 31 December 2006, 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 flow beyond the five-years 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.

For the year ended 31 December 2007, the directors of the Company decided not to further invest in the business of distribution of Lei Yun Shan products outside of the PRC. The decision had been made after taking into consideration that the existing laws in force and other regulatory requirements in the development of the distribution business. The directors had considered the time and costs involved outweigh the benefits that the business will bring about and expect that the business will not bring about any positive future cash flow. Accordingly, an impairment loss of HK$1,050,000 has been recognised in the consolidated income statement during the year ended 31 December 2007 (2006: HK$1,938,000).

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.

22. INTANGIBLE ASSETS

Group	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 2006	86,466	14,000	100,466
Disposal on disposal of subsidiary	(86,466)	—	(86,466)
As at 31 December 2006, 1 January 2007 and 31 December 2007	—	14,000	14,000
Accumulated amortisation and impairment loss			
At 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 subsidiary	(86,466)	—	(86,466)
At 31 December 2006 and 1 January 2007	—	2,400	2,400
Provided for the year	—	1,400	1,400
Impairment loss recognised	—	10,200	10,200
As at 31 December 2007	—	14,000	14,000
Carrying values			
As at 31 December 2007	—	—	—
As at 31 December 2006	—	11,600	11,600

The economic useful lives of recognised intangible assets are as follows:

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

22. INTANGIBLE ASSETS *(Continued)*

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.

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 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 2007 with reference to the current results from the business and consideration on the ability to generate future cash flows. The directors considered that there would be no economic benefit generated from the distribution right and determined the recoverable amount of the intangible assets is nil. Accordingly, an impairment loss of HK$10,200,000 has been recognised in the consolidated income statement during the year ended 31 December 2007 (2006: HK$300,000).

23. ASSETS CLASSIFIED AS HELD FOR SALE

	2007	2006
	HK$'000	*HK$'000*
Net carrying amounts		
At beginning of year	**13,624**	—
Disposals	**(13,624)**	—
Transfer from interests in leasehold land during the year	**21,220**	13,624
Transfer of impairment loss from interests in leasehold land during the year	**(21,220)**	—
At end of year	**—**	13,624

Notes:

(1) As at 31 December 2006, 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 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 year, a reversal of approximately HK$13,624,000 impairment loss recognised had been credited to the consolidated income statement in 2006.

The transaction for disposal was completed during the year ended 31 December 2007. The leasehold land was disposed for a consideration of approximately HK$22,370,000, resulting in a net gain on disposal of approximately HK$7,622,000 after consideration for exchange realignment. According to a supplementary agreement dated 18 October 2007, the Group is subject to land appreciation taxes in the PRC of approximately HK$6,637,000 which has been included in other payables of the Group. PRC land appreciation rates was levied from 30% to 60% on the appreciation of land value.

(2) During the year ended 31 December 2007, the Group has agreed to dispose another parcel of leasehold land to a third party at a consideration of approximately HK$10,610,000. This leasehold land with an original cost of approximately HK$21,200,000 was fully impaired in previous years. The total consideration was received during the year and included in other payables.

However as stipulated in the sales and purchase agreement, the Group had an obligation for a full refund of the consideration received for the transaction should there be any difficulties in the completion of the transaction and the due transfer of the title and ownership on the land. At the balance sheet date and up to the date of this report, the transfer of the title and ownership had not yet been completed.

24. INVENTORIES

	2007	2006
	HK$'000	*HK$'000*
Raw materials	**3,515**	2,655
Work-in-progress	**282**	51
Finished goods	**4,281**	1,371
	8,078	4,077

25. TRADE AND OTHER RECEIVABLES

	2007	2006
	HK$'000	*HK$'000*
Trade receivables		
— from third parties	**270**	51
— from an associate	**6,165**	5,791
Total trade receivables	**6,435**	5,842
Deposits and prepayments	**1,873**	2,076
Other receivables	**19,666**	22,106
Less: impairment loss	**(19,666)**	(21,915)
	—	191
	8,308	8,109

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

25. TRADE AND OTHER RECEIVABLES *(Continued)*

The aging analysis of trade receivable is set out below:

	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**6,439**	6,603
91 — 180 days	**141**	605
181 — 365 days	**97**	293
Over 365 days	**3,137**	2,521
	9,814	10,022
Less: accumulated impairment	**(3,379)**	(4,180)
	6,435	5,842

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

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable balance directly.

(a) The movement in the impairment loss of trade receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	**4,180**	6,522
Impairment loss reversed	**(1,038)**	(2,580)
Exchange realignment	**237**	238
Balance at end of the year	**3,379**	4,180

At each of the balance sheet date, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised. The Group does not hold any collateral over these balances.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) The movement in the impairment loss of other receivables is as follows:

	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	21,915	42,137
Impairment loss recognised in profit or loss	—	190
Impairment loss reversed	(1,529)	—
Amount written off as uncollectible	(2,018)	(22,167)
Exchange realignment	1,298	1,755
Balance at end of the year	19,666	21,915

Trade receivables amounted to approximately HK$6,435,000 as at 31 December 2007 (2006: HK$5,842,000) that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

26. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007	2006
	HK$'000	HK$'000
Equity securities quoted in the PRC, at fair value	—	10,519

27. CASH AND CASH EQUIVALENTS

The Group's bank deposit, bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

		United States Dollars
	HK$'000	$'000
As at 31 December 2007	1,702	28
As at 31 December 2006	2,873	28

Included in the cash and cash equivalents is bank deposit of approximately HK$21,220,000 (2006: HK$2,000,000) carries interest at a fixed rate at 3.4% (2006: 3.4%). All other bank balances carries interest at the prevailing market interest rates.

28. TRADE AND OTHER PAYABLES

	2007	2006
	HK$'000	*HK$'000*
Trade payables	**2,846**	3,108
Accrued charges and other creditors	**49,669**	51,395
	52,515	54,503

All trade payables were aged less than one year.

29. SHORT-TERM BANK LOANS — SECURED

All short-term bank loans are secured by buildings, interests in leasehold land held for own use under operating lease and investment properties of the Group in the PRC as detailed in note 38, which are denominated in RMB and granted by banks in the PRC. These short-term bank loans bear fixed interest rates from 6.44% to 7.34% (2006: 6.14% to 7.02%) per annum and are wholly repayable within one year.

30. OTHER LOAN — SECURED

For both years ended 31 December 2007 and 2006, other loans represented an amount of approximately HK$14,423,000 which was secured by the entire issued share capital of a Company's subsidiary, interest bearing from 1.5% to 3% (2006: 1.5%) per month and repayable on 12 June 2007. During the year, the Group entered into a supplementary agreement and the repayment of the loan was extended for one year till 12 June 2008. For the year ended 31 December 2006, it also represented an amount of approximately RMB 8,000,000 (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 was already repaid on 31 May 2007.

31. DEFERRED TAXATION

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	2007	2006
	HK$'000	*HK$'000*
Movement of taxable temporary differences arising from the exclusive distribution right		
At beginning of the year	**2,205**	2,450
Credited to consolidated income statement	**(2,205)**	(245)
At end of the year	**—**	2,205

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

	2007	2006
	HK$'000	*HK$'000*
Tax losses	**608,768**	577,408
Deductible temporary differences	**13,007**	1,700
	621,775	579,108

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.

33. PROVISION FOR STAFF WELFARE AND BONUS

	2007	2006
	HK$'000	*HK$'000*
At the beginning of year	**63,821**	61,534
Utilisation of provision	**(11)**	—
Exchange realignment	**4,079**	2,287
At the end of year	**67,889**	63,821

Provisions 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.

The total cost charged to income of HK$565,000 (2006: HK$93,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

34. SHARE CAPITAL

	2007 Ordinary shares of HK$0.01 each		2006 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/at end of year	**1,073,934**	**10,739**	1,073,934	10,739

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.

35. SHARE OPTIONS *(Continued)*

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.

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 years ended 31 December 2007 and 2006.

36. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	2007	2006
	HK$'000	*HK$'000*
Sales to Guangzhou Apollo Enterprise Company Limited, an associate	**32,430**	30,541

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.

36. CONNECTED AND RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

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

	2007	2006
	HK$'000	*HK$'000*
Short-term benefits	**1,361**	1,283
Post-employment benefits	**96**	45
	1,457	1,328

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

37. COMMITMENTS

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

	2007	2006
	HK$'000	*HK$'000*
Within one year	**602**	980
In the second to fifth years inclusive	**109**	420
	711	1,400

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to two years and rentals are fixed for an average of one to two years.

At the same time, the Group also leases out its investment properties, the rental income earned during the year was approximately HK$7,790,000 (2006: approximately HK$8,001,000). These investment properties are expected to generate rental yields of 11% on an ongoing basis (2006: 11%). All of the properties held have committed tenant for the next two to six years. The future minimum rental receivable under non-cancellable operating leases are as follows:

	2007	2006
	HK$'000	*HK$'000*
Within one year	**5,962**	6,929
In the second to fifth years inclusive	**8,161**	13,025
Over five years	**510**	1,142
	14,633	21,096

38. PLEDGE OF ASSETS

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

	2007	2006
	HK$'000	*HK$'000*
Interests in leasehold land held for own use under operating leases	**2,716**	2,621
Buildings	**21,418**	15,546
Investment properties	**64,198**	67,258
	88,332	85,425

39. 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 consolidated financial statements.

As at year ended 31 December 2007 and up to the date of this report, there had been no further progress in respect of the above claim.

40. BALANCE SHEET INFORMATION OF THE COMPANY

Balance sheet information of the Company at the balance sheet date is as follows:

	Notes	**2007**	2006
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**—**	78
Interests in subsidiaries	*(a)*	**—**	12,600
		—	12,678
Current assets			
Trade and other receivables		**344**	303
Amounts due from subsidiaries		**—**	4,070
Cash and cash equivalents		**8**	224
		352	4,597
Current liabilities			
Trade and other payables		**1,430**	1,305
Amounts due to subsidiaries		**2,408**	—
		3,838	1,305
Net current (liabilities) assets		**(3,486)**	3,292
Total assets less current liabilities		**(3,486)**	15,970
Non-current liability			
Amount due to holding company		**13,408**	11,008
		(16,894)	4,962
Capital and reserves			
Share capital		**10,739**	10,739
Reserves	*(b)*	**(27,633)**	(5,777)
		(16,894)	4,962

40. BALANCE SHEET INFORMATION OF THE COMPANY *(Continued)*

(a) Interests in subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**25,902**	25,902
Impairment loss recognised	**(25,902)**	(13,302)
	—	12,600
Amounts due from subsidiaries	**6,478**	4,070
Impairment losses recognised	**(6,478)**	—
	—	4,070
Amounts due to subsidiaries	**2,408**	—

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

The following is a list of principal subsidiaries of the Company as at 31 December 2007:

Name	Place of incorporation/ operation	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/ Hong Kong	Limited liability company	100%	Ordinary shares US$10	Investment holding
Seapearl Trading Limited	Samoa/ Hong Kong	Limited liability company	100%	Ordinary shares US$1	Distribution of health and pharmaceutical products
China Apollo Enterprises (Hong Kong) Limited *(note)*	Hong Kong/ Hong Kong	Limited liability company	100%	Ordinary shares HK$20,000 and non-voting deferred shares HK$10,000	Investment holding

40. BALANCE SHEET INFORMATION OF THE COMPANY *(Continued)*

(a) Interests in subsidiaries *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest held	Particulars of issued/paid-up capital	Principal activities
Guangdong Apollo Group Co., Limited ("Guangdong Apollo")	PRC/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/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 ended 31 December 2006, 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 42 to the consolidated 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.

(b) Reserve of the Company

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2006	94,457	141,783	(224,360)	11,880
Loss for the year	—	—	(17,657)	(17,657)
At 31 December 2006 and at 1 January 2007	94,457	141,783	(242,017)	(5,777)
Loss for the year	—	—	(21,856)	(21,856)
At 31 December 2007	94,457	141,783	(263,873)	(27,633)

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

Loss attributable to shareholders includes an amount of approximately HK$21,856,000 (2006: HK$17,657,000) which has been dealt with in the consolidated financial statements of the Company.

41. ACQUISITION OF SUBSIDIARIES

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 the 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 21)*	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:

	2006 *HK$'000*
Cash consideration paid	—
Cash and cash equivalents acquired	2
Net cash inflow	2

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 2007 to 31 December 2006.

41. ACQUISITION OF SUBSIDIARIES *(Continued)*

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 ended 31 December 2006. 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.

There was no acquisition of subsidiaries during the year ended 31 December 2007.

42. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2006, the net assets of the subsidiaries at the respective dates of disposals were as follows:

	2006
Net assets disposed of:	***HK$'000***
Bank balances and cash	—
Other payables	(1,845)
	(1,845)
Gain on disposal of subsidiaries	1,845
Total consideration	—
Satisfied by:	
Cash	—
Net cash inflow arising on disposal:	
Cash consideration	—
Bank balances and cash disposed of	—
	—

The subsidiaries disposed of during the year ended 31 December 2006 had no contribution to the Group's turnover and to the Group's loss from operations for the year ended 31 December 2006.

There was no disposal of subsidiaries during the year ended 31 December 2007.

The following table summaries the results, assets and liabilities of the Group for the last five years.

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**49,095**	42,408	46,384	63,162	66,404
Loss before tax	**(56,090)**	(12,186)	(108,804)	(156,504)	(94,348)
Income tax	**2,205**	245	—	—	—
Loss for the year	**(53,885)**	(11,941)	(108,804)	(156,504)	(94,348)

CONSOLIDATED ASSETS AND LIABILITIES

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**198,699**	219,876	197,400	269,265	412,718
Total liabilities	**(240,542)**	(207,956)	(174,695)	(217,559)	(239,939)
Net (liabilities) assets	**(41,843)**	11,920	22,705	51,706	172,779