

NOTES TO CONDENSED ACCOUNTS

1. ORGANISATION AND OPERATIONS

MAXX Bioscience Holdings Limited (the “Company”) was formerly known as China Apollo Holdings Limited (“China Apollo”), which was incorporated in Bermuda on 18th October 1995 as an exempted company under the Companies Act 1981 of Bermuda (as amended) with its shares listed on The Stock Exchange of Hong Kong Limited since 19th December 1995.

On 11th January 2002, Vision Ocean Investments Limited (“Vision Ocean”) entered into a sale and purchase agreement with Mr. Lok Fai (the then controlling shareholder and chairman of China Apollo) and Sunny Fortune Limited (the then ultimate holding company of China Apollo which is beneficially owned by Mr. Lok Fai). Pursuant to the aforesaid sale and purchase agreement, which was completed on 25th January 2002, Vision Ocean holds 415,000,000 shares of China Apollo, representing approximately 50.91% of the total issued share capital of China Apollo.

Pursuant to the Hong Kong Code on Takeovers and Mergers, Vision Ocean has made an unconditional cash offer to acquire all the issued shares and outstanding options of China Apollo not already owned by Vision Ocean. Upon the close of the cash offer on 19th March 2002, Vision Ocean in aggregate holds 415,230,000 shares in China Apollo, representing approximately 50.94% of the issued share capital of China Apollo.

Accordingly, Vision Ocean, which is beneficially owned by Ms. Lo Yuk Yee, thereafter became the ultimate holding company of China Apollo. Ms. Lo Yuk Yee was appointed as an executive director on 19th March 2002, and was elected as Chairman on 20th March 2002 and assumed effective control of China Apollo’s management.

On 17th May 2002, China Apollo was renamed as MAXX Bioscience Holdings Limited upon registration in the Registrar of Companies in Bermuda.

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the development, manufacture and sale of tonic and health products in the People’s Republic of China (the “PRC”).

The directors of the Company consider Vision Ocean Investments Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAP issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

SSAP 11 (revised): Foreign currency translation

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior periods, the profit and loss accounts of those subsidiaries and associated companies were translated at closing rate. The effect of this change in accounting policy is not material to the current and prior periods and no restatement has been made.

3. SEGMENT INFORMATION

An analysis of the Group's revenue and results for the period by business segments is as follows:

	Unaudited				
	Six months ended 30th June 2002				
	HK\$'000				
	Health products	Health drinks	Pharma- ceutical products	Others	Total
Turnover	<u>38,041</u>	<u>4,186</u>	<u>1,767</u>	<u>-</u>	<u>43,994</u>
Segment results	<u>(16,133)</u>	<u>(3,932)</u>	<u>(1,920)</u>	<u>-</u>	<u>(21,985)</u>
Unallocated costs					<u>-</u>
Operating loss					<u>(21,985)</u>
Finance costs					<u>(1,536)</u>
Loss before taxation					<u>(23,521)</u>
Taxation					<u>-</u>
Minority interests					<u>697</u>
Loss attributable to shareholders					<u>(22,824)</u>

	Unaudited Six months ended 30th June 2001 HK\$'000				
	Health products	Health drinks	Pharma- ceutical products	Others	Total
Turnover	<u>71,232</u>	<u>5,624</u>	<u>3,920</u>	<u>288</u>	<u>81,064</u>
Segment results	<u>(14,343)</u>	<u>(1,216)</u>	<u>(612)</u>	<u>4</u>	(16,167)
Unallocated costs					<u>(39,808)</u>
Operating loss					(55,975)
Finance costs					<u>(2,137)</u>
Loss before taxation					(58,112)
Taxation					–
Minority interests					<u>2,374</u>
Loss attributable to shareholders					<u>(55,738)</u>

There are no sales or other transactions between the business segments. All turnover is derived in the PRC.

4. OTHER OPERATING EXPENSES

	Unaudited Six months ended 30th June	
	2002 HK\$'000	2001 HK\$'000
Provision for impairment loss of fixed assets	–	33,514
Provision for impairment in value of investment in an associate	–	4,000
Unrealised loss on investments in securities	–	1,980
	<u>–</u>	<u>39,494</u>

5. OPERATING LOSS

Operating loss is determined after crediting and charging the following:

	Unaudited	
	Six months ended	
	30th June	
	2002	2001
	HK\$'000	HK\$'000
Crediting:		
Gain on disposal of fixed assets	2,160	3,526
Gain on disposal of investments in securities	1,812	–
Rental income	3,313	2,566
Interest income	145	980
Exchange gain	–	572
Charging:		
Depreciation of owned fixed assets	9,229	11,329
Provision for doubtful receivables	11,264	8,273
Interest expense	1,536	2,137
Operating lease rentals in respect of land and buildings	851	764
Amortisation of other non-current assets	57	101
Exchange loss	11	–
Provision for impairment loss of fixed assets	–	33,514
Provision for impairment in value of investment in an associate	–	4,000
Unrealised loss on investments in securities	–	1,980
Provision for impairment in value of investment in unconsolidated subsidiary	–	660

6. STAFF COSTS

	Unaudited	
	Six months ended	
	30th June	
	2002	2001
	HK\$'000	HK\$'000
Wages and salaries	9,143	10,003
Pension costs – defined contribution plans	677	922
	9,820	10,925

7. TAXATION

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

Hong Kong profits tax is provided at the rate of 16% (for the six months ended 30th June 2001: 16%) on the estimated assessable profit arising in or derived from Hong Kong for the period. There is no Hong Kong profits tax liabilities for the six months ended 30th June 2002 (for the six months ended 30th June 2001: Nil) as the Group did not earn any income subject to Hong Kong profits tax.

The two principal subsidiaries of the Company are Guangdong Apollo (Group) Co., Ltd. ("Guangdong Apollo") and Guangdong Apollo Group Li Cheng Pharmaceutical Factory ("Li Cheng"). Guangdong Apollo is a Sino-foreign equity joint venture enterprise and is subject to PRC enterprise income tax at a reduced rate of 15%. Li Cheng is a collective enterprise established in the PRC and is subject to PRC enterprise income tax at a rate of 33%.

As Guangdong Apollo and Li Cheng did not earn any income subject to PRC enterprise income tax for the six months ended 30th June 2002, no PRC enterprise income tax has been provided (for the six months ended 30th June 2001: Nil).

8. DIVIDENDS

The directors do not recommend the payment of a dividend for the six months ended 30th June 2002 (for the six months ended 30th June 2001: nil).

9. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30th June 2002 is based on the Group's loss attributable to shareholders of approximately HK\$22,824,000 (for the six months ended 30th June 2001: loss of approximately HK\$55,738,000) and the 815,100,000 ordinary shares (for the six months ended 30th June 2001: 815,100,000 ordinary shares) in issue during the period.

Diluted loss per share is not presented as there is no dilution effect on the potential ordinary shares arising from the exercise of the outstanding share options because the exercise prices of the share options are greater than average market prices.

10. FIXED ASSETS

	Unaudited Six moths ended 30th June 2002 HK\$'000
Opening net book amount	192,296
Additions	524
Disposals	(4,455)
Depreciation	(9,229)
Closing net book amount	<u>179,136</u>

11. TRADE RECEIVABLES

The credit terms of the Group granted to the customers are normally 90 days. The aging analysis of trade receivables is as follows:

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Within 90 days	8,867	8,088
Over 90 days but within 180 days	4,196	13,627
Over 180 days but within 365 days	9,818	5,419
Over 365 days	41,857	37,058
	<u>64,738</u>	64,192
Less: Provision for doubtful debts	(47,075)	(42,472)
	<u>17,663</u>	<u>21,720</u>

12. INVESTMENTS IN SECURITIES

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Equity securities		
Listed in Hong Kong, at carrying value	–	6,926
Unlisted, at carrying value	9,586	9,586
	<u>9,586</u>	<u>16,512</u>

13. RELATED PARTY TRANSACTIONS

Amount due to ultimate holding company represented an unsecured loan lent to the Company during the current period with interest free and no fixed repayment date.

Amount due to a related company represented miscellaneous expenses paid on the Company's behalf by MAXX Bioscience Technology Co., Ltd., a company beneficially owned by Ms. Lo Yuk Yee. The amount is unsecured, interest free and has no fixed repayment date.

14. TRADE PAYABLES AND ACCRUALS

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Trade payables	8,159	12,259
Other payables and accruals	38,851	51,648
	<u>47,010</u>	<u>63,907</u>

All trade payables were aged less than one year.

15. SHARE CAPITAL

	Number of shares		Nominal value	
	Unaudited 30th June 2002 '000	Audited 31st December 2001 '000	Unaudited 30th June 2002 \$'000	Audited 31st December 2001 \$'000
Authorised (shares of HK\$0.10 each)	<u>1,600,000</u>	<u>1,600,000</u>	<u>160,000</u>	<u>160,000</u>
Issued and fully paid or credited as fully paid (shares of HK\$0.10 each)	<u>815,100</u>	<u>815,100</u>	<u>81,510</u>	<u>81,510</u>

16. CONTINGENT LIABILITIES

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Guarantees for bank loans borrowed by a subcontractor	<u>4,714</u>	<u>7,300</u>

17. COMMITMENTS

(a) Capital commitments for investment

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Contracted but not provided for – Within one year	<u>20,000</u>	<u>–</u>

(b) Commitments under operating leases

At 30th June 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30th June 2002 HK\$'000	Audited 31st December 2001 HK\$'000
Land and buildings:–		
Within one year	230	–
In the second to fifth year inclusive	480	360
After the fifth year	<u>–</u>	<u>–</u>
	<u>710</u>	<u>360</u>