

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

For the six months ended 30th June 2002, the Group's turnover was HK\$43,994,000 (2001: HK\$81,064,000), representing a decrease of 46% as compared with the corresponding period of last year. The Group reported a consolidated loss attributable to shareholders of approximately HK\$22,824,000 as compared with a loss of HK\$55,738,000 for the same period last year.

During the period under review, the sales of existing tonic drink products (including Houtou Mushroom tonic drink and Chrysanthemum tonic drink) continued to drop and recorded a decrease of HK\$9,278,000 or 22% as compared with the same period last year. The sales of other health products (including Storm fat loss capsule, Brilliance fat loss capsule, Changing capsule and Duo Bu Gai) also recorded a tremendous drop of approximately HK\$23,913,000 or 76% as compared with corresponding period of last year.

Since there was a change in product mix and the sales of higher profit margin products has been dropped, the overall profit margin was decreased from 66% for the six months ended 30th June 2001 to 60% for the period under review.

With the stringent cost control measures implemented by the Group in the first half of the year, the total operating expenses (including distribution expenses and administrative expenses) has been reduced by approximately HK\$22,398,000 as compared with the corresponding period of last year.

On 17th May 2002, the Company has entered into the Joint Cooperation Agreement with Shanghai Institute of Materia Medica, Chinese Academy of Sciences ("SIMM") in relation to the establishment of a joint venture in Shanghai, the PRC. The principal business of the joint venture will be in the research, development and commercialization in the pharmaceutical field in the PRC. The Directors believe that SIMM has a good capability in drug discovery, a long history of drug development in the PRC and a good track record in licensing of its products to the global drug market. Accordingly, SIMM is considered to be a strong partner of the Company in this new focus of business for the Company. The Directors anticipate that the setting up of the joint venture in Shanghai will be completed by the end of the year 2002.

Looking ahead, there are immense opportunities opened up in the pharmaceutical industry due to the discovery in more Drug Target. Many large pharmaceutical companies have large demands for new drugs and their outsourcing of drug discovery, research and development work are increasing. The Directors consider this as a good opportunity for the Company to participate in the huge market in drug discovery, which may better improve the diversity of the business focus and the future prospects of the Company.

INTERIM DIVIDEND

The Directors have resolved not to recommend the payment of an interim dividend for the six months ended 30th June 2002 (for the six months ended 30th June 2001: Nil).

CHANGE OF COMPANY NAME

In accordance with the special resolution approved by the Shareholders of the Company at the Special General Meeting held on 17th May 2002, the name of the Company has been changed from “China Apollo Holdings Limited” to “MAXX Bioscience Holdings Limited” and the Chinese name of 『曼盛生物科技集團有限公司』 has been adopted for identification purpose.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30th June 2002, the Group's total assets amounted to HK\$338,868,000, representing a decrease of HK\$38,220,000 or 10% as compared with that of last financial year end date.

The Group's cash and bank balances as at 30th June 2002 were HK\$74,439,000 (31st December 2001: HK\$90,562,000), of which 18% were denominated in Hong Kong Dollars, 79% in Renminbi and 3% in US Dollars.

As at 30th June 2002, the Group had outstanding short-term bank loans of approximately HK\$51,575,000 in total, (31st December 2001: HK\$ 51,575,000) all of which were in Renminbi and granted by local banks in the PRC. The interest rates charged by the banks ranged from 6.375% to 7.605% per annum. These bank loans were pledged by buildings of the Group with a net book value of approximately HK\$66,762,000 (31st December 2001: HK\$62,852,000). The gearing ratio of the Group was increased from 27% at 31st December 2001 to 31% at 30th June 2002.

As at 30th June 2002, the Group had current assets of approximately HK\$150,826,000 (31st December 2001: HK\$175,829,000) and current liabilities of approximately HK\$161,049,000 (31st December 2001; HK\$175,748,000). The current ratio was decreased from 1.00 at 31st December 2001 to 0.94 at 30th June 2002.

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 exchange fluctuation is relatively low.

EMPLOYEES AND REMUNERATION POLICY

As at 30th June 2002, the Group had a total number of 575 full time employees of whom 23 are based in Hong Kong and 552 are based in China.

The employees are remunerated based on their job performance and experience and their remuneration package will be reviewed periodically by the management. In addition to basic salaries, the Group provides other staff benefits which include medical insurances, retirement scheme contributions and on-the-job training programmes.

On 17th May 2002, the Group has terminated the existing share option scheme which was adopted on 2nd December 1995 and adopted a new share option scheme under which the directors of the Company are authorized to grant share options to eligible persons as an incentive. As at 30 June 2002, a total number of 8,000,000 share options were granted to certain employees according to their individual performance.

CONTINGENT LIABILITIES

As at 30th June 2002, The Group had issued guarantee to a bank in the PRC to secure certain bank loans of approximately HK\$4,714,000 (31st December 2001: HK\$7,300,000) which was borrowed by a subcontractor. The aforesaid bank loans will be matured on December 2002.

DIRECTORS' INTERESTS IN SHARES

As at 30th June 2002, the directors of the Company had the following interests in the shares of HK\$0.10 each in the capital of the Company ("Shares") or debentures of the Company or shares in or debentures of any associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

Name	Personal Interest	Corporate Interest	Total
Ms. Lo Yuk Yee	–	415,230,000 ⁽¹⁾	415,230,000

Notes:

⁽¹⁾ These shares are held by Vision Ocean Investments Limited which is beneficially owned by Ms. Lo Yuk Yee.

Save as disclosed above, the Company had no notice of any interest required to be recorded under Section 29 of the SDI Ordinance as at 30th June 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At the Special General Meeting held on 17th May 2002, the existing share option scheme was terminated and a new Share Option Scheme was adopted on 17th May 2002 in order to comply with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Pursuant to the new Share Option Scheme, the Company granted options to the directors of the Company to subscribe for Shares during the period from 24th June 2002 to 23rd July 2004. Details of the share options outstanding as at 30th June 2002 held by the directors of the Company were as follows:–

Name of director	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				
				Outstanding at 1/1/2002	Granted during the period	Exercise during the period	Lapsed/ cancelled during the period	Outstanding at 30/6/2002
Ms. Lo Yuk Yee	24th June 2002	24th June 2002 – 23rd July 2004	0.315	–	8,150,000	–	–	8,150,000
Mr. Zang Jing Wu	24th June 2002	24th June 2002 – 23rd July 2004	0.315	–	3,000,000	–	–	3,000,000

Save as disclosed above, none of the directors or their associates had any other interests (whether beneficial or non-beneficial) in the share capital of the Company or any associated corporations as defined in the SDI Ordinance as at 30th June 2002.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2002, the following substantial shareholders were directly or indirectly interested in 10% or more of the share capital of the Company as recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance:–

Name of Shareholder	Number of Shares	Percentage of issued capital
Ms. Lo Yuk Yee <i>(see note a & b)</i>	415,230,000	50.94%
Vision Ocean Investments Limited <i>(see note a & b)</i>	415,230,000	50.94%
Sunny Fortune Limited <i>(see note c)</i>	185,000,000	22.70%

Note:–

- (a) On 22nd March, 2002, Vision Ocean Investments Limited (a company wholly-owned by Ms. Lo Yuk Yee) has granted a mortgage of 415,000,000 Shares to Lafe Components Limited as security for a loan from Lafe Components Limited. Lafe Components Limited holds the 415,000,000 Shares on trust for Vision Ocean Investments until such financing is fully repaid, when the 415,000,000 Shares will be transferred back to Vision Ocean Investments Limited subject to the terms of the share mortgage.
- (b) Mr. Ho Wing On, Christopher has 100% deemed beneficial interests in The Grande International Holdings Limited, which holds 73.7% of the entire issued share capital of The Grande Holdings Limited, through its wholly-owned subsidiary, Barrican Investments Corporation. The Grande Holdings Limited holds the entire issued share capital of The Grande (Nominees) Limited, which holds the entire issued share capital of Sheer Profit Corporation as bare trustee on behalf of The Grande Holdings Limited, Sheer Profit Corporation holds 61.9% of the entire issued share capital of Lafe Technology Limited, which holds the entire issued share capital of Lafe Components Limited. Therefore, all of these shares are entirely duplicated.
- (c) These shares are held by Sunny Fortune Limited which is beneficially owned by Mr. Lok Fai who has resigned as a director of the Company on 21 June 2002.

PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30th June 2002.

AUDIT COMMITTEE

Following the resignation of Mr. Goh Gen Cheung on 1 August 2002, the Audit Committee of the Company is now comprised of two independent non-executive directors, Mr. Ho Kwok Wah and Mr. Yuen Kin. The Audit Committee has reviewed with management the Group's internal control procedures and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 30 June 2002 with the external auditors.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30th June 2002 except that the independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Article 87 of the Company's Bye-laws.

By Order of the Board

Lo Yuk Yee

Chairman

Hong Kong, 24th September 2002