

Report of the Directors

The directors are pleased to present their report together with the audited financial statements of MAXX Bioscience Holdings Limited (hereinafter as the "Company") and its subsidiaries (together with the Company hereinafter as the "Group") for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the development, manufacture and sale of tonic and health products in the People's Republic of China (the "PRC") and drug development.

The Group's turnover and contribution to operating profit (loss) by product categories for the year ended 31 December 2002 are analysed as follows:

	Turnover		Contribution to operating profit (loss)	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Health products	70,197	109,523	4,485	(5,060)
Health drinks	6,716	10,249	(1,263)	(610)
Pharmaceutical products	3,583	6,676	(622)	(1,636)
Others	—	704	—	177
	80,496	127,152	2,600	(7,129)
Other net income			47,534	8,273
Other operating expenses			(240)	(92,626)
Other unallocated expenses			(81,162)	(71,542)
Loss from ordinary activities before taxation			(31,268)	(163,024)

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2002 are set out on page 22 of the financial statements.

The directors do not recommend the payment of a dividend.

RESERVES

The Company's accumulated losses of approximately \$541,066,000 as at 31 December 2002 is carried forward.

Other movements in the reserves of the Company and the Group during the year are set out in Note 29 to the financial statements.

DONATIONS

No donation was made during the year ended 31 December 2002.

FIXED ASSETS

Details of the movements in fixed assets are set out in Note 12 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates as at 31 December 2002 are set out in Notes 13 and 14 respectively to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options are set out in Notes 27 and 28 respectively to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association and there is no restriction against such rights under the laws in Bermuda.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2002, the five largest customers of the Group accounted for approximately 23% (2001: 20%) of the Group's total turnover, with the largest customer accounted for approximately 8% (2001: 6%).

The five largest suppliers for the year ended 31 December 2002 accounted for approximately 36% (2001: 45%) of the Group's total purchases, with the largest supplier accounted for approximately 14% (2001: 16%).

At no time during the year have the directors, their associates, or any shareholder of the Company who to the knowledge of the directors owned more than 5% of the Company's share capital had any interest in these major customers and suppliers.



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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

Ms. LO Yuk Yee (appointed as Executive Director on 19 March 2002 and as Chairman on 20 March 2002)

Ms. HE Jin Hong (appointed as Deputy Chairman on 21 June 2002)

Prof. ZANG Jing Wu (appointed on 19 March 2002)

Dr. LIU Juh, James (appointed on 19 March 2002 and resigned on 27 June 2002)

Mr. SHEN Jing Kang (appointed on 27 June 2002 and resigned on 20 December 2002)

Dr. CAO Wu (appointed on 1 September 2002)

Mr. LOK Fai (resigned as Chairman and appointed as Deputy Chairman on 20 March 2002 and resigned on 21 June 2002)

Mr. TSEUNG Wai Lok (resigned on 19 March 2002)

Mr. ZHANG Tie Cheng (resigned on 19 March 2002)

Mr. LAU Chan Wing, Raymond (resigned on 19 March 2002)

Mr. PAN Hao Hao (resigned on 19 March 2002)

Non-Executive Directors

Mr. GOH Gen Cheung (resigned on 1 August 2002)

Mr. HO Kwok Wah, George (appointed on 19 March 2002)

Mr. YUEN Kin (appointed on 16 April 2002)

Mr. WU King Cheong (resigned on 19 March 2002)

In accordance with the Company's bye-law 87(1), Mr. Ho Kwok Wah, George retires from the board by rotation and, being eligible, offer himself for re-election.

In accordance with the Company's bye-law 86(2), Ms. He Jin Hong and Dr. Cao Wu retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Each of Ms. Lo Yuk Yee and Prof. Zang Jing Wu have service contracts with the Company, which are terminable by either party giving not less than three months' notice in writing, whereas for Dr. Cao Wu, Mr. Ho Kwok Wah, George and Mr. Yuen Kin have services contracts with the Company which are terminable by either party giving not less than one month's notice in writing. Except the foregoing, none of the directors has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, the directors of the Company had the following beneficial interests in the shares of \$0.10 each in the capital of the Company (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 of director	Number of shares held		
	Personal interests	Family interests	Corporate interests
Ms. Lo Yuk Yee	—	—	415,230,000*

* As at 31 December 2002, these shares were held by Vision Ocean Investments Limited which is beneficially owned by Ms. Lo Yuk Yee. The interests of this director in the issued shares of the Company are, accordingly, corporate interest in the Company as defined in Practice Note 5 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Other than as disclosed above, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 December 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES IN THE COMPANY

At the Special General Meeting held on 17 May 2002, the existing share option scheme was terminated and a new Share Option Scheme was adopted on 17 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 28 June 2002 to 27 July 2004. Details of the share options are set out in Note 28 to the financial statements. The share options granted to and held by the Company directors and the share options granted under the old scheme lapsed during the year are as follows:

Name of director	Date of Grant	Exercise period	Exercise price per share	Number of share options				
				Outstanding at 1/1/2002	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding at 31/12/2002
Mr. Tseung Wai Lok (resigned on 19 March 2002)	4 March 1996	4 March 1996-3 March 2006	\$1.44	1,000,000	—	—	1,000,000	—
Mr. Zhang Tie Cheng (resigned on 19 March 2002)	4 March 1996	4 March 1996-3 March 2006	\$1.44	1,300,000	—	—	1,300,000	—

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Name of director	Date of Grant	Exercise period	Exercise price per share	Number of share options				
				Outstanding at 1/1/2002	Granted during the year	Exercised during the year	Lapsed/cancelled during the year	Outstanding at 31/12/2002
Mr. Lau Chan Wing, Raymond (resigned on 19 March 2002)	4 March 1996	4 March 1996-3 March 2006	\$1.44	1,200,000	—	—	1,200,000	—
Ms. Lo Yuk Yee	28 June 2002	28 June 2002-27 July 2004	\$0.315	—	8,150,000	—	—	8,150,000
Prof. Zang Jing Wu	28 June 2002	28 June 2002-27 July 2004	\$0.315	—	3,000,000	—	—	3,000,000

Other than as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the preceding paragraph, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any directors or members of the management of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of directors of the Company has interest in competing businesses as at 31 December 2002 required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

CONNECTED TRANSACTIONS

There were no significant connected transactions of the Group during the year.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 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:

<u>Name of Shareholder</u>	<u>Number of shares</u>	<u>Percentage of shareholding</u>
Ms. Lo Yuk Yee (<i>see note a & b</i>)	415,230,000	42.45%
Vision Ocean Investments Limited (<i>see note a & b</i>)	415,230,000	42.45%
Sunny Fortune Limited (<i>see note c</i>)	185,000,000	18.92%

Note:

- (a) On 22 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 415,000,000 Shares on trust for Vision Ocean Investments Limited 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.

Save as disclosed above, the Company had no notice of any interest required to be recorded under Section 16(1) of the SDI Ordinance as at 31 December 2002.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2002 are set out in Note 22 to the financial statements.



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FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 54 of the annual report.

RETIREMENT SCHEMES

Particulars of retirement schemes are set out in Note 2 to the financial statements.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

Throughout the year, the Company has complied fully with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules.

AUDITORS

The financial statements have been audited by Moores Rowland. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors

Lo Yuk Yee
Chairman

Hong Kong
28 April 2003