



MAXX BIOSCIENCE HOLDINGS LIMITED

Interim Report 2003





The Board of Directors (the “Directors”) of MAXX Bioscience Holdings Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2003 together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2003

(Amount expressed in thousands of Hong Kong dollars, except for loss per share data)

	Note	Unaudited Six months ended 30th June	
		2003	2002
Turnover	3	39,039	43,994
Cost of sales		(16,557)	(17,640)
Gross profit		22,482	26,354
Other revenue		3,330	4,973
Distribution costs		(12,422)	(19,438)
Administrative expenses		(29,291)	(33,874)
Loss from operations		(15,901)	(21,985)
Finance costs		(1,860)	(1,536)
Share of losses of associates		(485)	—
Loss from ordinary activities before taxation	4	(18,246)	(23,521)
Taxation	6	—	—
Loss before minority interests		(18,246)	(23,521)
Minority interests		2,139	697
Loss attributable to shareholders		(16,107)	(22,824)
Dividends	7	—	—
Loss per share — basic	8	(1.44 cents)	(2.80 cents)
— diluted	8	N/A	N/A



CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2003

	Note	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	9	179,697	196,997
Interests in subsidiaries		155	155
Interests in associates		4,847	5,332
Intangible assets		49,797	54,637
		234,497	257,121
Current assets			
Inventories		8,256	8,370
Trade and other receivables	10	50,199	16,737
Investments in securities	11	9,586	9,586
Investments held for disposal		31,114	31,114
Pledged deposits		—	1,414
Cash and cash equivalents		32,788	69,535
		131,943	136,756
Current liabilities			
Provision for staff welfare and bonus		60,432	60,452
Amount due to a related company	12	1,500	—
Trade and other payables	13	36,495	43,522
Short-term bank loans		41,957	48,746
Bank overdrafts, unsecured		35	853
		140,419	153,573
Net current (liabilities)/assets		(8,476)	(16,817)
Total assets less current liabilities		226,021	240,304
Non-current liabilities			
Convertible debentures		2,186	2,186
Payable for acquisition of a subsidiary	14	—	10,000
Amount due to the major shareholder	15	2,757	12,894
		4,943	25,080
Minority interests		26,890	29,029
NET ASSETS		194,188	186,195
CAPITAL AND RESERVES			
Issued capital	16	118,143	97,810
Reserves		76,045	88,385
		194,188	186,195



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2003

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(40,456)	(29,703)
Net cash inflow from investing activities	8,082	13,580
Net cash outflow from financing activities	(4,969)	—
(Decrease)/increase in cash and cash equivalents	(37,343)	(16,123)
Cash and cash equivalents at 1st January	70,096	90,562
Cash and cash equivalents at 30th June	32,753	74,439
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	32,753	74,439



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2003

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Contributed surplus HK\$'000	Exchange difference HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2003	97,810	219,931	148,158	249,906	(69,989)	(459,621)	186,195
Arising from issue of							
— new shares (Note 16)	12,000	2,100	—	—	—	—	14,100
— Consideration Shares (Note 14)	8,333	1,667	—	—	—	—	10,000
Loss for the period	—	—	—	—	—	(16,107)	(16,107)
At 30th June 2003	118,143	223,698	148,158	249,906	(69,989)	(475,728)	194,188

	Unaudited						
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Contributed surplus HK\$'000	Exchange difference HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2002	81,510	208,417	148,158	249,906	(69,989)	(429,474)	188,528
Loss for the period	—	—	—	—	—	(22,824)	(22,824)
At 30th June 2002	81,510	208,417	148,158	249,906	(69,989)	(452,298)	165,704



NOTES TO CONDENSED ACCOUNTS

1. Organisation and Operations

MAXX Bioscience Holdings Limited (the "Company") 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.

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") No. 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants ("HKSA").

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 2002.

In the current period, the Group has adopted, for the first time, the SSAP12 (Revised) "Income Taxes", issued by HKSA which became effective for accounting periods commencing on or after 1st January 2003. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP12 (Revised), the new accounting policy has been applied retrospectively. However, the adoption of the SSAP12 (Revised) has no material impact on the Group's interim financial statements for current or prior accounting periods, and accordingly, no prior period adjustment has been required.



3. Segment Information

The Group's turnover represents gross invoiced sales, net of discounts and returns. As the Group's turnover was derived in the PRC, a segment analysis of result by location has not been presented.

The analysis of turnover and contribution to operating profit (loss) by product categories is as follows:

	Turnover		Contribution to operating profit (loss)	
	Unaudited Six months ended 30.6.2003 HK\$'000	Unaudited Six months ended 30.6.2002 HK\$'000	Unaudited Six months ended 30.6.2003 HK\$'000	Unaudited Six months ended 30.6.2002 HK\$'000
Health products	35,170	38,041	(12,318)	(16,133)
Health drinks	2,943	4,186	(2,506)	(3,932)
Pharmaceutical products	926	1,767	(1,077)	(1,920)
	39,039	43,994	(15,901)	(21,985)
Finance costs			(1,860)	(1,536)
Share of losses of associates			(485)	—
Loss from ordinary activities before taxation			(18,246)	(23,521)



4. Loss from Ordinary Activities Before Taxation

Loss from ordinary activities before taxation was determined after crediting and charging the following:

	Unaudited	
	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Crediting:		
Interest income from bank deposits	13	145
Gain on disposal of fixed assets	—	2,160
Gain on disposal of investments in securities	—	1,812
Rental income	3,330	3,313
Charging:		
Depreciation of owned fixed assets	9,443	9,229
Provision for doubtful receivables	654	11,264
Interest expense for bank loans	1,822	1,536
Interest expense for convertible debentures	38	—
Amortisation of intangible assets		
— acquired technology know-how	—	57
— acquired proprietary rights of a chemical compound	4,751	—
Operating lease rentals in respect of land and buildings	1,022	851
Exchange loss	2	11
Loss on disposal of fixed assets	811	—

5. Staff Costs

	Unaudited	
	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Wages and salaries	8,609	9,143
Pension costs — defined contribution plans	705	677
	9,314	9,820

6. Taxation

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

Hong Kong profits tax is provided at the rate of 17.5% (for the six months ended 30th June 2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong for the period under review. There is no Hong Kong profits tax liabilities for the six months ended 30th June 2003 (for the six months ended 30th June 2002: 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 period under review, no PRC enterprise income tax has been provided (for the six months ended 30th June 2002: nil).

7. Dividends

The directors do not recommend the payment of a dividend for the six months ended 30th June 2003 (for the six months ended 30th June 2002: nil).

8. Loss Per Share

The calculation of basic loss per share for the six months ended 30th June 2003 was based on the consolidated loss attributable to shareholders of approximately HK\$16,107,000 (for the six months ended 30th June 2002: loss of approximately HK\$22,824,000) divided by the weighted average number of ordinary shares in issue during the period of 1,121,537,680 shares (for the six months ended 30th June 2002: 815,100,000 ordinary shares).

Diluted loss per share was not presented as there was 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 were greater than the average market prices.

9. Fixed Assets

	Unaudited Six months ended 30th June 2003 <i>HK\$'000</i>
Opening net book amount	196,997
Additions	720
Disposals	(8,577)
Depreciation	(9,443)
Closing net book amount	<u>179,697</u>



10. Trade and Other Receivables

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Trade receivables	17,179	11,761
Deposits, prepayments and other debtors	33,020	4,976
	50,199	16,737

The aging analysis of trade receivables is set out below:

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Within 90 days	9,061	7,545
Over 90 days but within 180 days	6,437	3,409
Over 180 days but within 365 days	4,499	1,952
Over 365 days	9,665	10,684
	29,662	23,590
Less: Provision for doubtful receivables	(12,483)	(11,829)
	17,179	11,761

The normal credit terms of the Group granted to the customers is on average 90 days from the date of invoice.

11. Investments in Securities

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Equity securities — Unlisted, at carrying value	9,586	9,586
	9,586	9,586



12. Amount due to a Related Company

Amount due to a related company represented management costs and expenses payable to 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.

13. Trade and Other Payables

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Trade payables	15,162	8,272
Other payables and accruals	21,333	35,250
	36,495	43,522

All trade payables were aged less than one year.

14. Payable for Acquisition of a Subsidiary

By an ordinary resolution passed on 10th February 2003, the directors of the Company were authorized to issue and allot shares ("Consideration Share") to Monaco International Group Limited or its nominee for the settlement of HK\$10,000,000 for the balance of consideration for the acquisition of 100% equity interest in Joy Route Development Limited. As a result, 72,330,000 and 11,000,000 ordinary shares of the Company of HK\$0.10 each at issue price of HK\$0.12 per share were issued as Consideration Shares on 17th February 2003 and 13th March 2003, respectively.

15. Amount Due to the Major Shareholder

Amount due to the major shareholder represented an unsecured loan lent to the Company during the current period with interest at 2% over the prime rate and no fixed repayment date.

16. Share Capital

	Number of shares		Nominal value	
	Unaudited 30th June 2003 '000	Audited 31st December 2002 '000	Unaudited 30th June 2003 \$'000	Audited 31st December 2002 \$'000
Authorised (shares of HK\$0.10 each)	1,600,000	1,600,000	160,000	160,000
Issued and fully paid or credited as fully paid (shares of HK\$0.10 each)	1,181,430	978,100	118,143	97,810



Notes:

(1) Placing of new shares

During the period under review, the Company has raised funds through placing of new shares. A total number of 120,000,000 new shares were issued through two placements in January 2003 and March 2003 and the net proceeds from these placements are used for working capital of the Group.

(2) Consideration Shares

See Note 14.

17. Contingent Liabilities

The Group has no significant contingent liabilities as at 30th June 2003.

18. Commitments

(a) Capital commitments for investment

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Contracted but not provided for		
— Within one year	20,691	20,691

(b) Commitments under operating leases

At 30th June 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Land and buildings:		
Within one year	1,687	1,432
In the second to fifth year inclusive	428	803
	2,115	2,235

19. Subsequent Event

On 29th August 2003, the Company entered into an agreement with a placing agent for a placement of 120,000,000 new ordinary shares of HK\$0.10 each of the Company at a price of HK\$0.10 per share on best effort basis. The Placing Shares represent approximately 10.16% of the Company's existing issued share capital and approximately 9.22% of its issued share capital as enlarged by the issue of the Placing Shares.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

For the six months ended 30th June 2003, the Group's turnover was HK\$39,039,000 (2002: HK\$43,994,000), representing a decrease of 11% as compared with the corresponding period of last year. The Group reported a consolidated loss attributable to shareholders of approximately HK\$16,107,000 as compared with a loss of HK\$22,824,000 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) began to stabilize and recorded a mild decrease of HK\$1,878,000 or 6% as compared with the same period last year. The sales of other health products (including Changing capsule and Duo Bu Gai) also recorded a small drop of approximately HK\$481,000 or 8% 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 60% for the six months ended 30th June 2002 to 58% for the period under review.

As a result of effective cost control measures implemented by the Group for the first half of the year, the total operating expenses (including distribution expenses and administrative expenses) were reduced by approximately HK\$11,599,000 as compared with the corresponding period of last year.

After the Severe Acute Respiratory Syndrome (the "SARS") outbreak in April 2003, the general public has recognized the importance of diagnostic products to detect diseases and monitor disease progression more quickly and accurately. The Directors believes that the market for diagnostic product is further opened up in Hong Kong and China, in which it is a good opportunity for the Company to participate in the market in diagnostic products.

Interim Dividend

The Directors have resolved not to recommend the payment of an interim dividend for the six months ended 30th June 2003 (for the six months ended 30th June 2002: nil).



Financial Resources and Liquidity

As at 30th June 2003, the Group's total assets amounted to HK\$366,440,000, representing a decrease of HK\$27,437,000 or 7% as compared with that of last financial year end date.

The Group's cash and bank balances as at 30th June 2003 were HK\$32,753,000 (31st December 2002: HK\$70,096,000), of which 8% were denominated in Hong Kong Dollars, 91% in Renminbi and 1% in US Dollars.

As at 30th June 2003, the Group had outstanding short-term bank loans of approximately HK\$41,957,000 in total, (31st December 2002: HK\$48,746,000) 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\$80,564,000 (31st December 2002: HK\$90,040,000). The Group's gearing ratio was decreased from 27% at 31st December 2002 to 22% at 30th June 2003.

As at 30th June 2003, the Group had current assets of approximately HK\$131,943,000 (31st December 2002: HK\$136,756,000) and current liabilities of approximately HK\$140,419,000 (31st December 2002: HK\$153,573,000). The current ratio was increased from 0.89 at 31st December 2002 to 0.94 at 30th June 2003.

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 2003, the Group had a total number of 502 full time employees of whom 11 are based in Hong Kong and 491 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.

The Company has adopted a new share option scheme on 17th May 2002 under which the directors of the Company are authorized to grant share options to eligible persons as an incentive. As at 30th June 2003, a total number of 10,000,000 share options were granted to certain employees according to their individual performance.



Contingent Liabilities

The Group has no significant contingent liabilities as at 30th June 2003.

DIRECTORS' INTERESTS IN SHARES

As at 30th June 2003, 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 number of shares
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 2003.

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 different periods. Details of the share options outstanding as at 30th June 2003 held by the directors of the Company were as follows:

Name of director	Date of grant	Exercise period	Exercise price per share	Number of share options				
				Outstanding at 1/1/2003	Granted during Period	Exercise during Period	Lapsed/ cancelled during Period	Outstanding At 30/6/2003
			HK\$					
Ms. LO Yuk Yee	28 June 2002	28 June 2002 — 27 July 2004	0.315	8,150,000	—	—	—	8,150,000
	21 Jan. 2003	21 Jan. 2003 — 20 Jan. 2005	0.158	—	1,630,000	—	—	1,630,000
Prof. ZANG Jingwu	28 June 2002	28 June 2002 — 27 July 2004	0.315	3,000,000	—	—	—	3,000,000
	28 Feb. 2003	28 Feb. 2003 — 27 Feb. 2005	0.140	—	7,380,000	—	—	7,380,000
Dr. CAO Wu	21 Jan. 2003	21 Jan. 2003 — 20 Jan. 2005	0.158	—	9,780,000	—	—	9,780,000

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 corporation as defined in the SDI Ordinance as at 30th June 2003.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2003, the following substantial shareholders were directly or indirectly interested in 5% 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 (1)</i>)	415,230,000	35.15%
Vision Ocean Investments Limited (<i>see note (1)</i>)	415,230,000	35.15%
Sunny Fortune Limited (<i>see note (2)</i>)	185,000,000	15.66%

Note:

- (1) These shares are held by Vision Ocean Investments Limited which is beneficially owned by Ms. LO Yuk Yee.
- (2) These shares are held by Sunny Fortune Limited which is beneficially owned by Mr. LOK Fai who had 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 2003.

AUDIT COMMITTEE

The Audit Committee of the Company is comprised of two independent non-executive directors, Mr. HO Kwok Wah and Mr. YUEN Kin. The main function of the Audit Committee is to review with management the Group's internal control procedures and financial reporting matters including a review of the Group's unaudited interim financial statements for the six months ended 30th June 2003.

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 2003.

By Order of the Board
LO Yuk Yee
Chairman

Hong Kong, 25th September 2003