

## 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 2003.

### 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 research and development of bioscience related projects.

The Group's turnover and contribution to operating loss by product categories for the year ended 31 December 2003 are analysed as follows:

	Turnover		Contribution to operating loss	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Sales of Health Products	60,252	70,197	6,932	4,485
Sales of Health Drinks	4,789	6,716	(1,264)	(1,263)
Sales of Pharmaceutical Products	1,363	3,583	(921)	(622)
	<u>66,404</u>	<u>80,496</u>	<u>4,747</u>	<u>2,600</u>
Other net income			3,520	47,534
Other operating expenses			(21,385)	(240)
Other unallocated expenses			(81,295)	(81,162)
Loss from ordinary activities before taxation			<u>(94,413)</u>	<u>(31,268)</u>

The Group is considered generating income in single business and all turnover is derived in the PRC.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2003 are set out on page 21 of the financial statements.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2003.

### RESERVES

The Company's accumulated losses of approximately \$628,887,000 at 31 December 2003 is carried forward.

Other movements in the reserves of the Company and the Group during the year are set out in Note 30 to the financial statements.

### DONATIONS

No donation was made during the year ended 31 December 2003.

### 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 at 31 December 2003 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 28 and 29 respectively to the financial statements.

### PRE-EMPTIVE RIGHTS

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

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, the five largest customers of the Group accounted for approximately 58% (2002: 23%) of the Group's total turnover, with the largest customer accounted for approximately 50% (2002: 8%).

The five largest suppliers for the year ended 31 December 2003 accounted for approximately 33% (2002: 36%) of the Group's total purchases, with the largest supplier accounted for approximately 11% (2002: 14%).

At no time during the year were 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.

## Report of the Directors

### 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 (*Chairman*)

Ms. HE Jin Hong (*Deputy Chairman*)

Prof. ZANG Jing Wu

Dr. CAO Wu

Mr. SIU Siu Ling, Robert (appointed on 4 November 2003)

#### Non-Executive Directors

Mr. HO Kwok Wah, George (resigned on 31 December 2003)

Mr. YUEN Kin (resigned on 28 February 2004.)

Mr. FONG Chi Wah (appointed on 31 December 2003)

Mr. WONG Wai Kin (appointed on 28 February 2004)

In accordance with the Company's bye-law 87(1), Prof. Zang Jing Wu retires from the board by rotation and, being eligible, offers himself for re-election.

In accordance with the Company's bye-law 86(2), Mr. Siu Siu-Ling, Robert, Mr. Fong Chi Wah and Mr. Wong Wai Kin 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. There is no service contract between the Company and each of Ms. He Jin Hong, Mr. Siu Siu Ling, Robert, Mr. Fong Chi Wah and Mr. Wong Wai Kin. 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND EQUITY DERIVATIVES**

At 31 December 2003, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and equity derivatives of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which had been 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, or which were required to be entered in the register referred to therein pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies, were as follows :—

**The Company**

***Long positions in the shares of the Company***

<b>Name of director</b>	<b>Nature of interests</b>	<b>Number of ordinary shares held</b>	<b>Approximate percentage of interest in the Company</b>
Ms. Lo Yuk Yee ("Ms Lo") (chairman of the Board and chief executive officer)	Corporate ( <i>Note 1</i> )	415,230,000	30.06%

*Note 1:* The 415,230,000 ordinary shares are held by Vision Ocean Investments Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Ms. Lo.

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### *Long position in equity derivatives in, or in respect of, underlying shares of the Company*

Name of Directors	Number and description of equity derivatives	Number of underlying ordinary shares	Nature of interests	Exercise period	Approximate percentage of interest in the Company
Ms. Lo	Conversion rights attached to convertible notes for the principal amount of HK\$50,000,000 at the conversion price of HK\$0.10 per ordinary share issued on 10 December 2003	500,000,000	Corporate (Note 2)	10 December 2003 — 9 December 2006	26.58 %
	8,150,000 options granted on 28 June 2002 under the Employee Share Option Scheme adopted by the Company on 17 May, 2002 (the "Share Option Scheme") at the exercise price of HK\$0.315 per ordinary share	8,150,000	Personal	28 June 2002 — 27 July 2004	0.59%
	1,630,000 options granted on 21 January 2003 under the Share Option Scheme at the exercise price of HKD\$0.158 per ordinary share	1,630,000	Personal	21 January 2003 — 20 January 2005	0.12%
Prof Zang Jing Wu	3,000,000 options granted on 28 June 2002 under the Share Option Scheme at the exercise price of HK\$0.315 per ordinary share	3,000,000	Personal	28 June 2002 — 27 July 2004	0.22%
	7,380,000 options granted on 18 February 2003 under the Share Option Scheme at the exercise price of HK\$0.140 per ordinary share	7,380,000	Personal	18 February 2003 — 17 February 2005	0.53%

## Report of the Directors

Name of Directors	Number and description of equity derivatives	Nature of interests	Number of underlying ordinary shares	Exercise period	Approximate percentage of interest in the Company
Dr. Cao Wu	9,780,000 options granted on 21 January 2003 under the Share Option Scheme at the exercise price of HK\$0.158 per ordinary share	9,780,000	Personal	21 January 2003 — 20 January 2005	0.70%

Note 2: The conversion rights are held by Payton Place Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Ms. Lo.

### Associated corporations of the Company

None.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND EQUITY DERIVATIVES

At 31 December 2003, according to the register kept by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons, other than the Directors or Chief Executive of the Company, had interests or short position in the shares or 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.

#### Long positions in the shares of the Company:

Name of shareholder	Nature of interests	Number of ordinary shares held	Approximate percentage of interest in the Company
Vision Ocean Investments Limited	Corporate (Note 3)	415,230,000	30.06%
Sunny Fortune Limited	Corporate	185,000,000	13.39%
Mr. Lok Fai	Personal (Note 4)	185,000,000	13.39%
Pro-TeX International Group Limited	Corporate	80,000,000	5.79%
Mr. Stephen Hoi Chuen Ip	Personal (Note 5)	80,000,000	5.79%

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*Note 3* : The 415,230,000 ordinary shares are held by Vision Ocean Investments Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Ms. Lo.

*Note 4* : The 185,000,000 Shares are held by Sunny Fortune Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Mr. Lok Fai.

*Note 5* : The 80,000,000 shares are held by Pro-TEX International Group Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Mr. Stephen Hoi Chuen Ip.

### DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in Notes 15, 27 and 34 to the financial statements.

The independent non- executive directors of the Company have reviewed and confirmed that the connected transactions are set out in Notes 15, 27 and 34 to the financial statements entered into by the Group were in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the agreements governing such transactions.

Save as disclosed above, no contacts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at 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 2003, required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

### PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 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 2003 are set out in Notes 22 to 27 to the financial statements.

## 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 62 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 in Appendix 14 to the Listing Rules, except that the independent non-executive directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Bye-laws of the Company.

## SUBSEQUENT EVENTS

Details of the significant subsequent events after 31 December 2003 and up to the date of the financial statements are set out in Note 36 to the financial statements.

## AUDITORS

The financial statements have been audited by Moores Rowland Mazars (formerly Moores Rowland which merged with Mazars on 1 October 2003 to become Moores Rowland Mazars). 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, 29 April 2004