



NOTES TO CONDENSED ACCOUNTS

1. Organisation and Operations

MAXX Bioscience Holdings Limited (the "Company") was incorporated in Bermuda on 18 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 (the "Stock Exchange") since 19 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") and research and development of bioscience related projects.

The directors of the Company consider Vision Ocean Investments Limited ("Vision Ocean"), a company incorporated in the British Virgin Islands and beneficially owned by Ms. Lo Yuk Yee ("Ms. Lo"), Chairman and a director of the Company, to be the controlling shareholder of the 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 No. 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

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 31 December 2003.

3. Turnover and Contribution to Operating Loss

	Turnover Unaudited		Contribution to operating loss Unaudited	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of health products	21,823	35,170	6,952	9,382
Sales of health drinks	1,917	2,943	(39)	(645)
Sales of pharmaceutical products	—	926	—	(541)
	<u>23,740</u>	<u>39,039</u>	<u>6,913</u>	<u>8,196</u>
Other Income			3,535	3,330
Finance costs			(2,153)	(1,860)
Share of losses of associates			(222)	(485)
Other unallocated expenses			<u>(33,992)</u>	<u>(27,427)</u>
Loss from ordinary activities before taxation			<u>(25,919)</u>	<u>(18,246)</u>

The Group is considered generating income in single business and all turnover is derived in the PRC. Accordingly, no segmental information is provided.

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 30 June	
	2004	2003
	HK\$'000	HK\$'000
Crediting:		
Interest income from bank deposits	–	13
Rental income	3,535	3,330
Charging:		
Depreciation of owned fixed assets	8,242	9,443
Provision for doubtful receivables	567	654
Interest expenses on bank loans	1,390	1,822
Interest on convertible debentures, convertible notes and promissory notes	721	38
Interest on other loans	31	80
Amortisation of intangible assets – acquired proprietary rights of chemical compound and diagnostic technology	11,957	4,751
Operating lease rentals in respect of land and buildings	881	1,022
Exchange loss	–	2
Loss on disposal of property, plant and equipment	95	811

5. Staff Costs

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Salaries and wages	6,089	8,609
Pension costs – defined contribution plans	548	705
	<u>6,637</u>	<u>9,314</u>



6. Taxation

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

Hong Kong profits tax is provided at the rate of 17.5% (for the six months ended 30 June 2003: 17.5%) 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 30 June 2004 (for the six months ended 30 June 2003: nil) as the Group did not earn any income subject to Hong Kong profits tax.

The two principal entities of the Company in the PRC are Guangdong Apollo (Group) Co., Ltd. ("Guangdong Apollo"), a subsidiary, and Guangdong Apollo Group Li Cheng Pharmaceutical Factory ("Li Cheng"), which became an associate after the disposal of 76% effective equity interest in Li Cheng by the Group in 2003. Guangdong Apollo and Li Cheng are subject to PRC enterprise income tax at rates of 15% and 33% respectively.

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 30 June 2003: nil).

7. Dividends

The Directors do not recommend the payment of a dividend for the six months ended 30 June 2004 (for the six months ended 30 June 2003: nil).

8. Loss Per Share

The calculation of basic loss per share for the six months ended 30 June 2004 was based on the consolidated loss attributable to shareholders of approximately HK\$23,441,000 (for the six months ended 30 June 2003: loss of approximately HK\$16,107,000) divided by the weighted average number of ordinary shares in issue during the period of 184,524,178 shares (for the six months ended 30 June 2003: 142,741,159 ordinary shares retrospectively adjusted for the effect of Capital Reorganisation and Open Offer).

Diluted loss per share was not presented as there was no dilution effect on the potential ordinary shares arising from the conversion of convertible notes into share capital or exercise of share options because the conversion prices of convertible notes and exercise prices of share options were greater than market prices of the shares of the Company (*for the six months ended 30 June 2003: same*).

9. Property, Plant and Equipment

	Unaudited Six months ended 30 June 2004 HK\$'000
Opening net book amount	153,770
Additions	2,593
Disposals	(3,019)
Depreciation	(8,242)
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Closing net book amount	<u>145,102</u>

10. Trade and Other Receivables

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Trade receivables	13,808	11,628
Deposits, prepayments and other debtors	10,669	5,319
	<u>24,477</u>	<u>16,947</u>

The aging analysis of trade receivables is set out below:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Within 90 days	11,446	7,852
Over 90 days but within 180 days	2,153	2,107
Over 180 days but within 365 days	1,232	1,363
Over 365 days	9,702	10,464
	<u>24,533</u>	21,786
Less: Provision for doubtful receivables	<u>(10,725)</u>	<u>(10,158)</u>
	<u>13,808</u>	<u>11,628</u>

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 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Unlisted equity securities, at fair value		
– in Hong Kong	–	16,000
– in PRC	3,723	3,723
	<u>3,723</u>	<u>19,723</u>



12. Trade and Other Payables

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Trade payables		
– to third party	2,949	3,609
– to an associate	–	260
Other payables and accruals	<u>41,096</u>	<u>36,462</u>
	<u><u>44,045</u></u>	<u><u>40,331</u></u>

All trade payables were aged less than one year.

13. Promissory Notes and Convertible Notes

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Classified under current liabilities		
Promissory notes (a)	<u>–</u>	<u>8,000</u>
Classified under non-current liabilities		
Promissory notes (b)	28,000	28,000
Convertible notes (b)	<u>50,000</u>	<u>50,000</u>
	<u><u>78,000</u></u>	<u><u>78,000</u></u>

(a) Promissory notes classified under current liabilities

As detailed in a circular of the Company dated 29 April 2004, the Group had acquired the Asian marketing and distribution right in a micro-imaging system. However, the Group was unable to obtain sufficient technical support from the inventor of the technology to optimize the application of the micro-imaging system in the Asian market. The Group felt that it was more appropriate to employ the resources; more efficiently into other areas and therefore, the Group decided to dispose of the entire interest in this technology to the vendor at substantially the same price in March 2004.

Accordingly, the promissory note of principal of HK\$8,000,000 issued to the vendor was surrendered and cancelled.

(b) Promissory notes and convertible notes classified under non-current liabilities

The convertible notes and promissory notes were issued to Payton Place Limited ("Payton Place") a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Ms. Lo.

14. Amount due to the Major Shareholder

The amount due to Vision Ocean, the controlling shareholder, is unsecured, bears interest at prime rate plus 2% (2003: same) and Vision Ocean has confirmed that it will not ask for repayment of the amount as long as the Group has insufficient working capital.

15. Share Capital

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Authorised:		
100,000,000 ordinary shares of HK\$0.01 each (At 31 December 2003: 10,000,000,000 ordinary shares of HK\$0.10 each)	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
276,286,000 ordinary shares of HK\$0.01 each (At 31 December 2003: 1,381,430,000 ordinary shares of HK\$0.10 each)	<u>2,763</u>	<u>138,143</u>

During the period, the following changes in the Company's issued share capital took place:

- (a) Pursuant to a special resolution passed at a special general meeting on 26 April 2004, a capital reorganisation scheme (the "Capital Reorganisation") was implemented on 27 April 2004 which involved (i) a consolidation of every 20 existing shares of HK\$0.10 each into 1 consolidated share of HK\$2.00 each (the "Consolidated Share") (the "Share Consolidation"); (ii) a reduction in the nominal value of the then issued share capital from HK\$2.00 per Consolidated Share to HK\$0.01 per adjusted share (the "Adjusted Share") (the "Capital Reduction"); (iii) a subdivision of each authorised but unissued Consolidated Share into 200 Adjusted Shares of HK\$0.01 each; (iv) cancellation of the entire amount standing to the credit of the share premium account of HK\$223,697,950 of the Company as at 31 December 2003 (the "Share Premium Cancellation"); (v) application of the total credit arising from the Capital Reduction and Share Premium Cancellation of HK\$361,150,235 to the contributed surplus account of the Company; and (vi) transfer a credit balance of HK\$628,886,536 from the contributed surplus account to set off against the accumulated losses of the Company as at 31 December 2003 (the "Credit Transfer").



- (b) Pursuant to an ordinary resolution passed at a special general meeting on 25 May 2004, the Company made an open offer of 207,214,500 shares of HK\$0.01 each to shareholders at a subscription price of HK\$0.08 per share on the basis of 3 open offer shares for every share held on 25 May 2004 ("Open Offer"). The Open Offer was completed on 16 June 2004. The net proceeds of approximately HK\$15.0 million was used for development of QuProbe project, redemption of convertible debentures and as working capital of the Group.

A summary of the foregoing movements in the issued share capital of the Company during the period is as follows:

	<i>Notes</i>	Unaudited Number of ordinary shares issued	Amount HK\$'000
At 31 December 2003		1,381,430,000 ⁽¹⁾	138,143
Share Consolidation	(a)(i)	<u>(1,312,358,500)</u>	<u>—</u>
After Share Consolidation		69,071,500 ⁽²⁾	138,143
Capital Reduction	(a)(ii)	<u>—</u>	<u>(137,452)</u>
After Capital Reduction		69,071,500 ⁽³⁾	691
Open Offer	(b)	<u>207,214,500</u> ⁽³⁾	<u>2,072</u>
At 30 June 2004		<u><u>276,286,000</u></u>	<u><u>2,763</u></u>
(1)	<i>Nominal value is HK\$0.10 per share</i>		
(2)	<i>Nominal value is HK\$2.00 per share</i>		
(3)	<i>Nominal value is HK\$0.01 per share</i>		

16. Contingent Liabilities

The Group has no significant contingent liabilities at 30 June 2004.

**17. Commitments under operating leases**

At 30 June 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Land and buildings:		
Within one year	979	1,675
In the second to fifth years inclusive	—	575
	<u>979</u>	<u>2,250</u>

At the same time, the Group also leases out some of the land and buildings. The future aggregate minimum rental receivable under non-cancellable operating leases are as follows:

	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Within one year	4,439	4,510
In the second to fifth years inclusive	8,102	8,272
Over five years	3,861	3,347
	<u>16,402</u>	<u>16,129</u>

18. Subsequent Event

Pursuant to ordinary resolutions passed at a special general meeting on 24 August 2004, the general mandate to issue new shares and refreshment of mandate limit in respect of the granting of options under the original share options scheme adopted by the Company on 17 May 2002, were granted to the Directors of the Company.

19. Comparative Figures

Certain of the 2003 comparative figures have been reclassified to conform to the current period's presentation.