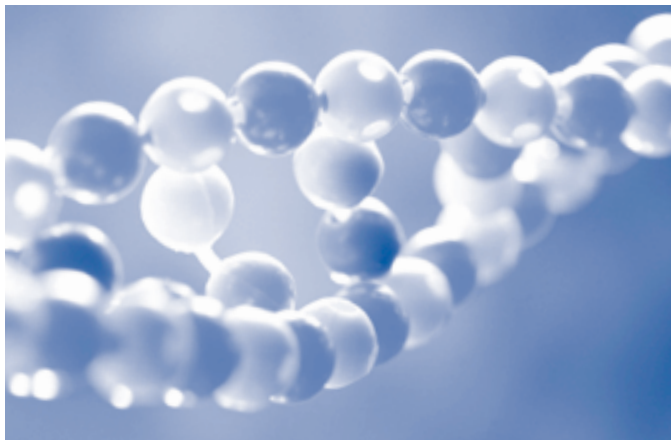




MAXX BIOSCIENCE HOLDINGS LIMITED

曼盛生物科技集團有限公司

(Stock code : 512)



INTERIM REPORT 2006

INTERIM RESULTS

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 (collectively the “Group”) for the six months ended 30 June 2006.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Notes	Six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000
Turnover	4	20,924	22,330
Cost of sales		(11,441)	(12,595)
Gross profit		9,483	9,735
Other income		5,001	9,820
Distribution expenses		(5,814)	(3,571)
Administrative expenses		(12,248)	(28,460)
Other operating expenses		(700)	(7,205)
Share of losses of associates		(605)	(307)
Finance costs		(2,735)	(1,662)
Loss before tax	6	(7,618)	(21,650)
Tax expense	8	—	—
Loss for the period		(7,618)	(21,650)
Attributable to:			
— Equity holders of the Company		(7,021)	(20,025)
— Minority interests		(597)	(1,625)
		(7,618)	(21,650)
Dividend	9	—	—
Loss per share	10		
— Basic		(0.65) cents	(2.55) cents
— Diluted		N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	<i>Notes</i>	30 June 2006	31 December 2005
		<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	11	28,070	33,382
Interests in leasehold land held for own use under operating leases		4,294	4,350
Investment properties		69,998	71,804
Interests in associates		3,706	4,311
Goodwill		2,450	2,450
Intangible assets		12,600	13,300
Total non-current assets		<u>121,118</u>	<u>129,597</u>
Current assets			
Inventories		3,551	4,447
Trade and other receivables	12	15,108	7,773
Financial assets at fair value through profit or loss		9,516	7,933
Cash and cash equivalents		51,892	47,650
Total current assets		<u>80,067</u>	<u>67,803</u>
Total assets		<u>201,185</u>	<u>197,400</u>
Liabilities			
Current liabilities			
Provision for staff welfare and bonus		62,162	61,534
Trade and other payables	13	47,280	48,544
Short-term bank loans (secured)		40,777	43,462
Other loan (unsecured)		24,583	10,063
Amounts due to directors		90	7,206
Amounts due to related companies		146	636
Amount due to holding company		9,410	800
Total current liabilities		<u>184,448</u>	<u>172,245</u>

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

(Continue)

As at 30 June 2006

	Notes	30 June 2006	31 December 2005
		HK\$'000 (Unaudited)	HK\$'000 (Audited)
Non-current liabilities			
Deferred taxation		<u>2,450</u>	<u>2,450</u>
Total non-current liabilities		<u>2,450</u>	<u>2,450</u>
Total liabilities		<u>186,898</u>	<u>174,695</u>
TOTAL NET ASSETS		<u>14,287</u>	<u>22,705</u>
Capital and reserves			
Share capital	14	<u>10,739</u>	10,739
Reserves		<u>743</u>	<u>8,564</u>
Equity attributable to equity holders of the Company		<u>11,482</u>	19,303
Minority interests		<u>2,805</u>	<u>3,402</u>
TOTAL EQUITY		<u>14,287</u>	<u>22,705</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to equity holders of the Company						Minority	Total	
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Exchange	Convertible	Accumulated losses HK\$'000	Total HK\$'000	HK\$'000	HK\$'000
				translation reserve HK\$'000	notes equity reserve HK\$'000				
At 1 January 2006	10,739	94,457	148,158	(69,108)	—	(164,943)	19,303	3,402	22,705
Translation differences on overseas operations	—	—	—	(800)	—	—	(800)	—	(800)
Loss for the period	—	—	—	—	—	(7,021)	(7,021)	(597)	(7,618)
At 30 June 2006	<u>10,739</u>	<u>94,457</u>	<u>148,158</u>	<u>(69,908)</u>	<u>—</u>	<u>(171,964)</u>	<u>11,482</u>	<u>2,805</u>	<u>14,287</u>
At 1 January 2005									
— as originally stated	3,580	24,507	148,158	(69,654)	—	(66,940)	39,651	12,886	52,537
— effects of changes in accounting policy	—	—	—	—	7,327	(8,158)	(831)	—	(831)
	<u>3,580</u>	<u>24,507</u>	<u>148,158</u>	<u>(69,654)</u>	<u>7,327</u>	<u>(75,098)</u>	<u>38,820</u>	<u>12,886</u>	<u>51,706</u>
Open offer	7,159	69,950	—	—	—	—	77,109	—	77,109
Disposal of subsidiaries	—	—	—	—	—	—	—	1,445	1,445
Loss for the period	—	—	—	—	—	(20,025)	(20,025)	(1,625)	(21,650)
At 30 June 2005	<u>10,739</u>	<u>94,457</u>	<u>148,158</u>	<u>(69,654)</u>	<u>7,327</u>	<u>(95,123)</u>	<u>95,904</u>	<u>12,706</u>	<u>108,610</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Net cash (used in)/from operating activities	(8,338)	4,075
Net cash from investing activities	3,854	6,569
Net cash from financing activities	8,726	5,882
Increase in cash and cash equivalents	4,242	16,526
Cash and cash equivalents at 1 January	47,650	56,272
Cash and cash equivalents at 30 June, represented by cash and bank balances	51,892	72,798

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited consolidated financial statements have been prepared on the basis consistent with the principal accounting policies adopted in the 2005 annual financial statements with the addition of certain new standards and interpretations of Hong Kong Financial Reporting Standards that are effective for accounting periods beginning on or after 1 January 2006. The adoption of these standards and interpretations does not result in substantial changes to the Group's accounting policies and has no significant effect on the Group's results and financial position.

The Group has not early applied new standards, amendments and interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group.

The unaudited consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The unaudited consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The unaudited interim financial statements should be read in conjunction with the 2005 annual financial statements.

2. Financial risk management

The Group's activities are exposed to fair value and cash flow interest rate risk, foreign exchange risk, liquidity risk and credit risk. All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the 2005 annual financial statements.

3. Critical accounting estimates and judgements

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions applied in the preparation of the interim financial statements are consistent with those used in the 2005 annual financial statements.

4. Turnover

Turnover represents the net amounts received and receivable for goods sold.

5. Segmental information

The Group is primarily engaged in the business of (i) manufacture and sale of pharmaceutical and health products and (ii) properties holding for earning rental income.

(a) Business segments

Group	Manufacture and sale of pharmaceutical and health products		Properties holding for earning rental income		Consolidated	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Assets						
Segment assets	63,724	64,605	69,998	71,804	133,722	136,409
Interests in associates	3,706	4,311	—	—	3,706	4,311
Unallocated corporate assets	—	—	—	—	63,757	56,680
	<u>67,430</u>	<u>68,916</u>	<u>69,998</u>	<u>71,804</u>	<u>201,185</u>	<u>197,400</u>
Liabilities						
Segment liabilities	109,566	113,705	—	—	109,566	113,705
Unallocated corporate liabilities	—	—	—	—	77,332	60,990
	<u>109,566</u>	<u>113,705</u>	<u>—</u>	<u>—</u>	<u>186,898</u>	<u>174,695</u>

5. Segmental information (Continue)

(a) Business segments (Continue)

Group	Manufacture and sale of pharmaceutical and health products		Properties holding for earning rental income		Consolidated	
	30 June 2006	30 June 2005	30 June 2006	30 June 2005	30 June 2006	30 June 2005
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
Segment Revenue						
Turnover	20,924	22,330	—	—	20,924	22,330
Other income	—	—	3,393	4,347	3,393	4,347
	<u>20,924</u>	<u>22,330</u>	<u>3,393</u>	<u>4,347</u>	<u>24,317</u>	<u>26,677</u>
Segment result	(4,043)	(20,419)	(489)	513	(4,532)	(19,906)
Other unallocated income					1,608	5,473
Unallocated corporate expenses					(1,354)	(5,248)
Share of results of associates					(605)	(307)
Finance costs					(2,735)	(1,662)
Loss					<u>(7,618)</u>	<u>(21,650)</u>

(b) Geographical segments

The Group's turnover for the six months ended 30 June 2006 are substantially made to customers based in the PRC and the operations and tangible assets are substantially located in the PRC. Accordingly, no separate analysis for the geographical segment information is presented.

6. Loss before tax

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before tax has been arrived at after charging:		
Amortisation of intangible assets	700	7,206
Depreciation of property, plant and equipment	2,583	4,107
Depreciation of investment properties	1,824	2,857
Impairment loss on goodwill	—	1,380
and after crediting:		
Rental income	3,393	4,347
Interest income	214	249
Gain on disposal of property, plant and equipment	688	200
Gain on disposal of an associate	—	3,176

7. Staff costs

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and wages	4,770	4,939
Contributions to retirement schemes	870	614
	<u>5,640</u>	<u>5,553</u>

8. Tax expense

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2006 (2005: Nil) as the Group's operation in Hong Kong has no assessable profits.

The subsidiaries operate in the PRC are subject to PRC enterprise income tax at a rate of 15%. No provision for PRC enterprise income tax has been made as these subsidiaries incurred losses during the period.

9. Dividend

The board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

10. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2006 is based on the Group's loss attributable to equity holders of the Company of HK\$7,021,000 (2005: HK\$20,025,000) and on the number of ordinary shares in issue during the period of 1,073,934,000 shares (The weighted average number of ordinary shares in issue during the first half of 2005: 785,178,265 shares).

Diluted loss per share has not been presented as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for both periods.

11. Property, plant and equipment

During the period, the Group disposed of certain property, plant and equipment with a carrying amount of HK\$3,653,000 for proceeds of HK\$4,341,000, resulting in a profit on disposal of HK\$688,000.

In addition, the Group spent HK\$701,000 on additions to property, plant and equipment to upgrade its production facilities.

12. Trade and other receivables

	30 June 2006	31 December 2005
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Trade receivables	11,380	5,899
Deposits, prepayments and other receivables	3,728	1,874
	15,108	7,773
The aging analysis of trade receivables is set out below:		
Within 90 days	10,913	6,103
91 — 180 days	803	956
181 — 365 days	783	631
Over 365 days	5,403	4,731
	17,902	12,421
Less: Provision for doubtful debts	(6,522)	(6,522)
	11,380	5,899

The normal credit period granted by the Group is on average 90 days.

13. Trade and other payables

	30 June 2006	31 December 2005
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Trade payables	2,818	3,059
Accrued charges and other creditors	44,462	45,485
	<u>47,280</u>	<u>48,544</u>

All trade payables were aged less than one year.

14. Share capital

	Ordinary shares of HK\$0.01 each			
	30 June 2006		31 December 2005	
	Number of shares	Amount	Number of shares	Amount
	'000	<i>HK\$'000</i>	'000	<i>HK\$'000</i>
Authorised:				
At beginning of period/year	<u>100,000,000</u>	<u>1,000,000</u>	<u>100,000,000</u>	<u>1,000,000</u>
At end of period/year	<u>100,000,000</u>	<u>1,000,000</u>	<u>100,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
At beginning of period/year	1,073,934	10,739	357,978	3,580
2 for 1 open offer (Note)	—	—	715,956	7,159
At end of period/year	<u>1,073,934</u>	<u>10,739</u>	<u>1,073,934</u>	<u>10,739</u>

Note: In 2005, a total number of 715,956,000 shares were issued under a 2 for 1 open offer. The net proceeds from the open offer is HK\$77 million, of which HK\$70.2 million has been used for the early redemption of the convertible notes and promissory notes and the remaining balance of HK\$6.8 million has been applied as working capital of the Group.

15. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2006.

16. Commitments

The Group had the following future minimum lease payments under non-cancellable operating leases in respect of land and buildings:

	30 June 2006	31 December 2005
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Within one year	499	988
In the second to fifth year inclusive	—	275
	499	1,263

At the same time, the Group also leases out some of the investment properties, the future minimum rental receivable under non-cancellable operating leases are as follows:

	30 June 2006	31 December 2005
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Within one year	5,828	6,064
In the second to fifth year inclusive	12,126	11,664
Over five years	1,399	4,885
	19,353	22,613

17. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the six months ended 30 June 2006, the Group recorded a turnover of HK\$20,924,000 which represents a decrease of 6% as compared with the corresponding period last year. Sales of the Group's existing tonic drinks products (including Houtou Mushroom tonic drink and Chrysanthemum tonic drink) continued to drop because of keen competition in the tonic drink market in China and the fact that these products have reached the consolidation stage of their product life cycles.

Gross profit for the period under review was HK\$9,483,000 as compared to HK\$9,735,000 for the previous period. The gross margin achieved during the current period was 45% which was slightly better than the 44% margin achieved for the same period last year.

The Group reported a consolidated loss attributable to equity holders of the Company of HK\$7,021,000 as compared with a loss of HK\$20,025,000 for the same period last year. Such improvement was mainly attributable to the drop in general and administrative expenses as a result of the implementation of cost cutting measures and the decrease in amortisation expenses.

Prospects

The Group will continue to streamline the operation by cutting cost and down-sizing unprofitable businesses and at the same time looking for profitable business opportunities to maximise the interest of shareholders.

Following the change in the controlling shareholder of the Company in December 2005 and the completion of the mandatory unconditional cash offer by Outwit Investments Limited ("Outwit") in March 2006, Outwit is currently conducting a review on the Group's business activities and assets and is formulating business plans and strategies for the future business development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continue)*

Financial resources and liquidity

As at 30 June 2006, the Group's total assets amounted to HK\$201,185,000, representing an increase of HK\$3,785,000 as compared with that of last financial year end date.

As at 30 June 2006, the Group had current assets of HK\$80,067,000 (31 December 2005: HK\$67,803,000) and current liabilities of HK\$184,448,000 (31 December 2005: HK\$172,245,000). The current ratio was 0.43 at 30 June 2006 as compared with 0.39 at 31 December 2005.

The Group's cash and bank balances as at 30 June 2006 amounted to HK\$51,892,000 (31 December 2005: HK\$47,650,000), of which 4% were denominated in Hong Kong Dollars and 96% in Renminbi.

As at 30 June 2006, the Group had outstanding short term bank loans of HK\$40,777,000 (31 December 2005: HK\$ 43,462,000), all of which were denominated in Renminbi and granted by local banks in the PRC. The interest rates charged by banks ranged from 4.65% to 5.85% (for the six months ended 30 June 2005: 5.22% to 6.786%) per annum. These bank loans were secured by properties owned by the Group. The gearing ratio of the Group, measured by bank borrowings and other short term loans as a percentage of shareholders' equity, was 569% at 30 June 2006 as compared with 277% at 31 December 2005.

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, the exposure to exchange fluctuation is relatively low.

Employees and remuneration policy

As at 30 June 2006, the Group employed about 250 staff and workers in Hong Kong and the PRC. The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

OTHER INFORMATION

Directors' and chief executive's interests

As at 30 June 2006, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be 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 (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

Substantial shareholders' interests

As at 30 June 2006, the following persons (other than the directors or chief executive of the Company) had an interest or short position in the shares and 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	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	640,449,654	59.64%
Mr Hu Kajun (<i>Note 1</i>)	640,449,654	59.64%
National River Limited	106,530,000	9.92%
Mr Zeng Hong Bin (<i>Note 2</i>)	106,530,000	9.92%

Notes:

1. These shares were held by Outwit Investments Limited, the entire issued share capital of which was wholly owned by Mr Hu Kajun.
2. These shares were held by National River Limited, the entire issued share capital of which was wholly owned by Mr Zeng Hong Bin.

OTHER INFORMATION *(Continue)*

Substantial shareholders' interests *(Continue)*

Save as disclosed herein, as at 30 June 2006, no other person (other than the directors or chief executive of the Company) had an interest or short position in the shares and 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.

Share option scheme

During the six months period ended 30 June 2006, no share options were granted or exercised under the share option scheme. There were no outstanding share options as at 30 June 2006.

Purchase, sale or redemption of shares

During the six months period ended 30 June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Model code for securities transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry of the Directors, all Directors have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2006.

Code on corporate governance practices

In the opinion of the Directors, the Company has complied with the code provisions listed in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2006, with the exception of the following deviations:

1. Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Both roles were performed by Ms Lo Yuk Yee during the period from 1 January 2006 to 29 June 2006. Currently, the posts of chairman and chief executive officer are vacated and the board is identifying suitable candidates to take up the posts.

OTHER INFORMATION *(Continue)*

Code on corporate governance practices *(Continue)*

2. Under the code provision A.4.1, non-executive directors should be appointed for a specific term. Currently, non-executive Directors are not appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, they are subject to retirement by rotation at each annual general meeting under the bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.
3. Under the code provision B.1.1, a remuneration committee with specific written terms of reference should be established. On 20 September 2006, the Company has established the remuneration committee comprised of Mr Ha Sze Tung Sharp Stone (Chairman), Mr Wei Dong and Mr Yang Yue.
4. The ex-chairman of the board, Ms Lo Yuk Yee, did not attend the annual general meeting held on 28 June 2006, this constitutes a deviation from the code provision E.1.2. However, other executive directors and independent non-executive director were present to answer questions from shareholders.

Audit committee

The Audit Committee of the Company comprised of three independent non-executive Directors namely, Ms So Tosi Wan, Winnie (Chairman), Mr Wei Dong and Mr Yang Yue. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control procedures and financial reporting matters including a review of the Group's unaudited interim financial statements for the six months ended 30 June 2006.

By Order of the Board
Ha Sze Tung Sharp Stone
Director

Hong Kong, 25 September 2006

CORPORATE INFORMATION

Executive directors

Ms He Jin Hong (Deputy Chairman)
Mr Ha Sze Tung Sharp Stone

Independent non-executive directors

Ms So Tosi Wan, Winnie
Mr Wei Dong
Mr Yang Yue

Company secretary

Mr Lau Wing Yuen

Authorised representative

Mr Ha Sze Tung Sharp Stone
Mr Lau Wing Yuen

Auditors

BDO McCabe Lo Limited

Legal advisers

Li & Partners
Conyers, Dill & Pearman

Principal registrar

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(Bermuda) Limited
Rosebank Centre
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Bermuda

Hong Kong branch registrar

Computershare Hong Kong
Investor Services Limited
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The Hongkong and Shanghai Banking
Corporation Limited

Registered office

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Principal office

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