

## REPORT OF THE DIRECTORS

The directors are pleased to present their report together with the audited financial statements of Maxx Bioscience Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in Notes 16 and 17 to the financial statements respectively.

### RESULTS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out on pages 18 to 75.

### DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil). No interim dividend was declared during the year (2005: Nil).

### RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 36 to the financial statements respectively.

### SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 34 to the financial statements.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the law of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2006 are set out in Notes 16 and 17 to the financial statements respectively.

## REPORT OF THE DIRECTORS

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 13 to the financial statements.

### BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group during the year are set out in Notes 27 and 28 to the financial statements respectively.

### DIRECTORS

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

#### Executive directors

Ms He Jin Hong

Mr Ha Sze Tung Sharp Stone

Mr Hu Min (Resigned on 20 September 2006)

Ms Lo Yuk Yee (Resigned on 29 June 2006)

Mr Siu Siu Ling, Robert (Resigned on 29 June 2006)

#### Independent non-executive directors

Ms So Tosi Wan, Winnie

Mr Wei Dong (Appointed on 20 September 2006)

Mr Yang Yue (Appointed on 20 September 2006)

Mr Wong Wai Kin (Resigned on 29 June 2006)

Mr Ma Shiu Kin (Resigned on 29 June 2006)

In accordance with the Company's bye-law 87(1), Mr Ha Sze Tung Sharp Stone and Ms So Tosi Wan, Winnie retire from the Board by rotation and, being eligible, offers themselves for re-election.

### SERVICE CONTRACTS OF DIRECTORS

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME

The share option scheme of the Company was adopted on 17 May 2002 under which the board of directors may, at its discretion, offer to grant employees and directors of the Group and other eligible persons options to subscribe for shares in the Company subject to the terms and conditions stipulated therein.

No share options were granted or exercised under the share option scheme during the year ended 31 December 2006 and there were no outstanding share options as at 31 December 2006.

### DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether direct or indirect, subsisted at the end of the year or at any time during the year.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 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

As at 31 December 2006, the following persons (other than 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 and were recorded in the register kept by the Company pursuant to Section 336 of the SFO.

## REPORT OF THE DIRECTORS

Long positions in the shares of the Company:

Name	Number of shares held	Percentage of the Company's issued share capital
Outwit Investments Limited	640,449,654	59.64%
Mr Hu Kaijun ( <i>Note 1</i> )	640,449,654	59.64%
National River Limited	106,530,000	9.92%
Mr Zeng Hongbin ( <i>Note 2</i> )	106,530,000	9.92%

*Notes:*

1. These shares are held by Outwit Investments Limited, the entire issued share capital of which is wholly owned by Mr Hu Kaijun.
2. These shares are held by National River Limited, the entire issued share capital of which is wholly owned by Mr Zeng Hongbin.

Save as disclosed herein, no other person is recorded in the register kept pursuant to Section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company as at 31 December 2006.

### PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year.

## REPORT OF THE DIRECTORS

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the five largest customers of the Group accounted for approximately 87% (2005: 85%) of the Group's total turnover, with the largest customer accounted for approximately 72% (2005: 70%).

The five largest suppliers, for the year ended 31 December 2006, accounted for approximately 46% (2005: 55%) of the Group's total purchases, with the largest supplier accounted for approximately 20% (2005: 15%).

None of the directors, their associates, or any shareholders of the Company which to the knowledge of the directors owned more than 5% of the Company's share capital had an interest in these major customers and suppliers.

### CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 7 to 10.

### AUDITORS

The accounts for the year ended 31 December 2004 were audited by KLL Associates CPA Limited which resigned on 15 March 2006 due to the combination of their practices with that of BDO McCabe Lo Limited. On a special general meeting held on 30 March 2006, the shareholders approved the appointment of BDO McCabe Lo Limited as auditors of the Company. The accounts for the year ended 31 December 2005 were audited by BDO McCabe Lo Limited which resigned on 18 October 2006 as a consensus about the auditors' remuneration could not be reached. On a special general meeting held on 28 November 2006, the shareholders approved the appointment of SHINEWING (HK) CPA Limited as auditors of the Company. The accounts for the year ended 31 December 2006 were audited by SHINEWING (HK) CPA Limited. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as auditors of the Company.

On behalf of the Board

**Ha Sze Tung Sharp Stone**

*Director*

Hong Kong, 20 April 2007