



MAXX BIOSCIENCE HOLDINGS LIMITED

曼盛生物科技集團有限公司

Stock Code : 512

INTERIM REPORT

*2007*

## INTERIM RESULTS

The board of directors (the “Board”) of Maxx Bioscience Holdings Limited (the “Company”) announces the unaudited consolidated interim results for the six months ended 30 June 2007 of the Company and its subsidiaries (collectively the “Group”), together with comparative figures for the previous period.

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	Six months ended 30 June	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
<b>Turnover</b>	3	22,268	20,924
Cost of sales		(12,090)	(11,441)
<b>Gross profit</b>		10,178	9,483
Other income		2,704	5,001
Distribution expenses		(8,909)	(5,814)
Administrative expenses		(16,003)	(12,248)
Other operating expenses		(700)	(700)
Finance costs		(3,478)	(2,735)
Share of results of associates		260	(605)
<b>Loss before tax</b>	5	(15,948)	(7,618)
Taxation	7	—	—
<b>Loss for the period</b>		(15,948)	(7,618)
<b>Attributable to:</b>			
— Equity holders of the Company		(15,081)	(7,021)
— Minority interests		(867)	(597)
		(15,948)	(7,618)
<b>Dividend</b>	8	—	—
<b>Loss per share</b>	9		
— Basic		(1.40) cents	(0.65) cents
— Diluted		N/A	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Notes	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	30,794	32,569
Interests in leasehold land held for own use under operating leases		4,324	4,278
Investment properties		70,558	70,848
Interests in associates		3,940	3,680
Goodwill		1,050	1,050
Intangible assets		10,900	11,600
		<u>121,566</u>	<u>124,025</u>
<b>Current assets</b>			
Inventories		9,124	4,077
Trade and other receivables	11	12,691	8,109
Interests in leasehold land held for own use under operating leases — current portion		115	115
Investments at fair value through profit or loss		10,769	10,519
Cash and cash equivalents		67,403	59,407
		<u>100,102</u>	<u>82,227</u>
Assets classified as held for sale		13,947	13,624
		<u>114,049</u>	<u>95,851</u>
<b>Current liabilities</b>			
Trade and other payables	12	68,219	54,503
Short-term bank loans — secured		76,531	54,022
Other loans — secured		14,423	22,397
		<u>159,173</u>	<u>130,922</u>
<b>Net current liabilities</b>		<u>(45,124)</u>	<u>(35,071)</u>
<b>Total assets less current liabilities</b>		<u>76,442</u>	<u>88,954</u>
<b>Non-current liabilities</b>			
Deferred taxation		2,205	2,205
Amount due to holding company		12,610	11,008
Provision for staff welfare and bonus		65,283	63,821
		<u>80,098</u>	<u>77,034</u>
		<u>(3,656)</u>	<u>11,920</u>
<b>Capital and reserves</b>			
Share capital	13	10,739	10,739
Reserves		(16,429)	(1,648)
Equity attributable to equity holders of the Company		(5,690)	9,091
Minority interests		2,034	2,829
		<u>(3,656)</u>	<u>11,920</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Equity attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2007	10,739	94,457	148,158	(68,670)	(175,593)	9,091	2,829	11,920
Translation differences on overseas operations	—	—	—	300	—	300	72	372
Loss for the period	—	—	—	—	(15,081)	(15,081)	(867)	(15,948)
As at 30 June 2007	<u>10,739</u>	<u>94,457</u>	<u>148,158</u>	<u>(68,370)</u>	<u>(190,674)</u>	<u>(5,690)</u>	<u>2,034</u>	<u>(3,656)</u>
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)
As at 30 June 2006	<u>10,739</u>	<u>94,457</u>	<u>148,158</u>	<u>(69,908)</u>	<u>(171,964)</u>	<u>11,482</u>	<u>2,805</u>	<u>14,287</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Net cash used in operating activities	(3,318)	(7,580)
Net cash from investing activities	612	3,854
Net cash from financing activities	12,659	8,726
<b>Net increase in cash and cash equivalents</b>	<b>9,953</b>	<b>5,000</b>
<b>Cash and cash equivalents at 1 January</b>	<b>59,407</b>	<b>47,650</b>
Effect of foreign exchange rate changes	(1,957)	(758)
<b>Cash and cash equivalents at 30 June, representing Cash and bank balances</b>	<b>67,403</b>	<b>51,892</b>

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation

The condensed 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 (the "Stock Exchange") and with the Hong Kong Accounting Standard (the "HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 2. Significant accounting policies

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

The accounting policies adopted in the condensed consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2006. In the current interim period, the Group has applied, for the first time, the following new standards, amendments and interpretations ("new HKFRSs") issued by HKICPA which are effective for the Group's financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-INT 8	Scope of HKFRS 2
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment

The adoption of these new HKFRSs had no significant effect on the Group's results and financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied new standards, amendments and interpretations that have been issued but are not yet effective. The Group is currently assessing the potential impact of these standards, amendments and interpretations but are not yet in a position to state whether they would have a material financial impact on the Group's results and financial position.

### 3. Turnover

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

### 4. Segmental information

#### (a) Business segments

For management purpose, the Group is currently organised into three divisions: manufacturing and sales of pharmaceutical and health products, properties holding for earning rental income and trading of securities.

Segment information about these businesses is presented below:

Group	Manufacturing and sales of pharmaceutical and health products		Properties holding for earning rental income		Trading of securities		Consolidated	
	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
<b>Assets</b>								
Segment assets	64,531	57,908	70,558	70,848	10,769	10,519	145,858	139,275
Interests in associates	3,940	3,680	—	—	—	—	3,940	3,680
Unallocated corporate assets	—	—	—	—	—	—	85,817	76,921
	<u>68,471</u>	<u>61,588</u>	<u>70,558</u>	<u>70,848</u>	<u>10,769</u>	<u>10,519</u>	<u>235,615</u>	<u>219,876</u>
<b>Liabilities</b>								
Segment liabilities	199,915	165,953	—	—	—	—	199,915	165,953
Unallocated corporate liabilities	—	—	—	—	—	—	39,356	42,003
	<u>199,915</u>	<u>165,953</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>239,271</u>	<u>207,956</u>

Group	Manufacturing and sales of pharmaceutical and health products		Properties holding for earning rental income		Trading of securities		Consolidated	
	30 June 2007 HK\$'000 (Unaudited)	30 June 2006 HK\$'000 (Unaudited)	30 June 2007 HK\$'000 (Unaudited)	30 June 2006 HK\$'000 (Unaudited)	30 June 2007 HK\$'000 (Unaudited)	30 June 2006 HK\$'000 (Unaudited)	30 June 2007 HK\$'000 (Unaudited)	30 June 2006 HK\$'000 (Unaudited)
<b>Segment Revenue</b>								
Turnover	22,268	20,924	—	—	—	—	22,268	20,924
Other income	—	—	2,376	3,393	—	—	2,376	3,393
	<u>22,268</u>	<u>20,924</u>	<u>2,376</u>	<u>3,393</u>	<u>—</u>	<u>—</u>	<u>24,644</u>	<u>24,317</u>
<b>Segment Result</b>	(10,689)	(4,043)	471	(489)	250	1,583	(9,968)	(2,949)
Other unallocated income							328	1,608
Unallocated corporate expenses							(3,090)	(2,937)
Finance costs							(3,478)	(2,735)
Share of results of associates							260	(605)
Loss for the period							<u>(15,948)</u>	<u>(7,618)</u>

(b) **Geographical segments**

The Group's turnover for the six months ended 30 June 2007 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.



5. Loss before tax

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Loss before tax has been arrived at after charging:		
Amortisation of intangible assets	700	700
Depreciation of property, plant and equipment	2,882	2,583
Depreciation of investment properties	1,905	1,824
Amortisation of interests in leasehold land held for own use under operating lease	59	57
and after crediting:		
Rental income	2,376	3,393
Interest income	211	214
Gain on disposal of property, plant and equipment	521	688

6. Staff costs

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Salaries and wages	6,093	4,770
Contributions to retirement schemes	927	870
	<b>7,020</b>	<b>5,640</b>

7. Tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2007 (2006: Nil) as the Company and its subsidiaries which operate in Hong Kong have no assessable profits for both periods.

The subsidiaries operate in the PRC during the period 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 both periods.

8. Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (2006: Nil).

## 9. Loss per share

The calculation of basic loss per share for the six months ended 30 June 2007 is based on the loss attributable to equity holders of the Company of HK\$15,081,000 (2006: HK\$7,021,000) and on 1,073,934,000 shares (2006: 1,073,934,000) ordinary shares in issue during the period.

Diluted loss per share for both periods has not been presented as there were no dilutive shares outstanding during the six months periods ended 30 June 2007 and 2006.

## 10. Property, plant and equipment

During the period, the Group disposed of certain property, plant and equipment with a carrying amount of HK\$754,000 for proceeds of HK\$1,275,000, resulting in a profit on disposal of HK\$521,000.

In addition, the Group spent HK\$894,000 on additions to property, plant and equipment to upgrade its production facilities.

## 11. Trade and other receivables

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Trade receivables	10,896	5,842
Deposits, prepayments and other receivables	1,795	2,267
	<b>12,691</b>	<b>8,109</b>
The aging analysis of trade receivables is set out below:		
Within 90 days	10,733	6,603
91 — 180 days	1,074	605
181 — 365 days	653	293
Over 365 days	2,716	2,521
	<b>15,176</b>	<b>10,022</b>
Less: accumulated impairment	(4,280)	(4,180)
	<b>10,896</b>	<b>5,842</b>

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

12. Trade and other payables

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Trade payables	7,940	3,108
Accrued charges and other creditors	60,279	51,395
	<b>68,219</b>	<b>54,503</b>

All trade payables were aged less than one year.

13. Share capital

	Ordinary shares of HK\$0.01 each			
	30 June 2007		31 December 2006	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
<b>Authorised:</b>				
At beginning of period/year	100,000,000	1,000,000	100,000,000	1,000,000
At end of period/year	100,000,000	1,000,000	100,000,000	1,000,000
<b>Issued and fully paid:</b>				
At beginning of period/year	1,073,934	10,739	1,073,934	10,739
At end of period/year	1,073,934	10,739	1,073,934	10,739

#### 14. Commitments

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

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Within one year	830	980
In the second to fifth year inclusive	180	420
	<b>1,010</b>	<b>1,400</b>

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

	30 June 2007 HK\$'000 (Unaudited)	31 December 2006 HK\$'000 (Audited)
Within one year	6,463	6,929
In the second to fifth year inclusive	9,360	13,025
Over five years	1,479	1,142
	<b>17,302</b>	<b>21,096</b>

#### 15. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2007.

#### 16. Comparative figures

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

#### 17. Approval of the interim financial statements

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 20 September 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

For the six months ended 30 June 2007, the Group recorded a turnover of HK\$22,268,000 which represents an increase of 6% as compared with the corresponding period last year.

However, due to keen competition in the health drink market in China and the fact that many of the Group's existing products (including Houtou Mushroom tonic drink and Chrysanthemum tonic drink) have reached the consolidation stage of their product life cycles, sales of the Group's health drinks products dropped by 6% to RMB18,918,000 for the six months ended 30 June 2007.

Gross profit for the period under review was HK\$10,178,000 as compared to HK\$9,483,000 for the previous period. The gross margin achieved during the current period was 46% which was slightly better than the 45% margin achieved for the same period last year.

The Group reported a consolidated loss attributable to equity holders of the Company of HK\$15,081,000 as compared to a loss of HK\$7,021,000 for the same period last year. Such increase was mainly attributable to the increase in distribution and administrative expenses during the period.

### Prospects

The Group will continue to streamline operation by cutting cost and down-sizing unprofitable business 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.

## Financial resources and liquidity

As at 30 June 2007, the Group had current assets of HK\$114,049,000 (31 December 2006: HK\$95,851,000) and current liabilities of HK\$159,173,000 (31 December 2006: HK\$130,922,000). The current ratio was 0.72 at 30 June 2007 as compared to 0.73 at 31 December 2006.

The Group's cash and bank balances as at 30 June 2007 amounted to HK\$67,403,000 (31 December 2006: HK\$59,407,000), of which 2% were denominated in Hong Kong and United States Dollars and 98% in Renminbi.

As at 30 June 2007, the Group had outstanding short term bank loans of HK\$76,531,000 (31 December 2006: HK\$54,022,000), all of which were denominated in Renminbi and granted by banks in the PRC. The interest rates charged by banks ranged from 6.44% to 7.34% (for the six months ended 30 June 2006: 4.65% to 5.85%) per annum. These bank loans were secured by certain properties owned by the Group. The gearing ratio of the Group, measured by bank borrowings and other short term loans as a percentage of issued share capital, was 847% at 30 June 2007 as compared to 712% at 31 December 2006.

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 foreign exchange fluctuation is relatively low.

## Employees and remuneration policy

As at 30 June 2007, the Group employed about 270 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 in shares

As at 30 June 2007, 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 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 30 June 2007, 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 and were recorded in the register required to be kept by the Company pursuant to Section 336 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 (Note 1)	640,449,654	59.64%
National River Limited	106,530,000	9.92%
Mr Zeng Hongbin (Note 2)	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 Kajun.
2. These shares were 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 of 5% or more in the issued share capital of the Company as at 30 June 2007.

### **Share option scheme**

No share options were granted or exercised under the share option scheme during the six months ended 30 June 2007 and there were no outstanding share options as at 30 June 2007.

### **Purchase, sale or redemption of shares**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2007.

### **Model code for securities transactions**

The Company has adopted the Model Code as set out in Appendix 10 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange as its own code of conduct for securities transactions by directors. Having made specific enquiry of the Company's directors, all directors have confirmed their compliance with all the relevant requirements as set out in the Model Code during the six months ended 30 June 2007.



## Code on corporate governance practices

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 of the Listing Rules during the six months ended 30 June 2007, 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. Currently, the posts of chairman and chief executive officer are vacant and the Board is identifying suitable candidates to take up the posts.
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.

## Audit committee

The Company has established the Audit Committee for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. Currently, the Audit Committee comprises of three independent non-executive directors namely, Ms So Tosi Wan, Winnie (Chairman), Mr Wei Dong and Mr Yang Yue.

The Group’s unaudited interim financial statements for the six months ended 30 June 2007 has been reviewed by the Audit Committee.

## Remuneration committee

The Company has established the Remuneration Committee to consider the remuneration of all directors and senior management of the Company. Currently, the Remuneration Committee is chaired by Mr Ha Sze Tung Sharp Stone with two independent non-executive directors namely, Mr Wei Dong and Mr Yang Yue as members.

By Order of the Board  
**Ha Sze Tung Sharp Stone**  
*Director*

Hong Kong, 20 September 2007

## 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 representatives

Mr Ha Sze Tung Sharp Stone

Mr Lau Wing Yuen

### Auditors

SHINEWING (HK) CPA Limited

### Legal advisers

Li & Partners Solicitors

Conyers, Dill & Pearman

### Principal share registrar

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road, Pembroke HM08

Bermuda

### Hong Kong branch share registrar

Computershare Hong Kong Investor Services  
Limited

Shops 1712-1716, Hopewell Centre

183 Queen's Road East, Hong Kong

### Principal bankers

Bank of China (Hong Kong) Limited

The Hongkong and Shanghai Banking  
Corporation Limited

### Registered office

Clarendon House, 2 Church Street

Hamilton HM 11, Bermuda

### Principal office

Room 2501A, Hopewell Centre

183 Queen's Road East, Hong Kong