

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in MAXX Bioscience Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, licensed securities dealer, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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MAXX BIOSCIENCE HOLDINGS LIMITED

(曼盛生物科技集團有限公司*)

(Stock code: 512)

(Incorporated in Bermuda with limited liability)

PROPOSED OPEN OFFER OF 715,956,000 NEW SHARES OF HK\$0.01 EACH AT HK\$0.11 PER OFFER SHARE IN THE PROPORTION OF TWO OFFER SHARES FOR EVERY SHARE HELD PAYABLE IN FULL ON ACCEPTANCE AND EARLY REDEMPTION OF THE CONVERTIBLE NOTES AND THE PROMISSORY NOTES BY CASH PAYMENT

Financial adviser to the Company



KINGSTON CORPORATE FINANCE LIMITED

Underwriters



Get Nice Investment Limited



Emperor Securities Limited



EVER-LONG SECURITIES CO. LTD.



China Merchant Securities (HK) Co., Limited



LUEN FAT SECURITIES CO. LTD.



KINGSTON SECURITIES LIMITED



VC BROKERAGE LIMITED
滙盈證券有限公司

Independent financial adviser to the Independent Board Committee and Independent Shareholders



South China Capital Limited

Shareholders should note that the Underwriting Agreement contains provisions entitling the Underwriters, by notice in writing, to terminate its obligations thereunder if at any time prior to 4:00 p.m. on the Settlement Date, being the third business day after the latest time for acceptance of the Offer Shares: a) the success of the Open Offer would be materially and adversely affected by the development, occurrence or enforcement of: i) any new law or regulation or any change in existing laws or regulations which in the reasonable opinion of the Underwriters has or is likely to have a material adverse effect on the financial position of the Group as a whole; or ii) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or iii) any significant change (whether or not permanent) in local, national or international securities market conditions or currency exchange rates or exchange controls which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or makes it impracticable or inadvisable or inexpedient to proceed therewith; or iv) any suspension of dealings in the Shares for any period longer than five consecutive business days after the date of the Underwriting Agreement (other than as a result of the Open Offer); or v) any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise at any time prior to Latest Time for Termination; or b) any breach of any of the warranties by the Company pursuant to the Underwriting Agreement comes to the knowledge of the Underwriters; or c) any event occurs or any matter arises on or after the date hereof and prior to Latest Time for Termination which if it had occurred or arisen before the date thereof would have rendered any of Company's representations, warranties and undertakings untrue or incorrect in any material respect in such a manner as would in the absolute opinion of the Underwriters materially and adversely affect the financial position or business of the Group as a whole; or d) there is any such adverse change in the general affairs, management, business, stockholders' equity or in the financial or trading position of the Group as a whole which in the absolute opinion of the Underwriters is materially adverse to the success of the Open Offer; or e) there is any change in the composition of the Board which in the absolute opinion of the Underwriters may affect the management and general affairs of the Company; or f) any of the Company, Vision Ocean or any Director of the Company is involved in any material litigation proceedings from the date of the Underwriting Agreement to the latest time for acceptance of the Offer Shares, then and in any such case, Get Nice on behalf of the Underwriters may terminate the Underwriting Agreement without liability to the Company by giving notice in writing to the Company, served prior to the Latest Time for Termination.

It should be noted that the Shares will be dealt in on an ex-entitlements basis as from Wednesday, 16 February 2005, and that dealings in such Shares will take place whilst the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in the Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled or the date when right of the Underwriters to terminate its obligations under the Underwriting Agreement expires (which is expected to be 4:00 p.m. on Friday, 11 March 2005), will accordingly bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares during such period who is in any doubt about his or her position is advised to consult his or her professional adviser.

A letter of advice from South China Capital Limited, the independent financial adviser to the Independent Board Committee and Independent Shareholders, containing its opinion regarding the Open Offer is set out on pages 24 to 37 of this circular.

A notice convening a special general meeting of MAXX Bioscience Holdings Limited to be held at 10:00 a.m. on Wednesday, 16 February 2005 at Room 1910-1913, Hutchison House, 10 Harcourt Road, Central, Hong Kong is set out on page 104 and 105 of this circular. If you are not able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the Company Secretary, Mr. Ngai Wai Kin, at Room 3802, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong and in any event not less than 48 hours before the time for holding the meeting or any adjourned meeting (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish and in such case the proxy form shall be deemed to be revoked.

* For identification purpose only

27 January 2005

TERMINATION OF UNDERWRITING AGREEMENT

Shareholders should note that the Underwriting Agreement contains provisions entitling the Underwriters, by notice in writing, to terminate its obligations thereunder if at any time prior to 4:00 p.m. on the Settlement Date, being the third business day after the latest time for acceptance of the Offer Shares: a) the success of the Open Offer would be materially and adversely affected by the development, occurrence or enforcement of: i) any new law or regulation or any change in existing laws or regulations which in the reasonable opinion of the Underwriters has or is likely to have a material adverse effect on the financial position of the Group as a whole; or ii) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or iii) any significant change (whether or not permanent) in local, national or international securities market conditions or currency exchange rates or exchange controls which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or makes it impracticable or inadvisable or inexpedient to proceed therewith; or iv) any suspension of dealings in the Shares for any period longer than five consecutive business days after the date of the Underwriting Agreement (other than as a result of the Open Offer); or v) any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise at any time prior to Latest Time for Termination; or b) any breach of any of the warranties by the Company pursuant to the Underwriting Agreement comes to the knowledge of the Underwriters; or c) any event occurs or any matter arises on or after the date hereof and prior to Latest Time for Termination which if it had occurred or arisen before the date thereof would have rendered any of Company's representations, warranties and undertakings untrue or incorrect in any material respect in such a manner as would in the absolute opinion of the Underwriters materially and adversely affect the financial position or business of the Group as a whole; or d) there is any such adverse change in the general affairs, management, business, stockholders' equity or in the financial or trading position of the Group as a whole which in the absolute opinion of the Underwriters is materially adverse to the success of the Open Offer; or e) there is any change in the composition of the Board which in the absolute opinion of the Underwriters may affect the management and general affairs of the Company; or f) any of the Company, Vision Ocean or any Director of the Company is involved in any material litigation proceedings from the date of the Underwriting Agreement to the latest time for acceptance of the Offer Shares, then and in any such case, Get Nice on behalf of the Underwriters may terminate the Underwriting Agreement without liability to the Company by giving notice in writing to the Company, served prior to the Latest Time for Termination.

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DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

“Announcement”	the announcement of the Company issued on 6 January 2005 in relation to, inter alia, the Open Offer and the Early Redemption
“Announcement Date”	6 January 2005, date of the Announcement
“associates”	has the meaning ascribed thereto in the Listing Rules
“Assured Allotment Letter(s)”	the assured allotment letters to be used in connection with the Open Offer
“business day”	a day on which banks in Hong Kong are open for general business other than a Saturday or Sunday or a day on which a black rainstorm warning or tropical cyclone warning signal number 8 or above is hoisted in Hong Kong at any time between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon
“Board”	the board of Directors
“Bye-laws”	the bye-laws of the Company in force from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	MAXX Bioscience Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Convertible Notes”	the convertible notes in the principal amount of HK\$50,000,000 issued by the Company on 10 December 2003 whereby the holder thereof, Payton Place, has the right to convert the whole or any part of the outstanding principal into Shares at conversion price of HK\$0.605 subject to adjustment and the maturity date of which falls on 9 December 2006 as initially announced on 15 October 2003
“Controlling Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Cao”	Dr. Cao Wu, an executive director of the Company and the holder of Options to subscribe for 1,956,000 Shares which have lapsed with effect on 21 January 2005

DEFINITIONS

“Early Redemption”	the proposed early redemption of the Convertible Notes and the Promissory Notes pursuant to the Early Redemption Agreement
“Early Redemption Agreement”	the agreement dated 20 December 2004 entered into between the Company and Payton Place in relation to the early redemption of the Convertible Notes and the Promissory Notes
“Excess Application Form(s)”	the form(s) of application for excess Offer Shares to be used by the Qualifying Shareholders in relation to the Open Offer in the agreed form
“Excluded Shareholder(s)”	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) on that date is/are in (a) place(s) outside Hong Kong where, the Directors, based on legal opinions provided by legal advisers, consider it necessary or expedient to exclude any such Shareholder on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place
“Get Nice”	Get Nice Investment Limited, one of the Underwriters
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	a committee of the Board, comprising Mr. Wong Wai Kin, Mr. Ma Shiu Kin and Mr. Leung Wai Chuen, being the independent non-executive Directors, constituted to advise the Independent Shareholders on the Open Offer
“Independent Shareholders”	Shareholders other than Vision Ocean, Ms. Lo and their associates
“Last Trading Day”	17 December 2004, the last day on which the Shares were traded immediately preceding the publication of the Announcement
“Latest Practicable Date”	25 January 2005, being the latest practicable date for ascertaining certain information for inclusion in this circular

DEFINITIONS

“Latest Time for Termination”	4:00 p.m. on the Settlement Date
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Lo”	Ms. Lo Yuk Yee, the legal and beneficial owner of the entire issued share capital of Vision Ocean, a Director and Chairman of the Company
“Open Offer”	the issue of the Offer Shares on the basis of two Offer Shares for every Share held on the Record Date at the Subscription Price
“Offer Shares”	715,956,000 Shares to be issued under the Open Offer
“Option(s)”	the option(s) granted by the Company pursuant to the share option scheme of the Company adopted on 17 May 2002
“Payton Place”	Payton Place Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially and legally owned by Ms. Lo
“Promissory Notes”	the promissory notes in the principal amount of HK\$28,000,000 issued by the Company to Payton Place on 10 December 2003 the maturity date of which falls on 9 December 2006 as initially announced on 15 October 2003
“Prospectus”	a prospectus containing details of the Open Offer to be issued by the Company
“Prospectus Documents”	the Prospectus, the Assured Allotment Letter and the Excess Application Form relating to the Open Offer
“Qualifying Shareholder(s)”	Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Record Date”	Tuesday, 22 February 2005, the date by reference to which entitlements under the Open Offer will be determined
“Registrar”	Computershare Hong Kong Investor Services Limited, the branch registrar of the Company in Hong Kong
“Settlement Date”	Friday, 11 March 2005, being the third business day after the latest time for acceptance of the Offer Shares
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	a special general meeting of the Company to be convened and held for the consideration and approval of the Open Offer
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the company
“Shareholder(s)”	holder(s) of the Share(s)
“Shortfall Underwritten Shares”	any Underwritten Shares not accepted by Shareholders or for which duly completed Assured Allotment Letters or Excess Application Forms (accompanied by cheques or banker’s cashier orders for the full amount payable on application which are honoured on first or, at the option of the Company, subsequent presentation) have not been lodged for acceptance, or received, as the case may be, on or before the latest time for acceptance of the Offer Shares
“South China Capital”	South China Capital Limited, a corporation deemed licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (advising on asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and Independent Shareholders in respect of the Open Offer
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.11 per Offer Share pursuant to the Open Offer
“Underwriters”	Get Nice Investment Limited Emperor Securities Limited Ever-Long Securities Co. Limited China Merchant Securities (HK) Co., Limited Luen Fat Securities Company Limited Kingston Securities Limited VC Brokerage Limited
“Underwriting Agreement”	the agreement dated 20 December 2004 between the Company, the Underwriters and Vision Ocean relating to the underwriting in respect of the Open Offer
“Underwritten Shares”	not less than 455,946,364 and not more than 459,858,364 Offer Shares based on the number of shares in issue and as at the Announcement Date (being all the Offer Shares less those Offer Shares provisionally allotted to Vision Ocean which have been undertaken to be accepted by it)

DEFINITIONS

“Vision Ocean”	Vision Ocean Investments Limited, a limited company incorporated under the laws of the British Virgin Islands, the entire issued share capital of which is beneficially and legally owned by Ms. Lo and is the Controlling Shareholder of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

EXPECTED TIMETABLE

The expected timetable for the Open Offer is set out below:

2005
(Note)

Latest time for lodging forms of proxy for the SGM	10:00 a.m. on Monday, 14 February
Last day of dealings in Shares on a cum-entitlement basis	Tuesday, 15 February
First day of dealings in Shares on a ex-entitlement basis	Wednesday, 16 February
SGM	10:00 a.m. on Wednesday, 16 February
Latest time for lodging transfer of Shares for entitlement to the Open Offer	4:00 p.m. on Thursday, 17 February
Book closure period (both days inclusive)	Friday, 18 February to Tuesday, 22 February
Record Date	Tuesday, 22 February
Despatch of Prospectus Documents	Tuesday, 22 February
Register of members re-opens.	Wednesday, 23 February
Latest time for payment for and acceptance of the Offer Shares	4:00 p.m. on Tuesday, 8 March
Result of acceptance of the Offer Shares available	Wednesday, 9 March
Open Offer becomes unconditional	4:00 p.m. on Friday, 11 March
Announcement on results of the Open Offer appears on newspaper	Monday, 14 March
Despatch of refund cheques in respect of unsuccessful excess applications	Monday, 14 March
Despatch of Share certificates for Offer Shares on or before	Monday, 14 March
Dealings in Offer Shares expected to commence	Wednesday, 16 March

Note: All times refer to Hong Kong local times.

Dates or deadlines specified in this circular for events in the timetable for (or otherwise in relation to) the Open Offer are indicative only and may be exercised or varied by agreement between the Company and the Underwriters. Any consequential changes to the expected timetable will be published by way of public announcement.



MAXX BIOSCIENCE HOLDINGS LIMITED

(曼盛生物科技集團有限公司*)

(Stock code: 512)

(Incorporated in Bermuda with limited liability)

Executive Directors:

Ms. LO Yuk Yee (*Chairman*)
Ms. HE Jin Hong
Dr. CAO Wu
Mr. SIU Siu Ling, Robert
Mr. HA Sze Tung Sharp Stone
Mr. HU Min

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Independent non-executive Directors:

Mr. WONG Wai Kin
Mr. MA Shiu Kin
Mr. LEUNG Wai Chuen

*Principal Place of Business
in Hong Kong:*

Room 3802 Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

27 January 2005

To the Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER OF 715,956,000 NEW SHARES
OF HK\$0.01 EACH AT**

**HK\$0.11 PER OFFER SHARE IN THE PROPORTION OF TWO OFFER SHARES
FOR EVERY SHARE HELD PAYABLE IN FULL ON ACCEPTANCE
AND**

**EARLY REDEMPTION OF THE CONVERTIBLE NOTES
AND THE PROMISSORY NOTES BY CASH PAYMENT**

INTRODUCTION

On 6 January 2005, the Company announced that the Board proposes to raise approximately HK\$78.8 million (before expenses) by issuing not less than 715,956,000 but not more than 719,868,000 Offer Shares at a price of HK\$0.11 per Offer Share by way of an Open Offer, payable in full on application, on the basis of two Offer Shares for every existing Share held by the Qualifying Shareholders on the Record Date. The Open Offer will not be available to Excluded Shareholders. In

* For identification purpose only

LETTER FROM THE BOARD

addition to their pro rata assured allotment, Qualifying Shareholders will be able to apply for excess Offer Shares at the Subscription Price which are not taken up by other Qualifying Shareholders and any entitlements of the Excluded Shareholders. The Open Offer is fully underwritten by the Underwriters and is subject to the terms and conditions of the Underwriting Agreement.

It is also announced that the Company entered into the Early Redemption Agreement on 20 December 2004, with Payton Place (a company wholly owned by Ms. Lo) in relation to the early redemption of the Convertible Notes and the Promissory Notes with a total principal sum of HK\$78 million in full. Pursuant to the Early Redemption Agreement, the Convertible Notes and the Promissory Notes will be fully redeemed by payment of HK\$70.2 million to Payton Place, representing a discount of 10% to the principal sum of both the Convertible Notes and the Promissory Notes. The redemption monies will be settled by the proceeds of the Open Offer.

The purpose of this circular is to provide you with further information, among other things, on the Open Offer and the Early Redemption, the recommendation of the Independent Board Committee, the advice of South China Capital in respect of the Open Offer and the Notice of SGM. South China Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Open Offer.

PROPOSED OPEN OFFER

On 20 December 2004, the Company entered into the Underwriting Agreement with the Underwriters in respect of the Open Offer. Details of the Open Offer are set out below:

Basis of Open Offer:	Two Offer Shares for every Share held by the Qualifying Shareholders on the Record Date on an assured basis. Qualifying Shareholders may apply for any entitlements of the Excluded Shareholders and any Offer Shares not taken up by the Qualifying Shareholders.
Number of Shares in issue:	357,978,000 Shares as at the Latest Practicable Date
Number of Offer Shares:	715,956,000 Offer Shares
Subscription price:	HK\$0.11 per Offer Share

As at the Latest Practicable Date, the number of Shares convertible under the Convertible Notes is 82,608,695 Shares at a conversion price of HK\$0.605 per Share. Payton Place, being the holder of the Convertible Notes, has undertaken to the Company that it will not exercise any conversion rights attached to the Convertible Notes during the period from the Announcement Date up to and including the Record Date.

LETTER FROM THE BOARD

The Options to subscribe for up to an aggregate of 1,956,000 Shares at a price of HK\$0.79 per Share granted to Dr. Cao have lapsed with effect on 21 January 2005. Therefore, as at the Latest Practicable Date, the number of issued Shares of the Company remains as 357,978,000 Shares and the number of Offer Shares is 715,956,000 Offer Shares.

Save for the Options and the Convertible Notes, the Company has no other derivatives, options, warrants and conversion rights or other similar rights which are convertible into Shares.

Pursuant to the Underwriting Agreement, the Company has undertaken that it shall not issue any Shares or issue any Options or other securities which carry rights to acquire or convert into Shares (other than the Offer Shares) from the date of the Underwriting Agreement until after the latest time for acceptance of the Offer Shares. The Company has also undertaken to the Underwriters in the Underwriting Agreement that the proceeds of the Open Offer will be used for the Early Redemption pursuant to the Early Redemption Agreement.

Qualifying Shareholders will be assured of receiving the number of Offer Shares accepted if acceptance is made for a number of Offer Shares equal to or less than the number in their provisional allotments.

The Open Offer is conditional on the Underwriting Agreement becoming unconditional and the Underwriters not terminating the Underwriting Agreement by the Latest Time for Termination in accordance with its terms, details of which are set out in the sections headed “Termination of the Underwriting Agreement and force majeure” and “Conditions of the Underwriting Agreement” below. Accordingly, the Open Offer may or may not proceed.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders only on or about Tuesday, 22 February 2005. To qualify for the Open Offer, a Shareholder shall have an address in Hong Kong which appears on the register of members of the Company on the Record Date.

In order to be registered as members of the Company on the Record Date, all transfer of Shares (together with the relevant share certificates) must be lodged with the Company’s Registrar and its transfer office at Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not later than 4:00 p.m. on Thursday, 17 February 2005 pursuant to the expected timetable.

The Prospectus Documents are not expected to be registered under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda.

Rights of Excluded Shareholders

Having reviewed the register of members of the Company and based on its register of members as at the Latest Practicable Date, the Directors noted that none of the Shareholders has maintained an address outside Hong Kong on the Company’s register of members. If at any time before or on the Record Date, there is any Shareholder, who maintains an overseas address on the Company’s register

LETTER FROM THE BOARD

of members, the Company will seek legal opinion as soon as practicable regarding the feasibility of extending the Open Offer to such Shareholders. If based on the legal advice, the Directors consider that it is necessary or expedient not to offer the Offer Shares to such Shareholders on account of the legal restrictions under the relevant laws and/or the requirements of any relevant regulatory body or stock exchange in that place, the Open Offer will not be available to such Shareholders and the Open Offer will be excluded from such Shareholders. In this connection, documents to be issued in connection with the Open Offer will only be registered under the applicable securities legislation of Hong Kong and Bermuda but not such overseas jurisdictions. In the event that there are any Excluded Shareholders, the Company will send copies of the Prospectus to such Excluded Shareholders for their information only, but will not send any Assured Allotment Letter and Excess Application Form for Offer Shares to Excluded Shareholders. The Excluded Shareholders, if any, will be entitled to vote at the SGM to consider the Open Offer.

Closure of register of members

The register of members of the Company is expected to be closed from Friday, 18 February 2005 to Tuesday, 22 February 2005, both dates inclusive, to determine entitlements to participate in the Open Offer. No transfer of shares will be registered during this period.

Application for excess Offer Shares

Under the Open Offer, Qualifying Shareholders may apply for any entitlements of the Excluded Shareholders and any Offer Shares not taken up by the Qualifying Shareholders. Application can be made by completing the Excess Application Form for excess Offer Shares and lodging the same with a separate remittance for the excess Offer Shares being applied for.

The Directors will allocate the excess Offer Shares at their discretion and on a fair and equitable basis in proportion to the number of excess Offer Shares applied for by the respective Qualifying Shareholders under the Excess Application Forms and the detailed allocation basis for the excess applications is expected to be announced in the announcement of results of the Open Offer on Monday, 14 March 2005.

Fractions of Offer Shares

Given the Open Offer is on the basis of two Offer Shares for every Share held by Qualifying Shareholders on the Record Date, there will be no fractions of Offer Shares. The Offer Shares, after the completion of the Open Offer, will continue to be traded in the existing board lot of 2,000 Shares.

Subscription price for the Offer Shares

Subscription Price of HK\$0.11 per Offer Share will be payable in full when a Qualifying Shareholder accepts the Offer Shares, which price represents:

- a) a discount of approximately 41.5% to the closing price of HK\$0.188 per Share as quoted on the Stock Exchange on the Last Trading Day;

LETTER FROM THE BOARD

- b) a discount of approximately 37.5% to the average closing price of approximately HK\$0.176 per Share for the last ten trading days as quoted on the Stock Exchange up to and including the Last Trading Day;
- c) a discount of approximately 19.1% to the theoretical ex-entitlement price of HK\$0.136 per Share based on the closing price of HK\$0.188 per Share as quoted on the Stock Exchange on the Last Trading Day;
- d) a discount of approximately 77.6% to the interim unaudited consolidated net asset value of HK\$0.491 per Share as at 30 June 2004;
- e) a premium of approximately 77.4% to the interim unaudited consolidated net tangible asset value of HK\$0.062 per Share as at 30 June 2004; and
- f) a discount of approximately 5.2% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriters, with reference to the prevailing market price of the Shares, the unaudited consolidated net asset value per Share of approximately HK\$0.491 as at 30 June 2004, the financial position and performance, the prospects of the Group and the trading volume of the Shares on the Stock Exchange.

No trading in nil-paid allotments

Under the Open Offer, there will not be trading in nil-paid allotments of Offer Shares. If the Qualifying Shareholders do not participate in the Open Offer and take up the Offer Shares to which they are entitled, other Qualifying Shareholders may apply for the entitlements of any Offer Shares not taken up by those Qualifying Shareholders. Any Offer Shares not taken up by the Qualifying Shareholders will be taken up by the Underwriters pursuant to the Underwriting Agreement at the Subscription Price, which is at a discount to the prevailing market price of the Shares. As a result, the interest of these Qualifying Shareholders not taking up the Offer Shares in the Company will be diluted.

Status of the Offer Shares

When fully paid, issued and allotted, the Offer Shares will rank *pari passu* in all respects with the then issued Shares. Holders of the fully paid Offer Shares will be entitled to receive all future dividends and distributions declared, made or paid on or after the Record Date.

Share Certificates and refund cheques

Subject to the fulfilment of the conditions of the Open Offer, certificates for all the fully-paid Offer Shares and refund cheques in respect of unsuccessful excess applications (if any) are expected to be posted on or before Monday, 14 March 2005 to those who have accepted/applied and paid in full for the Offer Shares at their risk. The Offer Shares will be traded in the board lots of 2,000 Shares.

LETTER FROM THE BOARD

Application for listing and dealings

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares following the implementation of the Open Offer. Dealings in the Offer Shares will be subject to the payment of stamp duty in Hong Kong.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Underwriting Arrangements

As at the Announcement Date and the Latest Practicable Date, the Underwriters did not hold any shareholding in the Company and are not connected persons (as defined in the Listing Rules) of the Company.

Vision Ocean is interested in 130,004,818 Shares, representing approximately 36.32% of the existing issued share capital of the Company as at the Latest Practicable Date. Vision Ocean has undertaken to the Company and the Underwriters to take up the aggregate of 260,009,636 Offer Shares to which it is entitled to accept on an assured basis under the Open Offer.

The remaining Offer Shares are fully underwritten by each of the Underwriters in accordance with their respective Underwritten Shares pursuant to the terms of the Underwriting Agreement as described below.

UNDERWRITING AGREEMENT

Date: 20 December 2004

		Approximate percentage share of Underwritten Shares pursuant to the Underwriting Agreement
Underwriters:	Get Nice Investment Limited	28.23%
	Emperor Securities Limited	19.94%
	Ever-Long Securities Co. Limited	19.94%
	China Merchant Securities (HK) Co., Limited	9.97%
	Luen Fat Securities Company Limited	9.97%
	Kingston Securities Limited	7.97%
	VC Brokerage Limited	3.98%
	Total:	<u>100.00%</u>

LETTER FROM THE BOARD

Number of Offer Shares underwritten or undertaken to be accepted:		Offer Shares	As percentage of total Shares in issue
	Offer Shares undertaken to be accepted		
	by Vision Ocean	260,009,636	72.63%
	Underwritten Shares	<u>455,946,364</u>	<u>127.37%</u>
		<u>715,956,000</u>	<u>200.00%</u>

Commission: 1.25% of the aggregate Subscription Price in respect of the actual number of the Offer Shares underwritten by the Underwriters and is expected to be approximately HK\$0.627 million; and an additional of 0.5% of the aggregate Subscription Price in respect of the Underwritten Shares will be payable to Get Nice in consideration of the management services (such as acting as a co-ordinator to the other Underwriters) rendered by Get Nice in the Open Offer. The management fee payable to Get Nice is expected to be approximately HK\$0.251 million. The arrangement for paying additional fee for management services is a normal practice in line with the market and the rate was determined by the commercial negotiations between Get Nice and the Company.

Pursuant to the Underwriting Agreement, the Underwriters agree to subscribe for or procure subscribers for any Shortfall Underwritten Shares. Each of the Underwriters shall use its reasonable endeavours to ensure that the subscribers procured by it for the Shortfall Underwritten Shares shall be third parties who (i) are not connected persons (as defined in the Listing Rules) of the Company; and (ii) are not acting in concert with Vision Ocean, Ms. Lo or their respective associates or parties acting in concert with them. Each of the Underwriters also agrees that the subscribers procured by it will not become a substantial Shareholder (as defined in the Listing Rules) as a result of the Open Offer.

LETTER FROM THE BOARD

Termination of the Underwriting Agreement and force majeure

The Underwriting Agreement contains provisions entitling the Underwriters, by notice in writing, to terminate its obligations thereunder if at any time prior to 4:00 p.m. on the Settlement Date, being the third business day after the latest time for acceptance of the Offer Shares:

- a) the success of the Open Offer would be materially and adversely affected by the development, occurrence or enforcement of:**
 - i) any new law or regulation or any change in existing laws or regulations which in the reasonable opinion of the Underwriters has or is likely to have a material adverse effect on the financial position of the Group as a whole; or**
 - ii) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or**
 - iii) any significant change (whether or not permanent) in local, national or international securities market conditions or currency exchange rates or exchange controls which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or makes it impracticable or inadvisable or inexpedient to proceed therewith; or**
 - iv) any suspension of dealings in the Shares for any period longer than five consecutive business days after the date of the Underwriting Agreement (other than as a result of the Open Offer); or**
 - v) any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise at any time prior to Latest Time for Termination; or**
- b) any breach of any of the warranties by the Company pursuant to the Underwriting Agreement comes to the knowledge of the Underwriters; or**
- c) any event occurs or any matter arises on or after the date hereof and prior to Latest Time for Termination which if it had occurred or arisen before the date thereof would have rendered any of Company's representations, warranties and undertakings untrue or incorrect in any material respect in such a manner as would in the absolute opinion of the Underwriters materially and adversely affect the financial position or business of the Group as a whole; or**
- d) there is any such adverse change in the general affairs, management, business, stockholders' equity or in the financial or trading position of the Group as a whole which in the absolute opinion of the Underwriters is materially adverse to the success of the Open Offer; or**

LETTER FROM THE BOARD

- e) **there is any change in the composition of the Board which in the absolute opinion of the Underwriters may affect the management and general affairs of the Company; or**
- f) **any of the Company, Vision Ocean or any Director of the Company is involved in any material litigation proceedings from the date of the Underwriting Agreement to the latest time for acceptance of the Offer Shares,**

then and in any such case, Get Nice on behalf of the Underwriters may terminate the Underwriting Agreement without liability to the Company by giving notice in writing to the Company, served prior to the Latest Time for Termination.

CONDITIONS OF THE UNDERWRITING AGREEMENT

The Underwriting Agreement is conditional, amongst other things, on:

- i) the passing by Independent Shareholders at the SGM of an ordinary resolution to approve the Open Offer by poll;
- ii) the Early Redemption Agreement having been duly executed by the Company and Payton Place;
- iii) the Listing Committee of the Stock Exchange granting or agreeing to grant in principle (subject to allotment of Offer Shares) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares (in their fully-paid form);
- iv) compliance with the requirements under the applicable laws and regulations of Hong Kong and Bermuda;
- v) compliance with and performance of all undertakings and obligations of the Company pursuant to certain clauses in the Underwriting Agreement (Note); and
- vi) trading of Shares on the Stock Exchange not being suspended for more than five consecutive business days at any time prior to the latest time for acceptance of the Offer Shares (excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer).

Note: Those include, inter alia, procurement of Offer Shares to be allotted to Shareholders, registration and posting of the Prospectus Documents, delivery of relevant resolutions in connection with Open Offer, duly signed Verification Notes by all relevant parties and letters from the auditors on the Group's indebtedness and financial position to the Underwriters.

Save for condition vi) above, none of the above conditions can be waived. If the conditions referred to above are not satisfied and/or waived in whole or in part by the Underwriters by 4:00 p.m. on Tuesday, 8 March 2005, being the latest time for acceptance of the Offer Shares, or such other date or dates as the Underwriters may agree with the Company in writing, the Underwriting Agreement

LETTER FROM THE BOARD

shall terminate and the Open Offer will not proceed. In case the Open Offer does not proceed, the Company will not be liable for the underwriting commission and the management fee of the Underwritten Shares. However, the Company will be still liable to any costs and expenses of the legal and other professional advisers incurred in relation to the Open Offer.

Ms. Lo, Vision Ocean and their respective associates will abstain from voting in respect of the resolutions to approve the Open Offer at the SGM.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and upon completion of Open Offer, assuming different levels of acceptance of the Offer Shares by the Independent Shareholders:

	Existing shareholding as at the Latest Practicable Date		Shareholding immediately after the Open Offer assuming subscription by the Independent Shareholders of Offer Shares					
			0% (Note 1)		50% (Note 2)		100% (Note 3)	
	Shares	(%)	Shares	(%)	Shares	(%)	Shares	(%)
Vision Ocean	130,004,818	36.32	390,014,454	36.32	390,014,454	36.32	390,014,454	36.32
Sunny Fortune Limited (Note 4)	37,000,000	10.34	37,000,000	3.44	74,000,000	6.89	111,000,000	10.34
Ceva Investments Limited (Note 5)	41,180,000	11.50	41,180,000	3.83	82,360,000	7.67	123,540,000	11.50
Public:								
The Underwriters (Note 6)	—		455,946,364	42.46	227,973,182	21.23	—	—
Other public Shareholders	149,793,182	41.84	149,793,182	13.95	299,586,364	27.89	449,379,546	41.84
Total	<u>357,978,000</u>	<u>100.0</u>	<u>1,073,934,000</u>	<u>100.0</u>	<u>1,073,934,000</u>	<u>100.0</u>	<u>1,073,934,000</u>	<u>100.0</u>

Notes:

- Assuming that none of the Offer Shares is taken up by Independent Shareholders and that the entire Underwritten Shares are taken up by the Underwriters.
- Assuming that 50% of the Underwritten Shares are taken up by Independent Shareholders and the remainder taken up by the Underwriters.
- Assuming that the entire Underwritten Shares are taken up by the Independent Shareholders.
- The 37,000,000 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. Mr. Lok Fai resigned as director of the Company in June, 2002 but remains a director in a subsidiary of the Company. Mr. Lok was the chairman and executive director of the Company but resigned as chairman and was appointed as deputy chairman in March 2002. Mr. Lok then resigned as the deputy chairman and executive director in June 2002.

LETTER FROM THE BOARD

5. The 41,180,000 Shares are held by Ceva Investments Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned by Mr. Lau Chun Ming.
6. The Underwriters will place the Underwritten Shares to placees. Each of the Underwriters shall use its reasonable endeavours to ensure that the placees procured by it shall be independent of the Company and its connected persons and are not connected persons of the Company.

Up to the Latest Practicable Date, each of Sunny Fortune Limited and Ceva Investments Limited and their respective beneficial owner, Mr. Lok Fai and Mr. Lau Chun Ming has not indicated any intention or given any undertaking to the Company in respect of the assured allotment of Offer Shares to which they are entitled in the Open Offer.

WARNING OF THE RISKS OF DEALING IN SHARES

Trading of Shares on ex-entitlement basis is expected to commence on Wednesday, 16 February 2005. Any person contemplating buying or selling of the Shares from now up to the date on which all conditions of the Open Offer are fulfilled will bear the risk that the Open Offer may not become unconditional and may not proceed. Investors should seek professional advice regarding dealings in Shares if they are in any doubt.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Group is principally engaged in (i) investment holding; (ii) manufacturing, trading and distribution of health products, health drinks and pharmaceutical products; and (iii) the research and development of drug products and bioscience related projects. According to the Company's 2003 Annual Report, the Group recorded audited net loss attributable to Shareholders of approximately HK\$88 million. The loss attributable to Shareholders for the six months ended 30 June 2004 and 2003 are approximately HK\$23 million and HK\$16 million respectively. In order to enhance the earning base and profit potential of the Group, the Company has been actively seeking for investment opportunities that could contribute positively to the Group. As at the Latest Practicable Date, no specific investment items have been concluded yet.

In light of the above and given the recently improved equity market conditions, the Board considers that it is in the interest of the Company to raise equity capital to improve the gearing position and reduce the indebtedness of the Group whilst allowing the Qualifying Shareholders the opportunity to maintain their respective shareholdings in the Company. The Board considers the terms of the Open Offer are fair and reasonable to Shareholders as a whole.

The estimated net proceeds of the Open Offer is approximately HK\$77.0 million, of which approximately HK\$70.2 million will be used for the Early Redemption and the balance of approximately HK\$6.8 million will be used for working capital of the Group. The Board consider that upon redemption of the Convertible Notes and the Promissory Notes, the gearing position of the Group will be improved and the Group's financial position will be strengthened, facilitating the development of its business in the future.

LETTER FROM THE BOARD

Having considered (i) other means available to the Group for fund raising such as debt financing and other equity financing, including placing of shares; (ii) the current financial position of the Group; and (iii) the current equity market situation in Hong Kong, the Directors consider that the Open Offer, which allow participation of the existing Shareholders, is in the interest of the Company and its Shareholders despite the possible dilution effect as illustrated under the paragraph headed “Shareholding structure in the Company”.

Summary of Fund Raising Activities in the 12 months preceding the Latest Practicable Date

Date of announcement	Event and Net Proceeds	Comparison to market value	Intended use of the Proceeds	Actual use of the Proceeds as at the Latest Practicable Date
19 April 2004	Open offer of 207,214,500 open offer 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 and net proceeds of 15 million was raised	Discount of approximately 92.98% to the equivalent closing price of HK\$1.14 per share as quoted on the Stock Exchange on 26 March 2004	Approximately HK\$2.2 million to be used for redemption of convertible debentures to be due in October 2004, HK\$8 million to be used for development of QuProbe Project and the balance of approximately HK\$4.8million to be used as additional general working capital.	As at the Latest Practicable Date, approximately HK\$2.2 million has been used for redemption of the convertible debentures of the Company due in October 2004, approximately HK\$3.6 million has been used in the development of QuProbe Project and the balance of HK\$4.4 million is retained by the Group for any future use in the development of the QuProbe Project which was initially announced on 15 October 2003. Approximately HK\$4.8 million has been applied as general working capital of the Group.
13 September 2004	Issue of 55,180,000 shares of the Company at a subscription price of HK\$0.136 per share pursuant to a subscription agreement dated 8 September 2004 and net proceeds of approximately HK\$7.5 million was raised	Discount of approximately 18.56% to the closing price of HK\$0.167 per share as quoted on the Stock Exchange on 8 September 2004	Approximately HK\$7.5 million to be used as the Group’s general working capital	The total proceeds of approximately HK\$7.5 million has been applied as general working capital of the Group

LETTER FROM THE BOARD

THE EARLY REDEMPTION AGREEMENT

Date of the Early Redemption Agreement

20 December 2004

Parties

The Company, being the issuer of the Convertible Notes and the Promissory Notes; and Payton Place, the holder of the Convertible Notes and the Promissory Notes, which is beneficially owned by Ms. Lo, a Director and the beneficial owner of Vision Ocean.

Terms

Reference is made to the Company's announcement dated 15 October 2003 and the Company's circular dated 22 November 2003 regarding an acquisition ("Acquisition") by the Company from Payton Place of: (i) a 86% equity interest in New Wealth Assets Limited; (ii) a 30% equity interest in Maxx Immunotech Limited; and (iii) interest bearing shareholders loan ("Loan") given by Payton Place to New Wealth Assets Limited of approximately HK\$4.2 million. As the consideration of the Acquisition, the Company issued the Convertible Notes and the Promissory Notes to Payton Place in December 2003 upon completion of the Acquisition. According to the terms of the Acquisition, the Company has granted to Payton Place a right of first offer to re-purchase at any time the equity interests in New Wealth Assets Limited and Maxx Immunotech Limited and the Loan so acquired by the Company provided the Company is the owner of such equity interests and the Loan. As at the Latest Practicable Date, the Company has no intention to dispose of the equity interests in New Wealth Assets Limited and Maxx Immunotech Limited and the Loan acquired by the Company under the Acquisition.

Pursuant to the terms of the Convertible Notes and the Promissory Notes, the Company shall repay Payton Place the principal amount of HK\$50 million and HK\$28 million respectively on the date falling thirty-six months after the issue date of the Convertible Notes and the Promissory Notes. The Convertible Notes and the Promissory Notes bear interest on the outstanding principal from the date of issue at a rate of 1.5% per annum and the interest is payable semi-annually in arrears.

Under the Early Redemption Agreement, Payton Place and the Company have conditionally agreed that the Company is able to redeem the Convertible Notes and the Promissory Notes in full by payment of a sum of HK\$70.2 million, representing a discount of 10% to the aggregate principal sum of the Convertible Notes and the Promissory Notes. The said sum of HK\$70.2 million will be funded from the proceeds of the Open Offer. The basis of 10% discount on the principal sum of Convertible Notes and Promissory Notes is determined by the commercial negotiations between the Company and Payton Place. Payton Place further agrees to waive all its entitlement in the accrued interest and further interest in the Convertible Notes and the Promissory Notes.

LETTER FROM THE BOARD

Conditions for completion of the Early Redemption Agreement

Completion of the Early Redemption is subject to, amongst other things,:

- (a) approval by the Independent Shareholders by way of poll at the SGM of the Open Offer;
- (b) the Open Offer is duly completed and the dealings in Offer Shares under the Open Offer has duly commenced; and
- (c) all relevant regulatory requirements, including without limitation to those under the Listing Rules, having been complied with and satisfied.

Completion of the Early Redemption shall take place on or before the seventh business day following the day on which the last condition is satisfied or such other date as the parties to the Early Redemption Agreement may agree. Pursuant to the Early Redemption Agreement, if any of the conditions precedent is not fulfilled on or before 31 March 2005 (or such other date as the Company and Payton Place may agree in writing), the Early Redemption Agreement shall lapse and the parties shall be released from all obligations under the Early Redemption Agreement save for any liability arising out of any antecedent breach. The Company will make an announcement when the Early Redemption Agreement completes or lapses.

Early redemption of the Convertible Notes and Promissory Notes is permitted under the existing terms of the Convertible Notes and Promissory Notes respectively. The issue of the Convertible Notes and Promissory Notes and their respective terms thereunder, details of which were set out in the Company's announcement dated 15 October 2003, was approved by the Independent Shareholders at the special general meeting of the Company held on 9 December 2003.

The Open Offer and the Early Redemption are inter-conditional. In case the Open Offer does not proceed, the Company will not carry out the Early Redemption by other means.

REASONS FOR THE EARLY REDEMPTION

Under the Convertible Notes and the Promissory Notes, the Company shall pay to Payton Place aggregate principal amounts of HK\$50 million and HK\$28 million, respectively, on or before 9 December 2006 together with accrued interest calculated at an interest rate of 1.5% per annum payable semi-annually in arrears.

Pursuant to the terms of the Early Redemption Agreement, if the Company repays Convertible Notes and the Promissory Notes on or before 31 March 2005, the Company will be able to redeem the Convertible Notes and the Promissory Notes in full at a 10% discount to the principal sum of both the Convertible Notes and the Promissory Notes. Payton Place will also waive all accrued interest and future interest payable by the Company under the Convertible Notes and the Promissory Notes. The Company estimates that there will be a saving of approximately HK\$11.3 million (which includes

LETTER FROM THE BOARD

HK\$7.8 million being the 10% of the aggregate principal sum waived by Payton Place, the accrued interest of approximately HK\$1.5 million up to the end of March 2005 to be waived by Payton Place and approximately HK\$2 million related to future interest saved because of the Early Redemption) as a result of the Early Redemption.

Having considered (1) the saving of 10% in principal amount of Convertible Notes and Promissory Notes together with the saving of interests which in aggregate amounts to approximately HK\$11.3 million and (2) upon redemption of the Convertible Notes and the Promissory Notes in full, the gearing level of the Group will be reduced and the Group's future cash flow position and balance sheet will be enhanced by reducing its indebtedness, the Directors consider that it is an appropriate moment for the Company to enter into the Early Redemption Agreement which is in the interests of the Company and the Shareholders as a whole.

GENERAL

The SGM will be held to consider and, if thought fit, pass an ordinary resolution to approve the Open Offer.

Vision Ocean, which is wholly owned by Ms. Lo, is the Controlling Shareholder of the Company holding 130,004,818 Shares as at the Latest Practicable Date, representing approximately 36.32% of the existing issued share capital of the Company. Ms. Lo is also the Chairman of the Company and a Director.

Ms. Lo, Vision Ocean and their associates are required to abstain from voting in favour at the SGM for approving the Open Offer under the Listing Rules. It is the intention of Ms. Lo, Vision Ocean and their associates to abstain from voting in relation to the Open Offer at the SGM.

There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon each of Ms. Lo and Vision Ocean; and (ii) no obligation or entitlement of each of Ms. Lo and Vision Ocean as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of its Shares to a third party, either generally or on a case-by-case basis.

There is no discrepancy between the beneficial shareholding interest of each of Ms. Lo and Vision Ocean in the Company as disclosed in this circular and the numbers of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the SGM.

The voting on the Open Offer will be taken on a poll and the result of the SGM will be announced by publication in both an English language and Chinese language newspapers in Hong Kong on the business day following the SGM.

SGM

Set out in this circular is a notice convening the SGM which will be held at 10:00 a.m. on Wednesday, 16 February 2005 at Room 1910-1913, Hutchison House, 10 Harcourt Road, Central, Hong Kong at which resolutions will be proposed to approve the Open Offer.

LETTER FROM THE BOARD

A form of proxy for use at the SGM is enclosed with this circular. If you do not intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Company Secretary, Mr. Ngai Wai Kin, at Room 3802, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting. Delivery of a form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 23 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM regarding the Open Offer and to the letter received from South China Capital which contains its advice to the Independent Board Committee and Independent Shareholders as regards the Open Offer and the principal factors and reasons considered by it in arriving thereat. The full text of the letter from South China Capital is set out on pages 24 to 37 of this circular.

The Directors are of the opinion that the Open Offer is in the interests of the Company. Accordingly, the Directors recommend you to vote in favour of the ordinary resolution to be proposed at the SGM.

Your attention is drawn to the information contained in the Appendices to this circular.

By Order of the Board
MAXX Bioscience Holdings Limited
Lo Yuk Yee
Chairman



MAXX BIOSCIENCE HOLDINGS LIMITED

(曼盛生物科技集團有限公司*)

(Stock code: 512)

(Incorporated in Bermuda with limited liability)

27 January 2005

To the Independent Shareholders

Dear Sir or Madam,

As the Independent Board Committee, we have been appointed to advise you in connection with the Open Offer, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 27 January 2005 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms and conditions of the Open Offer and the advice of and principal factors and reasons considered by South China Capital in relation thereto as set out on pages 24 to 37 of the circular, we are of the opinion that the Open Offer is in the overall interest of the Company and the Shareholders as a whole and the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the SGM in relation to the Open Offer.

Leung Wai Chuen

*Independent non-executive
Director*

Yours faithfully,

Ma Shiu Kin

*Independent non-executive
Director*

Wong Wai Kin

*Independent non-executive
Director*

* For identification purpose only

LETTER FROM SOUTH CHINA CAPITAL

Set out below is the text of the letter from South China Capital containing its opinion and recommendations to the Independent Board Committee and the Independent Shareholders regarding the Open Offer, which is prepared for the purpose of inclusion in this circular.



South China Capital Limited
28th Floor, Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

27 January 2005

*To the Independent Board Committee and
the Independent Shareholders of
MAXX Bioscience Holdings Limited*

Dear Sirs,

PROPOSED OPEN OFFER

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer, details of which are set out in the circular to the Shareholders dated 27 January 2005 (the “Circular”) of which this letter forms part. Unless otherwise defined herein, capitalize terms used in this letter have the same meanings as defined in the Circular. Also, unless otherwise specified in this letter, Hong Kong dollar amounts have been translated, for the purpose of illustration only, using the following rates: HK\$1.00 = Renminbi (“RMB”) 1.06.

In the Announcement issued on 6 January 2005 that the Board proposed to raise approximately HK\$78.8 million (before expenses) by issuing not less than 715,956,000 but not more than 719,868,000 Offer Shares at a price of HK\$0.11 per Offer Share by way of an Open Offer, payable in full on application, on the basis of two Offer Shares for every existing Share held by the Qualifying Shareholders on the Record Date. As at the Announcement Date, the Company had 1,956,000 outstanding Options granted to Dr. Cao entitling him to subscribe for an aggregate of 1,956,000 Shares at a subscription price of HK\$0.79 per Share. In the event that Dr. Cao exercise his Options in full prior to the date on which his Options lapse (which is 21 January 2005), a total of 1,956,000 Shares will fall to be issued and an additional 3,912,000 Offer Shares will be issued under the Open Offer. However, since the publication of the Announcement and pending despatch of the Circular, the Options had lapsed on 21 January 2005. Therefore, as at the Latest Practicable Date, the number of issued Shares of the Company remains as 357,978,000 Shares and the number of Offer Shares is 715,956,000 Offer Shares.

LETTER FROM SOUTH CHINA CAPITAL

In addition to the Open Offer, the Board also announced on 6 January 2005 the Early Redemption Agreement, pursuant to which the Company will redeem the Convertible Notes and the Promissory Notes in full by paying HK\$70.2 million from the proceeds of the Open Offer. The Convertible Notes and the Promissory Notes have an aggregate principal amount of HK\$78 million and according to their respective terms shall mature on 9 December 2006. Details of the Early Redemption Agreement are set out in the section headed “The Early Redemption Agreement” contained in the letter from the Board (“Letter from the Board”) in this Circular. The Open Offer and the Early Redemption Agreement are inter-conditional.

Given that the Open Offer will increase the issued share capital of the Company by more than 50%, the Open Offer is therefore subject to the approval of Independent Shareholders at the SGM. Pursuant to the Listing Rules, Ms. Lo, Vision Ocean and their respective associates will abstain from voting on the resolution in relation to the Open Offer at the SGM.

The Independent Board Committee, comprising Mr. Wong Wai Kin, Mr. Ma Shiu Kin and Mr. Leung Wai Chuen has been established to advise as to the fairness and reasonableness of the terms of the Open Offer and to make recommendation to the Independent Shareholders thereon. South China Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned.

In formulating our recommendation, we have respectively relied on the accuracy of the information, representations and opinions contained in the Circular and information provided to us by the Company, its Directors and management. We have assumed that all information, representations and opinions made or referred to in the Circular were true at the time they were made and will continue to be true, accurate and complete at the date of the SGM. We have also assumed that all statements of belief, intention and opinion given and/or made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with, and we have reviewed, sufficient information which enables us to form a reasonable basis for our recommendation. We have not, however, conducted any form of in-depth investigation into the business affairs, financial position or future prospects of the Group nor have we carried out any independent verification of the information provided.

In formulating our opinion and recommendation, we have not considered the taxation implications on Shareholders in relation to the subscription for, holding of or dealing in the Offer Shares, as these are particular to their individual circumstances. It is emphasized that we will not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Offer Shares. In particular, Shareholders subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax positions, and if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our recommendation in relation to the Open Offer, we have taken the following principal factors into consideration:

1. Reasons for the Open Offer and use of proceeds

The Group is principally engaged in (i) investment holding; (ii) manufacturing, trading and distribution of health products, health drinks and pharmaceutical products; and (iii) the research and development of drug products and bioscience related projects. As stated in the 2004 interim report of the Company (the “Interim Report”), “...the Group is well aware of the growing opportunities in China for the market of drug material for drug manufacturing, and, diseases diagnosis...” and “...the Group has been actively seeking for partners in China for developing health care and pharmaceutical products in order to capture the enormous market there...”.

According to the section headed “Reasons for the Open Offer and use of proceeds” in the Letter from the Board, the Board intended to apply part of the estimated net proceeds of the Open Offer of approximately HK\$70.2 million for the early redemption of the Convertible Notes and the Promissory Notes in full and the balance of approximately HK\$6.8 million for working capital of the Group. The Board considers that the Open Offer would improve the Group’s gearing position and will strengthen the Group’s financial position for developing its business in the future. We are confirmed by the Directors that as at the Latest Practicable Date, no specific investment items have been concluded yet.

We note from the 2003 annual report of the Company (the “Annual Report”) that the Group had an extremely high gearing ratio of approximately 97.7% as at 31 December 2003 (calculated on the basis of total borrowings to shareholders equities which will be further discussed in the sub-paragraph headed “Indebtedness” below). Notwithstanding such a high gearing ratio, according to the Annual Report, “...the Group is committed to grow with a healthy financial position and maintain a low-gearing position...”. In this regard, we were advised by the Directors that the aforesaid statement could be evidenced by (i) the net reduction of short-term bank loans of approximately HK\$9.7 million during the six months ended 30 June 2004; and (ii) the partial usage of net proceeds from an open offer announced in April 2004 to redeem the convertible debentures of approximately HK\$2.2 million due in October 2004.

According to the Interim Report, the Group as at 30 June 2004 had total cash and cash equivalents of approximately HK\$51.3 million and total indebtedness of approximately HK\$121.5 million (of which as to approximately HK\$40.3 million related to short-term bank borrowings, as to HK\$78 million in total related to the Convertible Notes and the Promissory Notes, as to approximately HK\$1 million due to the major Shareholder, and as to approximately HK\$2.2 million related to convertible debentures due to an independent third party not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates). Also according to the Interim Report, the interest rates charged by bank borrowings ranged from approximately 5.5% to 5.8% per annum.

LETTER FROM SOUTH CHINA CAPITAL

We are advised by the Directors that even though the interest rates charged by bank borrowings are higher than those of the Convertible Notes and the Promissory Notes (both of 1.5% respectively as set out in the section headed “The Early Redemption Agreement” in the Letter from the Board), the Directors consider that the intended use of net proceeds from the Open Offer to redeem the Convertible Notes and the Promissory Notes is in the interests of the Company and its Shareholders as a whole as the successful implementation of the Open Offer and therefore the Early Redemption Agreement enables the Group to save approximately HK\$11.3 million (being HK\$7.8 million in respect of the discount to the principal amount to be repaid under the Convertible Notes and the Promissory Notes, approximately HK\$1.5 million related to the accrued interest of the Convertible Notes and the Promissory Notes up to the end of March 2005, and approximately HK\$2.0 million related to interest saved because of the early redemption).

In this regard, we have reviewed all of the terms and conditions governing the short-term bank borrowings as at the Latest Practicable Date signed between the Group and the banks in the People’s Republic of China and notice that some loans agreements have clauses regarding penalty for early repayment of loans - in the event that the Company repay bank borrowings before the date on which the agreements expire, the banks are entitled to charge penalties in total of approximately HK\$0.45 million, (equivalent to approximately RMB0.48 million). In addition, we are further confirmed by the Directors that even though the Group repays its bank borrowings before the due date, there is no possibility for the discount saved on the principal amount to be repaid and the Directors regard the facilities provided by the banks are important for the Group to maintain its financial flexibility in the future.

Having taken into account (i) the interest that could be saved on early repayment of short-term bank borrowings (of approximately HK\$0.85 million, assuming the early repayment was effective on 31 March 2005); (ii) the penalty charged by banks for early repayment (of approximately HK\$0.45 million, again assuming that the early repayment was effective on 31 March 2005), the net amount of interest saving amounted to approximately HK\$0.4 million in total. We, having taken into account that the total benefit to be obtained by the Group under the Early Redemption Agreement (of approximately HK\$11.3 million in total) is greater than that of the early repayment of short-term bank borrowings, are concur with the Directors’ view and consider the use of proceeds from the Open Offer to redeem the Convertible Notes and the Promissory Notes is in the interests of the Company and its Shareholders as a whole.

In addition to the aforesaid indebtedness position, the Company had been loss making for five consecutive financial years since 1999. Set out below is a table summarizing the Group’s audited consolidated results for each of the five financial years ended 31 December 2003 and the unaudited consolidated results for the six months ended 30 June 2004, extracted from the relevant annual reports/interim report of the Company.

	For the year ended 31 December				For the six months ended
	1999	2000	2001	2002	2003
	1999	2000	2001	2002	2003
	HK Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Loss attributable to Shareholders	(24.2)	(117.2)	(155.7)	(30.2)	(88.2)
					(23.4)

As the Board took the view that the Open Offer is in the interest of the Company and the Shareholders as a whole as the successful implementation of the Open Offer would strengthen the Group's financial position which would facilitate its business development in the future, we, having taken into account (i) the aforesaid high gearing ratio would dampen the financing power and working capital sufficiency of the Group; and (ii) the loss making situation being experienced by the Group makes it difficult to reduce liabilities in short-term, are of the view that it is in the interest of the Group to reduce its liabilities in order to maintain a healthier financial position to support its continuing operations and to pursue further investment opportunities. In addition, we consider the intended use of proceeds under the Open Offer is in line with the Group's plan of achieving a low gearing position as mentioned in the Annual Report.

2. Principal terms of the Open Offer

(a) *Basis*

The Open Offer is on the basis of two Offer Shares for every Share held by the Qualifying Shareholders on the Record Date at the subscription price of HK\$0.11 per Offer Share. The Offer Shares will, when fully paid, issued and allotted, rank *pari passu* in all respects with the then issued Shares. Holders of the fully paid Offer Shares will be entitled to receive all future dividends and distribution declared, made or paid on or after the Record Date. As these arrangements apply equally to all Qualifying Shareholders and holders of the Offer Shares, we are of the view that such an arrangements are fair and reasonable.

The Prospectus Documents are not expected to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda. The Directors, having reviewed the register of members of the Company and based on its register of members as at the Latest Practicable Date, noted that none of the Shareholder has maintained an address outside Hong Kong. If at any time on or before the Record Date, there is any Shareholder, who maintains an overseas address on the Company's register of members, the Company will seek legal opinion as soon as practicable regarding the feasibility of extending the Open Offer to such Shareholders. If based on the legal advice, the Directors consider that it is necessary or expedient not to offer the Offer Shares to such Shareholders on account of the legal restrictions under the relevant laws and/or the requirements of any relevant regulatory body or stock exchange in that place, the Open Offer will not be available to such Shareholders and the Open Offer will be excluded from such Shareholders. In this connection, documents to be issued in connection with the Open Offer will only be registered under the applicable securities legislation of Hong Kong and Bermuda but not such overseas jurisdictions. In the event that there are any Excluded Shareholders, the Company will send copies of the Prospectus (but not the Assured Allotment Letter and Excess Application Form) to such Excluded Shareholders for their information only. The Excluded Shareholders, if any, will be entitled to vote at the SGM to consider and, if thought fit, passing the resolution approving the Open Offer. We, having taken into account of the aforesaid and consider that as the Excluded Shareholders (if any) is entitled to vote at the SGM, consider the arrangement apply to the Excluded Shareholders is not prejudicial to the Excluded Shareholders.

(b) *Subscription Price*

The subscription price of HK\$0.11 represents:

- a discount of approximately 41.5% to the closing price of HK\$0.188 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 37.5% to the average closing price of HK\$0.176 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
- a discount of approximately 19.1% to the theoretical ex-entitlement price of HK\$0.136 per Share based on the closing price of HK\$0.188 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a discount of approximately 77.6% to the interim unaudited consolidated net assets value per Share of approximately HK\$0.491 as at 30 June 2004;
- a premium of approximately 77.4% over the interim unaudited consolidated net tangible assets value per Share of approximately HK\$0.062 as at 30 June 2004; and
- a discount of approximately 5.2% to the closing price of HK\$0.116 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was determined after arm's length negotiations between the Company and the Underwriters, with reference to (i) the prevailing market prices of the Shares; (ii) the unaudited consolidated net asset value per Share of approximately HK\$0.491 as at 30 June 2004; (iii) the financial position, performance and the prospects of the Group; and (ix) the trading volume of the Shares as quoted on the Stock Exchange. The Directors consider that the terms of the Open Offer are fair and reasonable so far as the Shareholders are concerned.

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(i) *Price performance of the Shares*

Set out below is the lowest and highest closing price of the Shares quoted on the Stock Exchange from 16 December 2003 (being the first trading day of the twelve-months period prior to the Last Trading Date and up to the Latest Practicable Date (the “Relevant Period”):

Month/year	Highest closing price in the month (HK\$)	Lowest closing price in the month (HK\$)
2003		
16 December to 31 December	0.325	0.275
2004		
January	0.485	0.265
February	0.540	0.430
March	0.485	0.335
April	0.250	0.173
May	0.218	0.165
June	0.180	0.105
July	0.125	0.098
August	0.182	0.100
September	0.182	0.109
October	0.157	0.112
November	0.185	0.125
1 December to 17 December (<i>Note</i>)	0.188	0.169
2005		
7 January to Latest Practicable Date (<i>Note</i>)	0.148	0.109

Source: <http://www.hkex.com.hk>

Note: Trading in the Shares was suspended from the period of 20 December 2004 to 6 January 2005 pending the release of the Announcement.

During the Relevant Period, the Shares were traded at a lowest closing price of HK\$0.098 on 26 and 28 July 2004 and at a highest price of HK\$0.540 on 24 February 2004. The Subscription Price falls within the aforesaid range and represents a premium of approximately 12.3% over the lowest price and a discount of approximately 79.6% to the highest price.

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For the purpose of comparison, we have reviewed the terms of 8 open offers and rights issues (which involved heavy calls on the basis of more than one offer/rights share for every share held) made by companies listed on the main board of the Stock Exchange during the Relevant Period (the “Comparable Companies”), which we consider are comparables to the Open Offer. Details of which are summarized in the table below:

Company name	Date of announcement	Category	Basis	Discount I (Note 1) (%)	Discount II (Note 2) (%)	Discount/ (premium) III (Note 3) (%)
Asia Alliance Holdings Limited	12-Jan-04	rights issue	5-for-1	86.1	50.8	(11.6)
Wonderful World Holdings Limited	13-Jan-04	open offer	2-for-1	51.0	25.9	82.8
Sunny Global Holdings Limited	29-Jan-04	rights issue	3-for-2	23.1	11.0	(5.3)
Enerchina Holdings Limited	19-Feb-04	open offer	2-for-1	55.1	28.6	35.5
Massive Resources International Corporation Limited	4-Mar-04	open offer	3-for-1	43.5	18.8	51.9
China Investment Fund Company Limited	4-Mar-04	open offer	5-for-1	50.0	14.4	64.3
Wai Yuen Tong Medicine Holdings Limited	20-Apr-04	rights issue	4-for-1	66.7	28.6	N/A (Note 4)
Emperor Entertainment Hotel Limited (formerly known as Emperor (China Concept) Investments Limited)	18-Nov-04	rights issue	5-for-1	12.8	2.4	78.6
Minimum				12.8	2.4	82.8
Maximum				86.1	50.8	(11.6)
Mean				48.5	22.6	42.3
Median				50.5	22.4	51.9
The Company				41.5	19.1	77.4

Notes:

- Discount I being discount of the effective subscription price to the closing price per share of the corresponding Comparable Company on the last trading day prior to the release of the relevant announcement of the Comparable Company.
- Discount II being discount of the effective subscription price to the theoretical ex-entitlement/ex-rights price calculation based on the closing price per share of the corresponding Comparable Company on the last trading day prior to the release of the relevant announcement of the corresponding Comparable Company.
- Discount III being discount/(premium) of the effective subscription price to/over the latest audited consolidated net tangible asset value per share of the corresponding Comparable Company before the release of the relevant announcement of the corresponding Comparable Company.
- The company has negative net tangible assets which is not relevant for comparison purpose.

As shown in the table above, the discounts rates of effective subscription price to the closing prices on the last trading day prior to the dates of announcements of the Comparable

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Companies ranged from approximately 12.8% to approximately 86.1% with mean and median of approximately 48.5% to approximately 50.5% respectively. The discount rate of the Subscription Price to the closing price of the Share on the Last Trading Day prior to the Announcement Date is approximately 41.5%, which is within the range of the Comparable Companies and fall below the aforesaid mean and median. In addition, the discount rates of the effective subscription price to the theoretical ex-entitlement/ex-rights price per share of the Comparable Companies ranged from approximately 2.4% to approximately 50.8% with mean and median of approximately 22.6% to approximately 22.4% respectively. Again, the discount rate of the Subscription Price to the theoretical ex-entitlements price per Share based on the closing price per Share on the Last Trading Day is within the range of the Comparable Companies and falls below its mean and median. The discount rate of 77.4% of the effective Subscription Price to the unaudited consolidated net tangible asset value per Share as at 30 June 2004 of the Company is within the maximum and minimum value of the Comparable Companies. Having taken into account of the aforesaid, we consider the Subscription Price is fair and reasonable.

(c) *Liquidity of the Shares*

Set out below is a table showing the total monthly volume of Shares traded and the percentage of such monthly volume to the total number of Shares in issue during the Relevant Period:

	Total monthly trading volume Shares	Percentage to the then total issued Shares % (Note 1)	Percentage to the then issued Shares in public hands % (Note 2)
2003			
16 December to 31 December	78,188,000	5.7	10.0
2004			
January	268,580,000	19.4	34.4
February	236,191,856	17.1	30.2
March	150,658,000	10.9	19.3
April	4,548,800	6.6	11.7
May	1,300,900	1.9	3.3
June	16,588,600	6.0	15.2
July	3,372,400	1.2	3.1
August	10,216,900	3.7	18.9
September	6,119,520	1.9	5.6
October	8,978,000	2.7	8.2
November	15,226,300	4.3	11.2
1 December to 17 December (Note 3)	1,243,000	0.4	0.8
2005			
7 January to Latest Practicable Date (Note 3)	15,397,890	4.3	10.3

Source: <http://www.hkex.com.hk>

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Notes:

1. The then issued Shares were approximately 1,381.4 million (for the period from 16 December 2003 to 26 April 2004), approximately 69.1 million (for the period from 27 April 2004 to 30 May 2004 after adjusted for a 20 into 1 share consolidation effective on 27 April 2004), approximately 276.3 million (from June to August 2004), approximately 331.5 million (for September and October 2004) and approximately 358 million for the period from 1 November 2004 to the Latest Practicable Date.
2. Issued Shares in public hands were 781.2 million (for the period from 16 December 2003 to 26 April 2004), approximately 39.1 million (for the period from 27 April 2004 to 30 May 2004 after adjusted for a 20 into 1 share consolidation effective on 27 April 2004), approximately 109.3 million (from June to October 2004), approximately 135.8 million (for November 2004) and approximately 149.8 million for the period from 1 December 2004 to the Latest Practicable Date.
3. Trading of Shares was suspended for the period from 20 December 2004 up to 6 January 2005 (both dates inclusive) pending the release of the Announcement.

As shown in the table above, the trading of Shares during the Relevant Period in general fluctuate widely and the percentage of total trading volume of the Shares in public hands ranged from approximately 0.8% (for the month of December 2004) to 34.4% (for the month of January 2004), with an average of approximately 12.3%. Hence, the liquidity in the Shares during the Relevant Period in general was relatively low. We, having taken into account the aforesaid low liquidity of the Shares and the Subscription Price was determined, among others, with reference to the trading volume of the Shares on the Stock Exchange, consider the determination of Subscription Price (with reference to the liquidity of the Shares) is not prejudicial to the Company and its Shareholders as a whole.

(d) *Conditions*

The Open Offer is conditional upon, inter alia, certain conditions as stated in the letter from the Board in this Circular, which include (i) the passing of an ordinary resolution by the Independent Shareholders to approve the Open Offer by poll; (ii) the Early Redemption Agreement having been duly executed by the Company and Payton Place; (iii) the obligations of the Underwriters under the Underwriting Agreement not being terminated by the Underwriters in accordance with its terms; (iv) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Offer Shares; and (v) compliance with the requirements under the applicable laws and regulations of Hong Kong and Bermuda.

As at the Latest Practicable Date, Vision Ocean is interested in 130,004,818 Shares, representing approximately 36.3% of the existing issued share capital of the Company. Vision Ocean has undertaken that it will take up its assured entitlement under the Open Offer, being an aggregate of 260,009,636 Offer Shares.

Subject to the fulfillment of the conditions contained in the Underwriting Agreement and the subscription of Offer Shares provisionally allotted to Vision Ocean, the balance of the Offer Shares will be underwritten by the Underwriters.

3. Underwriting arrangement

Shareholders should note that if the Underwriters exercise the right to terminate the Underwriters' obligation under the Underwriting Agreement, the Open Offer will not proceed. Details of the provisions granted to the Underwriters are set out in the section headed "Underwriting Agreement" in the Letter from the Board. We consider the provisions granted to the Underwriters are on normal commercial terms and in line with the market practice.

Pursuant to the Underwriting Agreement, the Company will pay the Underwriters an underwriting commission of 1.25% of the aggregate Subscription Price of the actual number of Offer Shares underwritten by them. In addition, the Company will pay one of the Underwriters, Get Nice, an additional commission of 0.5% of the aggregate Subscription Price in respect of the Underwritten Shares for the management services (such as acting as a co-ordinator to the other Underwriters) rendered by Get Nice in the Open Offer. The Directors consider that the arrangement for paying additional fee for management services is a normal practice which is in line with the market and the rate was determined by commercial negotiations between Get Nice and the Company.

In respect of the aforesaid 1.25% underwriting commission, we have reviewed the terms of underwriting arrangements for the Comparable Companies as mentioned above and noticed underwriting commission paid by the Comparable Companies ranged from 0% to 3% (being 1 Comparable Company did not pay any underwriting commission to the underwriter as the underwriter was a substantial shareholder of the corresponding Comparable Company, 2 Comparable Companies paid underwriting commission of 1%, 1 Comparable Company paid underwriting commission of 1.5%, 2 Comparable Companies paid underwriting commission of 2%, 1 Comparable Company paid underwriting commission 2.5% and 1 Comparable Company paid underwriting commission of 3%). In addition, the mean and median of underwriting commission paid by the Comparable Companies amounted to approximately 1.63% and approximately 1.75% respectively. Having taken into account that the 1.25% underwriting commission paid under the Underwriting Agreement is at the lower rank within the range of the Comparable Companies and is also lower than both the mean and median of the Comparable Companies, we are of the view that the 1.25% underwriting commission under the Underwriting Agreement is in accords with the market rate in Hong Kong.

As for the aforesaid 0.5% additional commission, we have noted that the Comparable Companies do not have underwriters performing additional management services (such as acting as a co-ordinator to the other Underwriters) apart from underwriting. In this regard, we have reviewed all open offers and rights issue conducted by main board listed companies during the Relevant Period and noted 2 listed companies under review had paid their respective underwriters "management and underwriting commission" of 2% (based on the corresponding subscription price times total number of rights shares to be issued) and 2.75% (based on the corresponding subscription price times the number of underwritten shares) respectively. As the 0.5% additional commission for managements services performed together with the 1.25% underwriting commission is lower than the aforesaid 2% and 2.75% paid by other listed companies, we are of the view that the payment of 0.5% additional commission to Get Nice is not prejudicial and is in line with the market practice.

4. Financial effects of the Open Offer

(i) *Net tangible asset value*

Reference is made to the section headed “Unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Asset of the Group” as set out in Appendix I to the Circular. According to the said statement, the unaudited pro forma adjusted consolidated net tangible assets of the Group will increase from approximately HK\$17.2 million to approximately HK\$94.2 million, representing an increase of approximately 447.7%. On the other hand, on a per Share basis, the unaudited pro forma adjusted consolidated net tangible assets value of the Group will also increase by approximately 83.3% from approximately HK\$0.048 to approximately HK\$0.088 after the Open Offer. We are of the view that the increase in unaudited pro forma adjusted consolidated net tangible assets value as mentioned above is in the interest to the Company and its Shareholders as a whole.

(ii) *Indebtedness*

According to the Interim Report, the Group had (i) total cash and cash equivalent of approximately HK\$51.3 million; (ii) total outstanding bank and others borrowings of approximately HK\$121.5 million; and (iii) gearing ratio of approximately 89.6% as at 30 June 2004 (calculated on the basis of total borrowings to shareholders equities). As the estimated net proceeds of approximately HK\$70.2 million of the Open Offer is intended to be used for the redemption of the Convertible Notes and the Promissory Notes in full, the effect of the Open Offer will reduce the Group’s total outstanding borrowings. Based on the Interim Report and the aforesaid use of proceeds, the gearing ratio of the Group will be improved to approximately 19.6%. We are of the view that the Open Offer will provide the Group with a healthier financial position.

(iii) *Working capital*

After deducting HK\$70.2 million (for the redemption of the Convertible Notes and the Promissory Notes) from the total net proceeds of the Open Offer, the balance of approximately HK\$6.8 million is intended to be used as working capital of the Group. We consider that the additional working capital to be derived under the Open Offer can provide financial flexibility to the Group’s operation.

(iv) *Dilution of shareholding*

According to the table headed “Shareholding structure of the Company” contained in the Letter from the Board, in the event that Independent Shareholders do not subscribe for any of their provisional entitlements under the Open Offer, their shareholding interests in the Company will be diluted by approximately 66.7%. On the other hand, if the Independent Shareholders subscribe for half of their provisional entitlements under the Open Offer, their shareholding interests in the Company will be diluted by approximately 33.3%. We consider the dilution is not prejudicial as Qualifying Shareholders are given an equal opportunity to participate in the Open Offer and are entitled to subscribe for their entitlements under the terms of the Open Offer. In addition to the aforesaid, Shareholders who are confident in the prospects of the Group and wish to increase their shareholding in the Company may purchase additional Shares through the excess application arrangement.

(v) *Effect on earnings*

As set out in the Interim Report, the Company had an unaudited consolidated loss attributable to Shareholders of approximately HK\$23.4 million as at 30 June 2004 (equivalent to approximately HK\$0.07 per Share, based on 357,978,000 issued Shares as at the Latest Practicable Date). In the event that the Open Offer is successfully implemented, the number of issued Shares will be increased to 1,073,934,000 resulting in the attributable loss per Share being reduced to approximately HK\$0.02. Furthermore, as the net proceeds of the Open Offer would be applied to redeem the Convertible Notes and the Promissory Notes in full, which as mentioned in the section headed “Reasons for the Open Offer and use of proceeds” above resulting an interest saving of approximately HK\$3.5 million in total (as to approximately HK\$1.5 million related to the accrued interest up to the end of March 2005 to be waived under the Early Redemption Agreement and as to approximately HK\$2.0 million related to early redemption.) As the interest saving would have an immediate positive financial impact on the Company, we consider the Open Offer is in the interest of the Company and its Shareholders as a whole.

5. Alternatives to the Open Offer

As stated in the Letter from the Board, the Directors have considered other means available to the Group for fund raising, such as debt financing and other equity financing including placing of Shares, but having taken into account (i) the current financial position of the Group; and (ii) the current equity market situation in Hong Kong, consider that through an open offer, which allows participation of the existing Shareholders, is in the interest of the Company and its Shareholders as a whole. In this regard, we were further advised by the Directors that debt financing through bank borrowings is not an appropriate means as the Group already has a relatively high gearing ratio, any additional bank borrowings with substantial amount (i.e. HK\$78 million) would require a higher interest rate which would create an additional financial burden to the Group. In this regard, we are of the view that the main purpose of the proposed Open Offer is to reduce the Group’s gearing by repaying the Convertible Notes and the Promissory Notes which are due to expire on 9 December 2006. Given the weak financial position experiencing by the Group, we consider additional bank borrowings are not an alternative and suitable means for the Group. For equity financing alternatives such as (i) placing of new Shares would jeopardize the pre-emptive rights given to Shareholders to buy additional shares; (ii) by rights issue of shares involving a longer process than an open offer which would deter the Company to access the net proceeds. We concur with the Directors’ view in this regard.

SUMMARY

In summary, we would like to draw your attention to the following key factors in arriving at our opinion:

- The Board consider that, given the current indebtedness position of the Group, it is in the interest of the Company and its Shareholders to reduce the Group’s liabilities and therefore improve the gearing level of the Group which is also in line with the Group’s plan to improve its gearing position.

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- The Open Offer and the Early Redemption Agreement are inter-conditional. The successful implemental of the Open Offer enables the Group to save approximately HK\$11.3 million (related to principal and interest save on the Convertible Notes and the Promissory Notes).
- The Subscription Price under the Open Offer is fair and reasonable.
- The terms of the underwriting arrangement is in accord with the market practice in Hong Kong.
- Amongst others fund raising alternatives, an open offer is a more favourable means to raise funds.
- The successful implementation of the Open Offer would enlarge the capital base of the Company and facilitates its business development in the future.
- The Open Offer has a positive financial impact to the Company and the Shareholders in terms of net tangible assets value, indebtedness, working capital and earnings.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Open Offer is in the overall interests of the Company and that the terms of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Open Offer.

Yours faithfully,
For and on behalf of
South China Capital Limited
Richard Howard Gorges
Managing Director

1. SHARE CAPITAL

The authorised and issued share capital of the Company at the Latest Practicable Date are as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>100,000,000,000</u>	Shares as at the Latest Practicable Date	<u>1,000,000,000.00</u>
<i>Issued and fully paid:</i>		
69,071,500	Shares as at 31 December 2003 which is adjusted by the share consolidation during the year of 2004	690,715.00
207,214,500	Shares for open offer as initially announced on 19 April 2004	2,072,145.00
55,180,000	Shares for the subscription as announced on 13 September 2004	551,800.00
<u>26,512,000</u>	Shares for the exercise of share options during the year of 2004	<u>265,120.00</u>
357,978,000	Shares as at the Latest Practicable Date	3,579,780.00
<u>715,956,000</u>	Offer Shares	<u>7,159,560.00</u>
<u>1,073,934,000</u>	Shares upon the completion of Open Offer	<u>10,739,340.00</u>

All the Shares in issue, and Open Offer Shares to be issued rank and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

At the Latest Practicable Date, the Company has Convertible Notes convertible into up to 82,608,695 Shares of conversion price HK\$0.605 per Share and Payton Place Limited, the holder of the Convertible Notes has undertaken to the Company that it will not exercise any conversion rights attached to the Convertible Notes up to and including the Record Date.

The Options to subscribe for up to an aggregate of 1,956,000 Shares at a price of HK\$0.79 per Share granted to Dr. Cao have lapsed with effect on 21 January 2005. Therefore, as at the Latest Practicable Date, the number of issued Shares of the Company remains as 357,978,000 Shares and the number of Offer Shares is 715,956,000 Offer Shares.

Save for the Options and the Convertible Notes, the Company has no other derivatives, options, warrants and conversion rights or other similar rights which are convertible into Shares.

Pursuant to the Underwriting Agreement, the Company has undertaken that it shall not issue any Shares or issue any Options or other securities which carry rights to acquire or convert into Shares (other than the Offer Shares) from the date of the Underwriting Agreement until after the latest time for acceptance of the Offer Shares.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

There are no arrangements under which future dividends will be waived or agreed to be waived.

Save as disclosed in this circular, no share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

2. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following table summarised the results, assets, liabilities and minority interests of the Group for the last three financial years, as extracted from the published audited financial statements.

The Company's auditors have not issued any qualified opinion on the Group's financial statements for the three preceding years.

Consolidated Income Statement

	For the years ended 31 December		
	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>66,404</u>	<u>80,496</u>	<u>127,152</u>
Loss from ordinary activities before taxation	(94,413)	(31,268)	(163,024)
Taxation	<u>—</u>	<u>—</u>	<u>—</u>
Loss before minority interests	(94,413)	(31,268)	(163,024)
Minority interests	<u>6,257</u>	<u>1,121</u>	<u>7,285</u>
Loss attributable to shareholders	<u>(88,156)</u>	<u>(30,147)</u>	<u>(155,739)</u>
Dividend	<u>—</u>	<u>—</u>	<u>—</u>

Consolidated Assets and Liabilities

	As at 31 December		
	2003	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	413,614	393,877	377,088
Total liabilities	(239,939)	(178,653)	(175,748)
Minority interests	<u>(31,201)</u>	<u>(29,029)</u>	<u>(12,812)</u>
Net assets	<u>142,474</u>	<u>186,195</u>	<u>188,528</u>

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the audited Consolidated Income Statement, Consolidated Statement of Changes of Equity and Consolidated Cash Flow Statement of the Group for the years ended 31 December 2003 and 31 December 2002, the audited Balance Sheets of the Group and the Company as at 31 December 2003 and 31 December 2002 together with accompanying notes as extracted from the annual report of the Company for the year ended 31 December 2003:

Consolidated Income Statement

Year ended 31 December 2003

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	3	66,404	80,496
Cost of sales		<u>(28,966)</u>	<u>(33,117)</u>
Gross profit		37,438	47,379
Other net income	4	3,520	47,534
Distribution costs		(29,963)	(41,402)
Administrative expenses		(72,000)	(79,849)
Other operating expenses	5	<u>(21,385)</u>	<u>(240)</u>
Loss from operations		(82,390)	(26,578)
Finance costs	6	(3,279)	(3,385)
Share of losses of associates		(1,769)	(1,305)
Loss on disposal of a subsidiary	31(c)	<u>(6,975)</u>	<u>—</u>
Loss from ordinary activities before taxation	6	(94,413)	(31,268)
Taxation	8	<u>—</u>	<u>—</u>
Loss before minority interests		(94,413)	(31,268)
Minority interests		<u>6,257</u>	<u>1,121</u>
Net loss attributable to shareholders	9	<u><u>(88,156)</u></u>	<u><u>(30,147)</u></u>
Dividend	10	<u><u>—</u></u>	<u><u>—</u></u>
Loss per share			
— Basic	11	<u><u>(7.37 cents)</u></u>	<u><u>(3.58 cents)</u></u>
— Diluted	11	<u><u>N/A</u></u>	<u><u>N/A</u></u>

Consolidated Statement of Changes of Equity
Year ended 31 December 2003

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Total equity at 1 January	186,195	188,528
Release of exchange translation reserve upon disposal of a subsidiary	335	—
Net loss attributable to shareholders	(88,156)	(30,147)
Issue of share capital	40,333	16,300
Share premium arising upon issue of share capital	<u>3,767</u>	<u>11,514</u>
Total equity at 31 December	<u><u>142,474</u></u>	<u><u>186,195</u></u>

Balance Sheet*At 31 December 2003*

		Group		Company	
		2003	2002	2003	2002
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	12	153,770	196,997	651	813
Interests in subsidiaries	13	—	155	230,735	201,517
Interests in associates	14	13,824	5,332	—	—
Intangible assets	15	<u>130,400</u>	<u>54,637</u>	<u>—</u>	<u>—</u>
		<u>297,994</u>	<u>257,121</u>	<u>231,386</u>	<u>202,330</u>
Current assets					
Inventories	16	5,062	8,370	—	—
Trade and other receivables	17	16,947	16,737	360	264
Investments in securities	18	19,723	9,586	—	—
Investments held for disposal	19	30,218	31,114	—	—
Pledged deposits	20	—	1,414	—	—
Cash and cash equivalents	20	<u>43,670</u>	<u>69,535</u>	<u>3,307</u>	<u>795</u>
		<u>115,620</u>	<u>136,756</u>	<u>3,667</u>	<u>1,059</u>
Current liabilities					
Provision for staff welfare and bonus		60,432	60,452	—	—
Trade and other payables	21	40,331	43,522	4,393	5,008
Convertible debentures	22	2,186	—	2,186	—
Promissory notes	25	8,000	—	8,000	—
Short-term bank loans	23	49,972	48,746	—	—
Bank overdrafts, unsecured	20	<u>—</u>	<u>853</u>	<u>—</u>	<u>—</u>
		<u>160,921</u>	<u>153,573</u>	<u>14,579</u>	<u>5,008</u>
Net current liabilities		<u>(45,301)</u>	<u>(16,817)</u>	<u>(10,912)</u>	<u>(3,949)</u>
Total assets less current liabilities		<u>252,693</u>	<u>240,304</u>	<u>220,474</u>	<u>198,381</u>
Non-current liabilities	24	<u>79,018</u>	<u>25,080</u>	<u>78,000</u>	<u>12,186</u>
Minority interests		<u>31,201</u>	<u>29,029</u>	<u>—</u>	<u>—</u>
NET ASSETS		<u><u>142,474</u></u>	<u><u>186,195</u></u>	<u><u>142,474</u></u>	<u><u>186,195</u></u>
CAPITAL AND RESERVES					
Issued capital	28	138,143	97,810	138,143	97,810
Reserves	30	<u>4,331</u>	<u>88,385</u>	<u>4,331</u>	<u>88,385</u>
		<u><u>142,474</u></u>	<u><u>186,195</u></u>	<u><u>142,474</u></u>	<u><u>186,195</u></u>

Consolidated Cash Flow Statement*Year ended 31 December 2003*

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Cash used in operations	31(a)	(33,908)	(45,547)
INVESTING ACTIVITIES			
Interest income received		324	919
Dividends received from investments in securities		—	187
Purchase of property, plant and equipment		(765)	(1,178)
Proceeds from disposal of property, plant and equipment		9,159	12,773
Proceeds from disposal of investments held for disposal		2,239	—
Proceeds from disposal of investments in securities		—	8,738
Payments for acquisition of interest in associate		(20,707)	—
Net cash received from (used in) acquisition of subsidiaries	31(b)	8	(29,284)
Net cash received from disposal of a subsidiary	31(c)	<u>5,053</u>	<u>—</u>
Cash used in investing activities		<u>(4,689)</u>	<u>(7,845)</u>
FINANCING ACTIVITIES			
Interest paid		(3,279)	(3,385)
New short-term bank loans		26,400	10,371
Repayments of short-term bank loans		(25,174)	(13,200)
(Repayments to) Advances from the major shareholder		(11,876)	9,140
Proceeds from issue of convertible debentures		—	30,000
Proceeds from issue of share capital		<u>26,100</u>	<u>—</u>
Cash generated from financing activities		<u>12,171</u>	<u>32,926</u>
Net decrease in cash and cash equivalents		(26,426)	(20,466)
Cash and cash equivalents at 1 January		<u>70,096</u>	<u>90,562</u>
Cash and cash equivalents at 31 December	20	<u><u>43,670</u></u>	<u><u>70,096</u></u>

Notes to the Financial Statements*Year ended 31 December 2003***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 and pharmaceutical products in the People’s Republic of China (the “PRC”) and research and development of bioscience related projects.

The directors consider Vision Ocean Investments Limited (“Vision Ocean”) is the major shareholder of the Company in which Ms. Lo Yuk Yee, Chairman and a director of the Company, is the beneficial owner.

2. PRINCIPAL ACCOUNTING POLICIES**Basis of accounting**

The financial statements are prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”) and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The HKFRS is inclusive of Statements of Standard Accounting Practices (“SSAPs”) and Interpretations issued by the HKSA. These financial statements also comply with applicable disclosure provision of the Rules Governing the Listing of Securities on the Stock Exchange.

A summary of the principal accounting policies adopted by the Group is set out below.

Adoption of statement of standard accounting practice

In the current year, the Group has adopted for the first time SSAP 12 (Revised) “Income taxes” which is effective for accounting period commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. SSAP 12 (Revised) requires the adoption of liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this SSAP has had no material effect on the results for the current or prior accounting periods. However the related note disclosure are now more extensive than previously required as shown in Note 8 to the financial statements.

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost.

Preparation of financial statements

The financial statements have been prepared on a going concern basis though the Group had net current liabilities of approximately HK\$45,301,000 at 31 December 2003. The Group has taken and will continue the following measures to ensure the Group will have sufficient funds for the research and development for Cycloargatroban and QuProbe detailed in Note 15 and adequate working capital for the operations of the Group:

- (i) to impose tight cost controls;
- (ii) to dispose of properties in the PRC not related to the Group's core business to provide working capital; and
- (iii) to raise funds as and when necessary such as the proposed Open Offer announced on 19 April 2004 and as detailed in Note 36(iii).

In addition, the directors do not foresee any circumstances that the banks in the PRC will not continue their bank loan facilities for the Group. Accordingly, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the next twelve months from 31 December 2003 and are satisfied that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

Investments in associates are accounted for using the equity method in the consolidated financial statements, whereby the investment is initially recorded at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and less any provision for impairment losses. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's interest in the fair values of the identifiable assets and liabilities acquired as at the date of the exchange transaction. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. The amortisation period and the amortisation method are reviewed annually at each financial year end.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Sale of goods is recognised on transfer of risks and rewards of ownership which generally coincide with the time when goods are delivered and title has passed.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rates applicable.

Dividend income is recognised when the right to receive payment has been established.

Rental income under operating leases is recognised in the period in which the properties are let out and on the straight-line basis over the period of the relevant leases.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Major costs incurred in restoring assets to their normal working conditions are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Land use rights and buildings	4.5-5%
Plant and machinery	9-10%
Equipment	18-20%
Motor vehicles	18-20%
Others	18-20%

The useful lives of assets and depreciation method are reviewed periodically.

Intangible assets

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Costs incurred on development of projects relating to the design and testing of new or improved products are recognised as intangible assets where the technical feasibility and intention of completing the product under development have been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the assets that will generate probable future economic cash flows. Such development costs are amortised over the period in relation to the estimated economic benefits generated, using the straight-line method.

Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods.

Acquired proprietary rights of chemical compound and diagnostic technology

Expenditures for acquisition of proprietary rights of chemical compound and diagnostic technology as part of business combination are recognised as intangible assets only if it is probable that the future economic benefits that are attributable to the assets will flow to the Group and the costs of the assets can be measured reliably; otherwise, they are recognised as an expense when incurred.

These proprietary rights acquired as part of business combination are stated at fair value less accumulated amortisation and any impairment loss. The costs of these proprietary rights are amortised over 6 years, using the straight-line method.

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost, which comprises all costs of purchases and, where applicable, cost of conversion and other costs incurred in bringing the inventories to their present location and condition is calculated using weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Investments in securities

Securities that are held for the purpose of generating a profit from short-term fluctuations in price are included in the balance sheet at their fair values. Any changes in the fair values of the securities are recognised in income statement when they arise.

Upon disposal of the investments in securities, any profit and loss is accounted for in the income statement.

Investments held for disposal

Investments held for disposal, which represent land use rights and self-constructed buildings in the PRC, are stated at lower of cost and net realisable value. Net realisable value is determined by reference to valuation by professional valuers less estimated cost necessary to make the sale.

Cash equivalents

For the purpose of cash flow statements, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Operating leases

Leases of assets under which substantially all the rewards and risks of ownership are retained by the lessor are classified as operating leases. Rental payable and receivable under operating leases are recognised as an expense and revenue on the straight-line basis over the lease terms.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the financial year end. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Employee benefits*Salaries, bonus and leave entitlements*

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Retirement benefits

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance. Under the MPF Scheme, each of the Group (the “employer”) and its employees makes monthly contributions to the scheme at 5% of the employees’ earnings as defined under the Mandatory Provident Fund Ordinance. The contributions from the employer and each of the employees respectively are subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary. The assets of the MPF Scheme are held separately from those of the Group and managed by an independent trustee.

The employees of the PRC subsidiaries in the PRC are covered by a Central Pension Scheme operated by the local government. The subsidiaries are required to contribute 18% of the average monthly salary to the local government to fund the benefits, which is the only obligation for the Group with respect to this pension scheme.

Contributions to defined contribution retirement benefit schemes are charged to the income statement as incurred.

Share option scheme

The financial impact of share options granted is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their costs. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the income statement or balance sheet.

Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Foreign currency

Subsidiaries established in the PRC maintain their books and records in Renminbi (“RMB”) as functional currency. The Company and other subsidiaries maintain their books and records in Hong Kong Dollars (“HK\$”) as functional currencies. Transactions in currencies other than the respective functional currencies are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are re-translated into the respective functional currencies at the applicable rates of exchange at the financial year end. Translational differences are included in the income statement.

The Group prepares its consolidated financial statements in Hong Kong Dollars. For the purpose of consolidation, the income statement items of those subsidiaries and associates with functional currencies other than Hong Kong Dollars are translated into Hong Kong Dollars using the average rate method, whereby the balance sheet items are translated at the applicable exchange rates at the balance sheet date. Exchange differences arising from such translation are dealt with as movements of reserve. Due to stable exchange rates between Hong Kong Dollars and Renminbi, no material translational differences arose upon consolidation.

Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group’s and the Company’s position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

3. TURNOVER AND CONTRIBUTION TO OPERATING LOSS

	Turnover		Contribution to operating loss	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	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	<u>1,363</u>	<u>3,583</u>	<u>(921)</u>	<u>(622)</u>
	<u>66,404</u>	<u>80,496</u>	4,747	2,600
Other net income (Note 4)			3,520	47,534
Other operating expenses (Note 5)			(21,385)	(240)
Other unallocated expenses			<u>(81,295)</u>	<u>(81,162)</u>
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. Accordingly, no segmental information is provided.

4. OTHER NET INCOME

	2003 HK\$'000	2002 HK\$'000
Net reversal of impairment losses of property, plant and equipment	—	29,466
Write back of costs of investments held for disposal	1,516	8,768
Others	2,004	9,300
	<u>3,520</u>	<u>47,534</u>

5. OTHER OPERATING EXPENSES

	2003 HK\$'000	2002 HK\$'000
Provision for impairment losses of property, plant and equipment (<i>Note 12</i>)	998	—
Unrealised holding loss on investments in securities	5,863	—
Provision for impairment loss of interest in an unconsolidated subsidiary	155	183
Write off of goodwill in a subsidiary	—	57
Write off of goodwill in an associate	14,369	—
	<u>21,385</u>	<u>240</u>

6. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation was determined after charging (crediting) the followings:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Finance costs		
Interest expenses for bank loans wholly repayable within five years	2,718	3,322
Interest for convertible debentures, convertible notes and promissory notes	163	63
Interest on other loans	398	—
	<u>3,279</u>	<u>3,385</u>
Others		
Staff costs (excluding directors' emoluments)		
— salaries and wages	14,683	21,502
— staff and workers' bonus and welfare expenses	1,240	2,911
— contributions to retirement schemes	1,352	1,598
Depreciation on owned assets	14,419	17,700
Cost of inventories	28,966	33,117
Provision for doubtful trade and other receivables	8,715	17,857
Write off of other receivables	858	—
Loss on write off of acquired technology know-how	—	1,787
Research and development costs expensed	9,683	1,993
Amortisation of intangible assets, included in administrative expenses		
— acquired technology know-how	—	201
— acquired proprietary rights of chemical compound and diagnostic technology	10,703	2,375
Operating lease rentals in respect of land and buildings	2,287	3,053
Auditors' remuneration	763	921
Rental income, net of outgoings of HK\$2,361,000 (2002: HK\$2,893,000)	(4,013)	(6,485)
Dividend income from investments in securities	—	(187)
Interest income from bank deposits	(324)	(919)
Gain on disposal of investments in securities	—	(1,812)
Loss on disposal of investments held for disposal	173	—
Loss (Gain) on disposal of property, plant and equipment	1,542	(4,008)
Exchange loss	<u>18</u>	<u>20</u>

7.

DIRECTORS’ AND FIVE HIGHEST PAID INDIVIDUALS’ EMOLUMENTS

Details of directors’ emoluments are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Executive directors		
Salaries, allowances and benefits in kind	1,555	3,255
Pension scheme contributions	24	45
Bonus paid and payable	<u>—</u>	<u>353</u>
	1,579	3,653
Independent non-executive directors		
Fees	<u>120</u>	<u>414</u>
	<u>1,699</u>	<u>4,067</u>

During the year, three executive directors (2002: one executive director) and one independent nonexecutive director (2002: None) have waived the right to receive emoluments totalling approximately HK\$3,651,000 (2002: approximately HK\$2,367,000).

Under the Company’s share option scheme, 11,410,000 share options with subscription price of HK\$0.158 were granted to two executive directors and 7,380,000 share options with subscription price of HK\$0.140 were granted to another executive director during the year.

Analysis of directors’ emoluments by number of directors, including 2 directors (2002: 9 directors) resigned during the year and emolument ranges is as follows:

	Number of directors	
	2003	2002
Executive directors		
— Nil to HK\$1,000,000	5	10
— HK\$1,000,001 to HK\$1,500,000	<u>—</u>	<u>1</u>
	<u>5</u>	<u>11</u>
Independent non-executive directors		
— Nil to HK\$1,000,000	<u>4</u>	<u>4</u>

Details of emoluments paid to the five highest paid individuals (including directors and employees) are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	4,493	5,407
Pension scheme contributions	99	114
Bonus paid and payable	<u>—</u>	<u>472</u>
	<u>4,592</u>	<u>5,993</u>
	2003	2002
Number of directors	1	2
Number of employees	<u>4</u>	<u>3</u>
	<u>5</u>	<u>5</u>

Analysis of emoluments paid to the five highest paid individuals (including directors and employees) by number of individuals and emolument ranges is as follows:

	Number of individuals	
	2003	2002
Nil to HK\$1,000,000	4	3
HK\$1,000,001 to HK\$1,500,000	—	1
HK\$1,500,001 to HK\$2,000,000	—	—
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$2,500,001 to HK\$3,000,000	<u>—</u>	<u>1</u>
	<u>5</u>	<u>5</u>

During the year, no emolument was paid to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

8. TAXATION

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

No provision for Hong Kong profits tax has been made as the Company and the Company’s subsidiaries in Hong Kong either had no assessable profits or incurred losses for taxation purposes.

The Company’s two principal subsidiaries in the PRC, Guangdong Apollo Group Co., Ltd. (“Guangdong Apollo”) and Guangdong Apollo Group Li Cheng Pharmaceutical Factory (which became an associate of the Group during the year as detailed in Note 14) are subject to PRC enterprise income tax at rates of 15% and 33%, respectively. No provision for PRC enterprise income tax has been made as these PRC subsidiaries incurred losses for taxation purposes.

Reconciliation of tax expenses

	2003 HK\$'000	2002 HK\$'000
Loss from ordinary activities before taxation	<u>(94,413)</u>	<u>(31,268)</u>
Income tax at applicable tax rate of 15% (2002: 15%)	(14,162)	(4,690)
Non-deductible expenses	3,913	3,099
Tax exempt revenue	(535)	(362)
Unrecognised tax losses	8,320	5,479
Unrecognised temporary differences	3,339	(3,022)
Effect of different tax rates	<u>(875)</u>	<u>(504)</u>
Tax expenses for the year	<u>—</u>	<u>—</u>

The applicable tax rate is the PRC enterprise income tax rate of 15% (2002: 15%) applicable to Guangdong Apollo as substantial operations of the Group is carried out by Guangdong Apollo in the PRC.

At the balance sheet date, the following temporary differences of the Group have not been recognised:

	2003 HK\$'000	2002 HK\$'000
Tax losses	505,552	525,219
Deductible temporary differences	<u>112,317</u>	<u>109,665</u>
	<u>617,869</u>	<u>634,884</u>

Deferred tax assets have not been recognised in respect of the above items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits. The Company had no taxable temporary differences or tax losses at 31 December 2003 and 31 December 2002.

Except for unrecognised tax losses of approximately HK\$450,884,000 (2002: approximately HK\$478,201,000) which will expire in the next 5 years, other unrecognised tax losses and deductible temporary differences have no expiry date.

9. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Included in the net loss attributable to shareholders is a loss of approximately HK87,821,000 (2002: loss of approximately HK\$32,121,000) which has been dealt with in the financial statements of the Company.

10. DIVIDEND

The directors do not recommend the payment of a final dividend for the year ended 31 December 2003 (2002: Nil).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to ordinary shareholders of approximately HK\$88,156,000 (2002: approximately HK\$30,147,000), divided by the weighted average number of ordinary shares in issue during the year of 1,196,240,000 shares (2002: 841,878,000 shares).

Diluted loss per share is not presented as there is no dilution effect on the potential ordinary shares arising from the conversion of convertible note into share capital or exercise of share options because the conversion prices of convertible notes and exercise prices of share options are greater than average market prices of the shares of the Company (2002: Same).

12. PROPERTY, PLANT AND EQUIPMENT

Group	Land use rights and buildings HK\$'000	Plant and machinery HK\$'000	Equipment HK\$'000	Motor vehicles HK\$'000	Others HK\$'000	Total HK\$'000
Cost						
At 1 January 2003	316,109	47,966	14,767	15,220	6,447	400,509
Additions	—	74	305	204	182	765
On disposal of a subsidiary	(32,021)	(9,130)	(2,532)	(88)	(466)	(44,237)
Disposals	<u>(13,954)</u>	<u>(5,843)</u>	<u>(2,119)</u>	<u>(3,854)</u>	<u>(600)</u>	<u>(26,370)</u>
At 31 December 2003	<u>270,134</u>	<u>33,067</u>	<u>10,421</u>	<u>11,482</u>	<u>5,563</u>	<u>330,667</u>
Accumulated depreciation and impairment losses						
At 1 January 2003	138,847	34,820	11,883	12,603	5,359	203,512
Charge for the year	10,366	2,734	531	575	213	14,419
Impairment losses Provided	998	—	—	—	—	998
On disposal of a subsidiary	(17,591)	(6,101)	(2,217)	(80)	(374)	(26,363)
Disposals	<u>(5,758)</u>	<u>(3,961)</u>	<u>(1,796)</u>	<u>(3,675)</u>	<u>(479)</u>	<u>(15,669)</u>
At 31 December 2003	<u>126,862</u>	<u>27,492</u>	<u>8,401</u>	<u>9,423</u>	<u>4,719</u>	<u>176,897</u>
Net book value						
At 31 December 2003	<u>143,272</u>	<u>5,575</u>	<u>2,020</u>	<u>2,059</u>	<u>844</u>	<u>153,770</u>
At 31 December 2002	<u>177,262</u>	<u>13,146</u>	<u>2,884</u>	<u>2,617</u>	<u>1,088</u>	<u>196,997</u>

a. Analysis of net book value of land use rights and buildings is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Held outside Hong Kong on:		
Long-term leases	49,886	69,052
Medium-term leases	93,386	108,210
	<u>143,272</u>	<u>177,262</u>

b. The Group has engaged a firm of independent professional valuers to perform a valuation of land use rights and buildings, and plant and machinery at 31 December 2003 at open market value for reference for the directors' impairment review of these assets. With reference to the valuation, impairment losses of approximately HK\$998,000 (2002: reversal of impairment losses of approximately HK\$32,354,000) on land use rights and buildings are recorded and no impairment loss is required for plant and machinery (2002: impairment losses of approximately HK\$2,888,000).

	Equipment	Others	Total
	HK\$'000	HK\$'000	HK\$'000
Company			
Cost			
At 1 January 2003	541	412	953
Additions	<u>36</u>	<u>—</u>	<u>36</u>
At 31 December 2003	<u>577</u>	<u>412</u>	<u>989</u>
Accumulated depreciation			
At 1 January 2003	108	32	140
Charge for the year	<u>116</u>	<u>82</u>	<u>198</u>
At 31 December 2003	<u>224</u>	<u>114</u>	<u>338</u>
Net book value			
At 31 December 2003	<u>353</u>	<u>298</u>	<u>651</u>
At 31 December 2002	<u>433</u>	<u>380</u>	<u>813</u>

13. INTERESTS IN SUBSIDIARIES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investments in unlisted shares, at cost	5,335	5,335	538,561	444,829
Due from subsidiaries	<u>—</u>	<u>—</u>	<u>256,073</u>	<u>250,812</u>
	5,335	5,335	794,634	695,641
Less: provision for impairment losses	<u>(5,335)</u>	<u>(5,180)</u>	<u>(561,615)</u>	<u>(483,093)</u>
	—	155	233,019	212,548
Due to subsidiaries	<u>—</u>	<u>—</u>	<u>(2,284)</u>	<u>(11,031)</u>
	<u><u>—</u></u>	<u><u>155</u></u>	<u><u>230,735</u></u>	<u><u>201,517</u></u>

All amounts due from and to subsidiaries are unsecured, interest-free and not repayable within the next twelve months from 31 December 2003 except for an amount of HK\$4,268,000 (2002: Nil) due from a subsidiary which bears interest at prime rate plus 2% per annum.

At 31 December 2003, particulars of subsidiaries of the Company are as follows:

Name	Place of incorporation/ registration	Percentage of equity interest held	Particulars of issued/paid-up capital	Principal activities
Consolidated subsidiaries				
<i>Directly held</i>				
China Apollo (BVI) Limited	British Virgin Islands	100%	Ordinary shares US\$10	Investment holding
MAXX Management Services Limited	Hong Kong	100%	Ordinary shares HK\$100,000	Investment holding
Biometrics Technology Limited	British Virgin Islands	100%	Ordinary shares US\$7,500	Investment holding
New Wealth Assets Limited	British Virgin Islands	86%	Ordinary shares US\$1,000	Investment holding
<i>Indirectly held</i>				
China Apollo Enterprises (Hong Kong) Limited	Hong Kong	100%	Ordinary shares HK\$20,000 and Non-voting deferred shares HK\$10,000 (a)	Investment holding

Name	Place of incorporation/ registration	Percentage of equity interest held	Particulars of issued/paid-up capital	Principal activities
Guangdong Apollo Group Co., Ltd.	PRC	95%	Registered capital RMB194,983,457	Manufacture and sale of health products in the PRC
China Apollo Enterprises (Macau) Limited	Macau	100%	Ordinary shares PTC10,000	Dormant
China Apollo Enterprises (Singapore) Private Limited	Singapore	100%	Ordinary shares S\$2	Dormant
MAXX Life Sciences Investments Company Limited	Hong Kong	100%	Ordinary shares HK\$100,000	Dormant
MAXX Biotech Company Limited	Hong Kong	100%	Ordinary shares HK\$100,000	Provision for personnel management
Joy Route Development Limited	British Virgin Islands	100%	Ordinary shares US\$100	Investment holding
Best Express Worldwide Limited	British Virgin Islands	70%	Ordinary shares US\$100	Research and development of pharmaceutical projects
MAXX Immunotech Limited	Hong Kong	90.2%	Ordinary shares HK\$60,000 and Series-A Preferred shares HK\$140,000 (b)	Development of diagnostic technology
Collingham Assets Limited	British Virgin Islands	100%	Ordinary shares US\$10	Investment holding
AdvanDia Company Limited	Hong Kong	100%	Ordinary shares HK\$100,000	Dormant
Profit Statistics Limited	British Virgin Islands	100%	Ordinary shares US\$2,000	Investment holding

Name	Place of incorporation/ registration	Percentage of equity interest held	Particulars of issued/paid-up capital	Principal activities
Unconsolidated subsidiary				
<i>Indirectly held</i>				
Shanghai Apollo-Fudan High-Tech. Industry Co., Ltd. (c)	PRC	66.5%	Registered Capital RMB3,000,000	Manufacture and sale of pyruvat calcium series products and other chemical intermediates

- (a) The non-voting deferred shares of China Apollo Enterprises (Hong Kong) Limited have no voting rights and are not entitled to dividends or any distribution upon winding up unless a sum of HK\$500,000,000,000 has first been distributed to the holders of ordinary shares.
- (b) The Company effectively holds 90.20% equity interest in MAXX Immunotech Limited (“MAXX Immunotech”) by holding 30% direct equity interest in MAXX Immuotech and 86% direct equity interest in New Wealth Assets Limited (“New Wealth”) which holds 70% equity interests in MAXX Immunotech. The Series-A Preferred shares of MAXX Immunotech confer the holder the same rights as ordinary shares except Series-A Preferred shareholders have the priority to claim the assets of MAXX Immunotech upon winding up.
- (c) In the opinion of the directors, the operating results and financial position of Shanghai Apollo-Fudan High-Tech. Industry Co., Ltd. (“Apollo Fudan”) are not significant to the Group as a whole and therefore Apollo Fudan is excluded from consolidation. The consolidated income statement of the Group accounted for the results of Apollo Fudan to the extent of dividend received and receivable. Investment in Apollo Fudan is carried at cost less provision for impairment loss. At 31 December 2003, full provision of impairment loss for the investment in Apollo Fudan was made.

Guangdong Apollo is a Sino-foreign equity joint venture. Apollo Fudan is a limited liability company established in the PRC. Both of these subsidiaries operate principally in the PRC. Other subsidiaries are all private limited companies and operate principally in Hong Kong.

14. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets of associates	19,194	10,702
Less: provision for impairment losses	(5,370)	(5,370)
	<u>13,824</u>	<u>5,332</u>

The movement of goodwill in relation to the acquisition of interest in an associate during the year is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Goodwill arose at acquisition of interest in an associate	14,369	—
Goodwill written off (<i>Note 5</i>)	<u>(14,369)</u>	<u>—</u>
At 31 December	<u>—</u>	<u>—</u>

Details of the associates at 31 December 2003 are as follows:

Name	Place of incorporation/ Principal place of operation	Form of business structure	Percentage of equity interest held indirectly	Particulars of issued/paid-up capital	Principal activities
Data Logistics Limited	British Virgin Islands/ Hong Kong	Limited company	45%	Ordinary share US\$100	Investment holding
Beijing Metrolink Embryo Biotech Company Limited	PRC/PRC	Sino-foreign equity joint venture	38%	Registered capital RMB10,000,000	Biotech research and development of related technical know-how
Guangzhou Apollo Enterprise Company Limited	PRC/PRC	Limited liability company established in the PRC	23.75%	Registered capital RMB3,800,000	Sale of chemical, health and electronic products
Guangdong Apollo Li Cheng Pharmaceutical Co., Ltd. (<i>a</i>)	PRC/PRC	Limited liability company established in the PRC	19%	Registered capital RMB12,000,000	Manufacture and sale of pharmaceutical products in the PRC
Shandong Hongyi Co., Ltd. (<i>b</i>)	PRC/PRC	Limited liability company established in the PRC	38%	Registered capital RMB50,000,000	Investment holding

(a) Guangdong Apollo Li Cheng Pharmaceutical Co., Ltd. (“Li Cheng”) (formerly Guangdong Apollo Li Cheng Group Pharmaceutical Factory) was an indirectly held subsidiary of the Company and became an associate of the Company during the year after the Group disposed of 76% effective equity interest in Li Cheng. The form of business structure of Li Cheng was then changed from a collective enterprise to a limited liability company in the PRC.

- (b) During the year, the Group acquired 38% effective equity interest in Shandong Hongyi Co., Ltd. (“Shandong Hongyi”), a limited liability company established in the PRC for a consideration of approximately HK\$20,707,000. Shandong Hongyi has direct equity investments in two limited liability companies in the PRC being engaged in property development in Shanghai and sales of health products in the PRC. The Group has critically assessed the fair value of assets and liabilities of Shandong Hongyi at time of acquisition. The goodwill of HK\$14,369,000 arose on consolidation, being the excess of the consideration over the fair value of the identifiable assets and liabilities was written off to consolidated income statement in the light that there is uncertainty that the future benefits generated by Shandong Hongyi will sufficiently cover the goodwill arose.

15. INTANGIBLE ASSETS

Group	Acquired proprietary rights of chemical compound <i>HK\$'000</i>	Acquired proprietary rights of diagnostic technology <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 January 2003	57,012	—	57,012
Acquired from acquisition of subsidiaries	<u>—</u>	<u>86,466</u>	<u>86,466</u>
At 31 December 2003	<u>57,012</u>	<u>86,466</u>	<u>143,478</u>
Accumulated amortisation			
At 1 January 2003	2,375	—	2,375
Charge for the year	<u>9,502</u>	<u>1,201</u>	<u>10,703</u>
At 31 December 2003	<u>11,877</u>	<u>1,201</u>	<u>13,078</u>
Net book value			
At 31 December 2003	<u>45,135</u>	<u>85,265</u>	<u>130,400</u>
At 31 December 2002	<u>54,637</u>	<u>—</u>	<u>54,637</u>

The research testing carried out during the year on the chemical compound, Cycloargatroban, indicates that the compound is effective for treatment of cardio-vascular diseases. The Group intends to co-operate with pharmaceutical companies in Europe or the United States of America in the development and commercialisation of Cycloargatroban following the pre-clinical research stage. The cost of acquired proprietary rights of Cycloargatroban is amortised on the straight-line basis over 6 years.

During the year, pursuant to an ordinary resolution passed at an extraordinary general meeting at the Company held on 9 December 2003, the Group acquired from Payton Place Limited (“Payton Place”), a company beneficially owned by Ms. Lo Yuk Yee, chairman and a director of the Company, who is also the beneficial owner of Vision Ocean, a 90.20% effective equity interest in MAXX Immunotech which owns the proprietary rights of a genomic diagnostic platform technology called QuProbe licensed by MAXX Genetech Company Limited, a company in which Ms. Lo Yuk Yee has an equity interest of 70%. QuProbe, based on macro-array technology, aims to provide a rapid and cost-effective test for the detection of T-cell autoimmune diseases.

The total consideration of the acquisition of HK\$78,000,000 was satisfied by the issue of the convertible notes of principal of HK\$50,000,000 and promissory notes of principal of HK\$28,000,000 as detailed in Note 25(b). The consideration was with reference to an appraisal of the valuation of QuProbe carried out by an independent professional valuer. The cost of acquired proprietary rights of QuProbe is amortised, on the straight-line basis over 6 years.

16. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	3,199	5,467
Work-in-progress	841	45
Finished goods	<u>1,022</u>	<u>2,858</u>
	<u>5,062</u>	<u>8,370</u>

At 31 December 2003, full provision of approximately HK\$2,141,000 (2002: HK\$2,370,000) was made to certain raw materials.

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables				
— from third parties	5,915	11,761	—	—
— from an associate	<u>5,713</u>	<u>—</u>	<u>—</u>	<u>—</u>
	11,628	11,761	—	—
Deposits, prepayments and other debtors	<u>5,319</u>	<u>4,976</u>	<u>360</u>	<u>264</u>
	<u>16,947</u>	<u>16,737</u>	<u>360</u>	<u>264</u>

The aging analysis of trade receivable is set out below:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	7,852	7,545
91-180 days	2,107	3,409
181-365 days	1,363	1,952
Over 365 days	<u>10,464</u>	<u>10,684</u>
	21,786	23,590
Less: provision for doubtful receivables	<u>(10,158)</u>	<u>(11,829)</u>
	<u><u>11,628</u></u>	<u><u>11,761</u></u>

The normal credit period granted by the Group is on average 90 days from the date of invoice.

Included in deposits, prepayments and other debtors is a balance of consideration receivable from disposal of a subsidiary of approximately HK\$3,582,000 (see Note 31(c)).

18. INVESTMENTS IN SECURITIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity securities, at fair value		
— in Hong Kong (a)	16,000	—
— in PRC	<u>3,723</u>	<u>9,586</u>
Total	<u><u>19,723</u></u>	<u><u>9,586</u></u>

- (a) During the year, the Group acquired the entire issued share capital of Richford Investment Development Limited (“Richford”) from Pro-Tex International Group Limited (“Pro-Tex”), an independent third party, for a consideration of HK\$16,000,000. The consideration was satisfied by way of issue of 80,000,000 ordinary shares of HK\$0.10 each of the Company for HK\$0.10 per share as shown in Note 28 and issue of promissory note with principal of HK\$8,000,000 by the Company to Pro-Tex as detailed in Note 25(a). Richford owns the license right in marketing and provision for technical support for a digital volumetric imaging three-dimensional microimager system in Asia.

As detailed in Note 36(i), the Group sold the entire issued share capital of Richford back to Pro-Tex subsequent to 31 December 2003 as the Group was unable to obtain sufficient technical support to optimise the application of the three-dimensional microimager system. Accordingly, the Group only had temporary control in Richford and the investment is classified as investments in securities under current assets and is not considered as a subsidiary of the Group.

19. INVESTMENTS HELD FOR DISPOSAL

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost	59,393	64,397
Provision for write down in value	<u>(29,175)</u>	<u>(33,283)</u>
	<u>30,218</u>	<u>31,114</u>

Investments held for disposal, stated at net realisable value at the balance sheet date, represent land use rights and self-constructed buildings located in the PRC held on medium-term leases. The Group has engaged a firm of independent professional valuers to perform valuation of the investments held for disposal at open market value for reference of the net realisable value. With reference to the valuation, a write back of cost of approximately HK\$1,516,000 (2002: approximately HK\$8,768,000) is recorded.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank balances and cash	42,670	63,182	3,307	795
Term deposits	<u>1,000</u>	<u>6,353</u>	<u>—</u>	<u>—</u>
As stated in the balance sheet	43,670	69,535	3,307	795
Pledged deposits	—	1,414	—	—
Bank overdrafts, unsecured	<u>—</u>	<u>(853)</u>	<u>—</u>	<u>—</u>
As stated in the cash flow statement	<u>43,670</u>	<u>70,096</u>	<u>3,307</u>	<u>795</u>

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payable				
— to third parties	3,609	8,272	—	—
— to an associate	<u>260</u>	<u>—</u>	<u>—</u>	<u>—</u>
	3,869	8,272	—	—
Accrued charges and other creditors	<u>36,462</u>	<u>35,250</u>	<u>4,393</u>	<u>5,008</u>
	<u>40,331</u>	<u>43,522</u>	<u>4,393</u>	<u>5,008</u>

All trade payable were aged less than one year.

22. CONVERTIBLE DEBENTURES

Convertible debentures represent the unsettled outstanding principal balance of convertible debentures repayable to Health Capital Investment Limited, an independent third party. The convertible debentures bear interest at the rate of 3.5% per annum, and are payable semi-annually in arrears.

The debenture holder had the right at any time until 8 October 2004, the maturity date of the convertible debenture to convert the convertible debentures in whole or in part provided that no less than 1,000,000 shares or its multiple shall be converted for each conversion and the aggregate cumulated conversion of shares of the Company shall not exceed 163,000,000 shares. The conversion price was the higher of (i) HK\$0.15 per share or (ii) 90% of the average of the closing prices of one share during the 10 business days immediately prior to conversion. All 163,000,000 shares were converted by the holder during 2002, by converting 80,000,000 ordinary shares at a conversion price of HK\$0.1714 per share and 83,000,000 ordinary shares at a conversion price of HK\$0.1699 per share.

23. SHORT-TERM BANK LOANS

All short-term bank loans at 31 December 2003 are secured, denominated in Renminbi and granted by banks in the PRC (2002: Same). These short-term bank loans bear interest rates from 5.040% to 6.372% (2002: 5.753%-6.372%) per annum and wholly repayable within one year (2002: Same).

24. NON-CURRENT LIABILITIES

	<i>Notes</i>	Group		Company	
		2003	2002	2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Convertible debentures	22	—	2,186	—	2,186
Promissory notes	25	28,000	—	28,000	—
Convertible notes	25	50,000	—	50,000	—
Payable for acquisition of a subsidiary	26	—	10,000	—	10,000
Due to the major shareholder	27	1,018	12,894	—	—
		<u>79,018</u>	<u>25,080</u>	<u>78,000</u>	<u>12,186</u>

25. PROMISSORY NOTES AND CONVERTIBLE NOTES

	Group and Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Classified under current liabilities		
Promissory notes (a)	<u>8,000</u>	<u>—</u>
Classified under non-current liabilities		
Promissory notes (b)	28,000	—
Convertible notes (b)	<u>50,000</u>	<u>—</u>
	<u>78,000</u>	<u>—</u>

(a) **Promissory notes classified under current liabilities**

As detailed in Note 18, the Group acquired during the year the entire share capital of Richford for a consideration of HK\$16,000,000 from Pro-Tex. Part of the consideration was satisfied by way of issue of a promissory note of principal of HK\$8,000,000 by the Company to Pro-Tex. The promissory note, with a maturity date on 12 November 2006, bears interest at the rate of 1.5% per annum and the interest is payable semi-annually in arrears.

As detailed in Note 36(i), the Group entered into a disposal agreement on 25 March 2004 with Pro-Tex to sell the entire issued capital of Richford back to Pro-Tex and the promissory note of principal of HK\$8,000,000 was surrendered and cancelled. Accordingly the respective promissory note is classified as current liabilities.

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

Also as detailed in Note 15, the Group acquired a 90.2% effective equity interest in a company which owns QuProbe for a consideration of HK\$78,000,000. The consideration was satisfied by the issue of convertible notes and promissory notes by the Company to Payton Place.

The principal terms of the convertible notes and promissory notes are as follows:

Issue price

The principal amounts of the convertible notes and promissory notes are HK\$50,000,000 and HK\$28,000,000, respectively, and were issued at par on 10 December 2003.

Term and maturity date

The Company shall repay the outstanding principal amounts of the convertible notes and promissory notes on 9 December 2006 (the “maturity date”).

Interest

The convertible notes and promissory notes bear interest on the outstanding principal from the date of issue at the rate of 1.5% per annum. Interest is payable semi-annually in arrears.

Redemption

The Company shall be entitled at any time and from time to time after one month from the date of issue of the convertible notes and promissory notes until the day prior to the maturity date by giving written notice not less than 7 banking days to the holders of the convertible notes or the promissory notes to redeem (in amounts of not less than HK\$5,000,000 and an integral multiple of HK\$1,000,000) the whole or part of the outstanding principal amounts of the convertible notes or the promissory notes.

Conversion of convertible notes and conversion price

The holder of the convertible notes will have the right at any time and from time to time by giving written notice to convert the whole or part of the outstanding principal amount of the convertible notes into shares of the Company at the conversion price from the day immediately following the issue of the convertible notes to the maturity date. The conversion price is initially HK\$0.10 per share which is subject to adjustment for certain dilutive events. The shares to be issued upon conversion will rank pari passu in all respect with the existing shares. No conversion right is attached to the promissory notes.

Conversion during the year

No part of the convertible notes was converted into shares of the Company during the year.

26. PAYABLE FOR ACQUISITION OF A SUBSIDIARY

The balance of HK\$10,000,000 payable for acquisition of Joy Route Development Limited in 2002 was settled by way of issue of 83,330,000 ordinary shares of HK\$0.10 each of the Company at issue price of HK\$0.12 per share during the year as shown in Note 28.

27. DUE TO THE MAJOR SHAREHOLDER

The amount due is unsecured, bears interest at prime rate plus 2% (2002: interest-free) and the major shareholder has confirmed that it will not ask for repayment of the amount as long as the Group has insufficient working capital. In the opinion of the directors, no part of the amount will be repayable within the next twelve months from 31 December 2003.

28. ISSUED CAPITAL

	2003		2002	
	Number of shares '000	HK\$'000	Number of shares '000	HK\$'000
Authorised ordinary shares of HK\$0.10 each:				
At 1 January	1,600,000	160,000	1,600,000	160,000
Increase in authorised share capital	<u>8,400,000</u>	<u>840,000</u>	<u>—</u>	<u>—</u>
At 31 December	<u>10,000,000</u>	<u>1,000,000</u>	<u>1,600,000</u>	<u>160,000</u>
Issued and fully paid or credited as fully paid:				
At 1 January	978,100	97,810	815,100	81,510
New shares issued for placements	240,000	24,000	—	—
New shares issued for settlement of payable for acquisition of Joy Route (<i>Note 26</i>)	83,330	8,333	—	—
New shares issued for acquisition of Richford (<i>Note 18</i>)	80,000	8,000	—	—
New shares issued upon conversion of convertible debentures (<i>Note 22</i>)	<u>—</u>	<u>—</u>	<u>163,000</u>	<u>16,300</u>
At 31 December	<u>1,381,430</u>	<u>138,143</u>	<u>978,100</u>	<u>97,810</u>

Pursuant to an ordinary resolution passed at an extraordinary general meeting held on 9 December 2003, the authorised share capital of the Company was increased to HK\$1,000,000,000 by the creation of an additional 8,400,000,000 ordinary shares of HK\$0.10 each.

During the year, the Company had issued and placed in aggregate 240,000,000 ordinary shares of HK\$0.10 each of which the details are as follows:

- (i) On 28 January 2003, 60,000,000 ordinary shares of HK\$0.10 each were issued and placed to third parties at a price of HK\$0.125 per share for general working capital;
- (ii) On 26 March 2003, another 60,000,000 ordinary shares of HK\$0.10 each were issued and placed to third parties at a price of HK\$0.11 per share for general working capital;
- (iii) On 18 September 2003, 63,000,000 ordinary shares of HK\$0.10 each were issued and placed to third parties at a price of HK\$0.10 per share for general working capital; and
- (iv) On 23 September 2003, 57,000,000 ordinary shares of HK\$0.10 each were issued and placed to third parties at a price of HK\$0.10 per share for general working capital.

All shares issued and placed during the year rank pari passu with the existing shares in all respect.

The Group originally intended to apply approximately HK\$2,186,000 of the proceeds from the issue in (iii) and (iv) as above for early redemption of the convertible debentures (see Note 22). Because of subsequent development of biotechnology projects, the funds raised in the placements were used as working capital for other purposes.

29. SHARE OPTIONS

The Company adopted in 2002 a share option scheme (the “Share Option Scheme”) of which the eligible participants include the Company’s directors, employees of the Group and any advisor (professional or otherwise) or consultant, distributors, suppliers, agent, customers, joint venture partners, service provider to the Group who the board of directors considers, at its sole discretion have contributed or contribute to the Group. Unless otherwise terminated or amended, the Share Option Scheme remains in force to 16 May 2012.

Pursuant to the Share Option Scheme, the overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the Share Option Scheme and other share option schemes of the Company, if any, must not exceed 30% of the shares in issue from time to time. The shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes, if any, of the Company shall not exceed 10% of the shares in issue from time to time.

The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant or grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue.

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a specified date and ends on a date which is not later than 10 years from the date of offer of the share options. The subscription price for the shares in respect of which options are granted is determinable by the directors, but shall not be less than the highest of (i) the average of the closing price of the Company’s shares on the Stock Exchange for the five trading days immediately preceding the date of the offer; (ii) closing price of the Company’s shares on the date of offer; and (iii) the nominal value of the Company’s share.

Movements in share options during the year are as follows:

Date of grant	Exercisable period	Subscription price per share	Number of share options			
			At 1 January 2003	Granted during the year	Lapsed during the year	At 31 December 2003
28 June 2002	28 June 2003 — 27 July 2004	HK\$0.315	<u>32,150,000</u>	<u>—</u>	<u>5,500,000</u>	<u>26,650,000</u>
21 January 2003	21 January 2003 — 20 January 2005	HK\$0.158	<u>—</u>	<u>29,320,000</u>	<u>—</u>	<u>29,320,000</u>
18 February 2003	18 February 2003 — 17 February 2005	HK\$0.140	<u>—</u>	<u>18,510,000</u>	<u>—</u>	<u>18,510,000</u>

30. RESERVES

Group	Share premium HK\$'000	Statutory reserves HK\$'000	Contributed surplus HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	208,417	148,158	249,906	(69,989)	(429,474)	107,018
Arising from issue of new shares upon conversion of convertible debentures	11,514	—	—	—	—	11,514
Net loss for the year	—	—	—	—	(30,147)	(30,147)
At 31 December 2002	219,931	148,158	249,906	(69,989)	(459,621)	88,385
Arising from issue of new shares for settlement of payable for acquisition of Joy Route	1,667	—	—	—	—	1,667
Arising from issue of new shares for placements	2,100	—	—	—	—	2,100
Net loss for the year	—	—	—	—	(88,156)	(88,156)
Released upon disposal of a subsidiary	—	—	—	335	—	335
At 31 December 2003	223,698	148,158	249,906	(69,654)	(547,777)	4,331
Company and subsidiaries	223,698	148,158	249,906	(69,654)	(538,880)	13,228
Associates	—	—	—	—	(8,897)	(8,897)
At 31 December 2003	223,698	148,158	249,906	(69,654)	(547,777)	4,331
Company and subsidiaries	219,931	148,158	249,906	(69,989)	(452,493)	95,513
Associates	—	—	—	—	(7,128)	(7,128)
At 31 December 2002	219,931	148,158	249,906	(69,989)	(459,621)	88,385

The accumulated losses attributable to the associates at 31 December 2003 include the provision of accumulated impairment losses on interests in associates of approximately HK\$5,370,000 (2002: approximately HK\$5,370,000) (see Note 14).

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company				
At 1 January 2002	208,417	409,520	(508,945)	108,992
Arising from issue of new shares upon conversion of convertible debentures	11,514	—	—	11,514
Net loss for the year	<u>—</u>	<u>—</u>	<u>(32,121)</u>	<u>(32,121)</u>
At 31 December 2002	219,931	409,520	(541,066)	88,385
Arising from issue of new shares for settlement of payable for acquisition of Joy Route	1,667	—	—	1,667
Arising from issue of new shares for placements	2,100	—	—	2,100
Net loss for the year	<u>—</u>	<u>—</u>	<u>(87,821)</u>	<u>(87,821)</u>
At 31 December 2003	<u>223,698</u>	<u>409,520</u>	<u>(628,887)</u>	<u>4,331</u>

Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

As stipulated in the relevant laws and regulations for Sino-foreign equity joint venture enterprises, Guangdong Apollo is required to maintain certain statutory reserves which include the general reserve fund and staff welfare and bonus fund. Appropriations to the general reserve fund and the staff welfare and bonus fund are made out of net profit as reported in the PRC statutory financial statements. The amounts of appropriations are determined by the respective board of directors. All statutory reserves are for specific purposes and are not distributable in the form of cash dividends. Provision for staff welfare and bonus is included in current liabilities in the consolidated balance sheet.

At 31 December 2003, none (2002: Nil) of the Company's reserves are available for distribution to the Company's shareholders.

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash used in operations

	2003 HK\$'000	2002 HK\$'000
Loss from ordinary activities before taxation	(94,413)	(31,268)
Provision for (Net reversal of) impairment loss on property, plant and equipment	998	(29,466)
Depreciation	14,419	17,700
Loss (Gain) on disposal of property, plant and equipment	1,542	(4,008)
Loss on disposal of investments held for disposal	173	—
Interest income	(324)	(919)
Interest expenses	3,279	3,385
Dividend income from investments in securities	—	(187)
(Write back) write off of obsolete inventories	(229)	211
Provision for doubtful trade and other receivables	8,715	17,857
Write off of other receivables	858	—
Amortisation of intangible assets	10,703	2,576
Gain on disposal of investment in securities	—	(1,812)
Provision for impairment loss of interest in an unconsolidated subsidiary	155	183
Share of losses of associates	1,769	1,305
Write back of cost of investments held for disposal	(1,516)	(8,768)
Unrealised holding loss on investments in securities	5,863	—
Loss on write off of acquired technology know how	—	1,787
Write off of goodwill in a subsidiary	—	57
Write off of goodwill in an associate	14,369	—
Loss on disposal of a subsidiary	6,975	—
	(26,664)	(31,367)
Changes in working capital:		
Trade and other receivables	(6,951)	854
Inventories	1,442	2,380
Provision for staff welfare and bonus	(20)	186
Trade and other payables	(1,715)	(17,600)
Cash used in operations	(33,908)	(45,547)

(b) Acquisition of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Proprietary rights of diagnostic technology	86,466	—
Proprietary rights to chemical compound	—	57,012
Cash and bank balances	8	916
Other payables	(45)	(447)
Minority interests	<u>(8,429)</u>	<u>(17,338)</u>
	78,000	40,143
Goodwill on acquisition	<u>—</u>	<u>57</u>
	<u>78,000</u>	<u>40,200</u>
Satisfied by:		
Convertible notes	50,000	—
Promissory notes	28,000	—
Cash consideration	—	30,200
Payable for acquisition of subsidiaries	<u>—</u>	<u>10,000</u>
	<u>78,000</u>	<u>40,200</u>

Analysis of the net inflow (outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2003 HK\$'000	2002 HK\$'000
Cash consideration paid	—	(30,200)
Cash and bank balances acquired	<u>8</u>	<u>916</u>
Net cash received from (used in) the acquisition of subsidiaries	<u>8</u>	<u>(29,284)</u>

The subsidiaries acquired during the year had no contribution to Group's turnover (2002: Nil) and have insignificant contribution to the net loss of the Group (2002: Same).

(c) Disposal of subsidiaries

During the year, five inactive subsidiaries were de-registered with no gain or loss on disposal. During the year, the Group also disposed of 76% effective equity interest in Li Cheng to two independent third parties for a consideration of approximately HK\$9,051,000.

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Property, plant and equipment	17,874	—
Inventories	2,095	—
Trade and other receivables	750	—
Cash and bank balances	416	—
Trade and other payables	(1,521)	—
Exchange translation reserve	335	—
	19,949	—
Retained by the Group as interest in an associate	(3,923)	—
Loss on disposal of a subsidiary	(6,975)	—
	<u>9,051</u>	<u>—</u>
Satisfied by:		
Cash received	5,469	—
Balance receivable for the consideration (<i>Note 17</i>)	3,582	—
	<u>9,051</u>	<u>—</u>

Analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary.

	2003 HK\$'000	2002 HK\$'000
Cash consideration received	5,469	—
Cash and bank balances disposed of	(416)	—
Net cash received from disposal of a subsidiary	<u>5,053</u>	<u>—</u>

Li Cheng, disposed of during the year, contributed approximately HK\$1,363,000 (2002: approximately HK\$3,583,000) to the Group's turnover and approximately a loss of HK\$468,000 (2002: a loss of approximately HK\$1,164,000) to the net loss of the Group. Other inactive subsidiaries disposed of during the year had no contribution to the Group's turnover and had insignificant contribution to the net loss of the Group for the current and prior years.

32. SIGNIFICANT NON-CASH TRANSACTIONS

- (i)

During the year, the Company issued convertible notes of HK\$50,000,000 and promissory notes of HK\$28,000,000 for the acquisition of interests in New Wealth and MAXX Immunotech. No cash was involved in this transaction.
- (ii)

During the year, the Company issued 80,000,000 ordinary shares for HK\$0.10 each and issued promissory notes with principal of HK\$8,000,000 for the acquisition of entire issued capital of Richford. No cash was involved in this transaction.

33. COMMITMENTS

a. Capital expenditure commitments

	Group	
	2003	2002
	HK\$'000	HK\$'000
Capital commitment contracted but not provided for in the financial statements in respect of investment in a new associate	<u>—</u>	<u>20,691</u>

b. Operating lease commitments

At the balance sheet date, the Group had total outstanding commitments under non-cancellable operating leases in respect of land and buildings, which are payable as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	1,675	1,432
In the second to fifth years inclusive	<u>575</u>	<u>803</u>
	<u>2,250</u>	<u>2,235</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:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	4,510	3,791
In the second to fifth years inclusive	8,272	5,323
Over five years	<u>3,347</u>	<u>810</u>
	<u>16,129</u>	<u>9,924</u>

34. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these financial statements, the Group has the following significant related party transactions during the year:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales to an associate	33,096	—
Purchases from an associate	1,033	—
Salaries and staff benefits paid to a beneficiary of a shareholder who was a former director of the Company	2,137	1,271
Consideration for acquiring subsidiaries from companies beneficially owned by a director of the Company who is also the beneficial owner of the major shareholder of the Company (<i>Note 15</i>)	78,000	200
Interest expense paid to the major shareholder of the Company	318	—
Expenses of the Group paid by the major shareholder of the Company on the Group's behalf	—	3,232
Consideration for property, plant and equipment acquired from the major shareholder of the Company	—	522
	<u> </u>	<u> </u>

35. PLEDGE OF ASSETS

At 31 December 2003, the Group has pledged certain land use rights and buildings with an aggregate net book value of approximately HK\$67,441,000 (2002: HK\$58,926,000) and investments held for disposal with a carrying value of approximately HK\$16,192,000 (2002: HK\$31,114,000) to secure short-term bank loans granted by banks to the Group.

36. SIGNIFICANT SUBSEQUENT EVENTS

The Group had the following significant subsequent events after 31 December 2003 and up to the date of these financial statements.

- (i) On 25 March 2004, the Group entered into the disposal agreement with Pro-Tex to sell the entire issued share capital of Richford for a consideration of HK\$16,000,000, in which HK\$8,000,000 has been settled by surrender and cancellation of the promissory notes with principal amount of HK\$8,000,000 issued by the Company to Pro-Tex as included in Note 25(a). The remaining HK\$8,000,000 was settled by an issue of promissory notes with an aggregate principal amount of HK\$8,000,000 and maturity date of 24 March 2005 by Pro-Tex to the Group.
- (ii) Pursuant to the special resolution passed at the special general meeting at 26 April 2004, the capital reorganisation of the Company took effect on 27 April 2004 which includes:
 - a. consolidation of every 20 ordinary shares of the Company of HK\$0.10 each into 1 Consolidated Share of HK\$2.00 each;
 - b. reduction in the nominal value of every then issued Consolidated Share from HK\$2.00 to an Adjusted Share of HK\$0.01 each and transfer of the resulting credit to the contributed surplus account of the Company;

- c. subdivision of each authorised but unissued Consolidated Shares into 200 Adjusted Shares of HK\$0.01 each;
 - d. cancellation of the entire amount standing to the credit of the share premium account of the Company and transfer of the resulting credit to the contributed surplus account of the Company; and
 - e. application of the contributed surplus account of the Company to set-off in full accumulated losses of the Company as reported in the audited financial statements as at 31 December 2003.
- (iii) Pursuant to an announcement made by the Company on 19 April 2004, the Company proposed to raise approximately HK\$16.57 million (before expenses) by way of an Open Offer on the basis of provisional allotment, on an assured basis, of three Open Offer Shares for every Adjusted Share held by the Qualifying Shareholders at the subscription price of HK\$0.08 per Open Offer Share.

4. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Set out below is the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2004 extracted from pages 1 to 12 of 2004 interim report of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

(Amount expressed in thousands of Hong Kong dollars, except for loss per share data)

		Unaudited Six months ended 30 June		Change Increase/ (Decrease)
	Note	2004	2003	%
Turnover	3	23,740	39,039	(39)
Cost of sales		<u>(11,507)</u>	<u>(16,557)</u>	(31)
Gross profit		12,233	22,482	(46)
Other revenue		3,535	3,330	6
Distribution costs		(5,330)	(12,422)	(57)
Administrative expenses		<u>(33,982)</u>	<u>(29,291)</u>	16
Loss from operations		(23,544)	(15,901)	48
Finance costs		(2,153)	(1,860)	16
Share of losses of associates		<u>(222)</u>	<u>(485)</u>	(54)
Loss from ordinary activities before taxation	4	(25,919)	(18,246)	42
Taxation	6	<u>—</u>	<u>—</u>	—
Loss before minority interests		(25,919)	(18,246)	42
Minority interests		<u>2,478</u>	<u>2,139</u>	16
Loss attributable to shareholders		<u><u>(23,441)</u></u>	<u><u>(16,107)</u></u>	46
Dividends	7	<u><u>—</u></u>	<u><u>—</u></u>	
Loss per share — basic	8	(12.70 cents)	(11.28 cents)	13
		<u><u>(restated)</u></u>		
— diluted	8	<u><u>N/A</u></u>	<u><u>N/A</u></u>	

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

		Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
	Note		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	145,102	153,770
Interests in associates		13,602	13,824
Intangible assets		118,444	130,400
		<u>277,148</u>	<u>297,994</u>
Current assets			
Inventories		3,468	5,062
Trade and other receivables	10	24,477	16,947
Investments in securities	11	3,723	19,723
Investments held for disposal		30,219	30,218
Cash and cash equivalents		51,270	43,670
		<u>113,157</u>	<u>115,620</u>
Current liabilities			
Provision for staff welfare and bonus		60,432	60,432
Trade and other payables	12	44,045	40,331
Convertible debentures		2,186	2,186
Promissory notes	13	—	8,000
Short-term bank loans		40,260	49,972
		<u>146,923</u>	<u>160,921</u>
Net current liabilities		<u>(33,766)</u>	<u>(45,301)</u>
Total assets less current liabilities		<u>243,382</u>	<u>252,693</u>

		Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
	Note		
Non-current liabilities			
Promissory notes	13	28,000	28,000
Convertible notes	13	50,000	50,000
Amount due to the major shareholder	14	<u>1,049</u>	<u>1,018</u>
		<u>79,049</u>	<u>79,018</u>
Minority interests		<u>28,723</u>	<u>31,201</u>
NET ASSETS		<u>135,610</u>	<u>142,474</u>
CAPITAL AND RESERVES			
Issued capital	15	2,763	138,143
Reserves		<u>132,847</u>	<u>4,331</u>
		<u>135,610</u>	<u>142,474</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2004

	Unaudited	
	Six months ended	
	30 June	
	2004	2003
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	5,171	(40,456)
Net cash inflow/(outflow) from investing activities	(2,579)	8,082
Net cash inflow/(outflow) from financing activities	5,008	(4,969)
Increase/(Decrease) in cash and cash equivalents	7,600	(37,343)
Cash and cash equivalents at 1 January	43,670	70,096
Cash and cash equivalents at 30 June	51,270	32,753
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	51,270	32,753

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

Unaudited

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange translation reserve <i>HK\$'000</i>	Accumulated profits/ (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	138,143	223,698	148,158	249,906	(69,654)	(547,777)	142,474
Capital Reduction*	(137,452)	—	—	137,452	—	—	—
Share Premium Cancellation*	—	(223,698)	—	223,698	—	—	—
Credit Transfer*	—	—	—	(628,887)	—	628,887	—
Open Offer*	2,072	14,505	—	—	—	—	16,577
Loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(23,441)</u>	<u>(23,441)</u>
At 30 June 2004	<u>2,763</u>	<u>14,505</u>	<u>148,158</u>	<u>(17,831)</u>	<u>(69,654)</u>	<u>57,669</u>	<u>135,610</u>

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Statutory reserves <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange translation reserve <i>HK\$'000</i>	Accumulated profits/ (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	97,810	219,931	148,158	249,906	(69,989)	(459,621)	186,195
Arising from issue of new shares for placements	12,000	2,100	—	—	—	—	14,100
Arising from issue of new shares for settlement of payable for acquisition of a subsidiary	8,333	1,667	—	—	—	—	10,000
Loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(16,107)</u>	<u>(16,107)</u>
At 30 June 2003	<u>118,143</u>	<u>223,698</u>	<u>148,158</u>	<u>249,906</u>	<u>(69,989)</u>	<u>(475,728)</u>	<u>194,188</u>

* Details of the capital reorganisation and open offer are set out in note 15 to unaudited consolidated condensed accounts.

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		Contribution to operating loss	
	Unaudited		Unaudited	
	Six months ended 30 June 2004	Six months ended 30 June 2003	Six months ended 30 June 2004	Six months ended 30 June 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	<u>548</u>	<u>705</u>
	<u><u>6,637</u></u>	<u><u>9,314</u></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	<u>(8,242)</u>
Closing net book amount	<u>145,102</u>

10. Trade and Other Receivables

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

The aging analysis of trade receivables is set out below:

	Unaudited 30 June 2004 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
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	<u>9,702</u>	<u>10,464</u>
	24,533	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 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Unlisted equity securities, at fair value		
— in Hong Kong	—	16,000
— in PRC	<u>3,723</u>	<u>3,723</u>
	<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	41,096	36,462
	<u>44,045</u>	<u>40,331</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>78,000</u>	<u>78,000</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:		
100,000,000,000 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:

		Unaudited	
	Notes	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⁽³⁾</u>	<u>2,072</u>
At 30 June 2004		<u>276,286,000</u>	<u>2,763</u>

(1) Nominal value is HK\$0.10 per share

(2) Nominal value is HK\$2.00 per share

(3) Nominal value is HK\$0.01 per share

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	Audited
	30 June 2004	31 December 2003
	HK\$'000	HK\$'000
Land and buildings:		
Within one year	979	1,675
In the second to fifth years inclusive	<u>—</u>	<u>575</u>
	<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 <i>HK\$'000</i>	Audited 31 December 2003 <i>HK\$'000</i>
Within one year	4,439	4,510
In the second to fifth years inclusive	8,102	8,272
Over five years	<u>3,861</u>	<u>3,347</u>
	<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.

5. BUSINESS REVIEW AND PROSPECTS

For the six months ended 30 June 2004, the Group's turnover was HK\$23,740,000 and the consolidated loss attributable to shareholders was approximately HK\$23,441,000. These compared with a turnover of HK\$39,039,000 and a loss of HK\$16,107,000 for the same period in the previous year. The sales of health products (which include tonic drinks products and other health products) decreased to HK\$21,823,000 in the first half of 2004 from the amount of HK\$35,170,000 in the first half of 2003. The sales of health drinks also decreased to HK\$1,917,000 in the first half of 2004 from the amount of HK\$2,943,000 in the first half of 2003. The main reason for these decreases was due to the fact that many of the existing products had experienced the declining stage of their respective life cycle.

On the other hand, the Group is aware of the growing opportunities in China for the market of diseases diagnosis as well as drug material for drug manufacturing. In this regard, the Group has moved into the testing market on autoimmune diseases by acquiring in late 2003 a worldwide development right of a technology "QuProbe" in genomic research and diagnostic for research and clinical analysis. The Group has been actively seeking for partners in China for developing health care and pharmaceutical products in order to capture the enormous market there. At the Latest Practicable Date, no such cooperation with any partner in China has been concluded or crystalised yet. With the huge opportunity in diagnostic and pharmaceutical market in China, the Group will target on a few crucial projects which offer great promises in the market in China.

In the coming future, the Group will continue to streamline the operation by cutting cost and down-sizing the unprofitable business and will actively seek for collaboration opportunities with pharmaceutical companies for diversifying its products and market. At the Latest Practicable Date, no such collaboration opportunities have been concluded or crystalised yet. The Group is open to other business opportunities which would generate revenue and profits to optimize the Group's resources.

6. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net assets of the Group as at 30 June 2004, as shown in the “Unaudited condensed consolidated financial statements of the Group” set out in Appendix I to this circular, and adjusted for the effect of the Open Offer. It has been compiled for illustrative purposes only, to provide the Shareholders with information about the impact of the Open Offer, and, because of its nature, may not give a true picture of the financial position or results of the Group.

	Unaudited consolidated net tangible assets of the Group as at 30 June 2004 HK\$'000	Estimated net proceeds from the Open Offer (Note 1) HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group HK\$'000
Based on the Subscription Price of HK\$0.11 per Offer Share	<u>17,166</u>	<u>77,049</u>	<u>94,215</u>

	Unaudited consolidated net tangible assets per Share of the Group as at 30 June 2004 (Note 2) HK\$	Unaudited pro forma adjusted consolidated net tangible assets per Share of the Group (Note 2) HK\$
Based on the Subscription Price of HK\$0.11 per Offer Share	<u>0.048</u>	<u>0.088</u>

Notes:

1. The estimated net proceeds from the Open Offer is based on the Subscription Price of HK\$0.11 per Offer Share with 715,956,000 Offer Shares issued, after deduction of the estimated share issue and related expenses of approximately HK\$1,706,000.
2. The calculation of the unaudited consolidated net tangible assets per Share of the Group as at 30 June 2004 is based on the unaudited consolidated net tangible assets of the Group as at 30 June 2004 and 357,978,000 Shares in issue as at the Latest Practicable Date. The unaudited pro forma adjusted consolidated net tangible assets per Share of the Group is based on the unaudited proforma adjusted consolidated net tangible assets of the Group and 1,073,934,000 Shares in issue immediately following the completion of the Open Offer, assuming the completion of the Open Offer with 715,956,000 Offer Shares issued.

7. COMFORT LETTER ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of the comfort letter received from KLL Associates CPA Limited, Certified Public Accountants (Practising), Hong Kong, for the purpose of incorporation in this circular.



27 January 2005

The Directors
MAXX Bioscience Holdings Limited
Room 3802
Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

Dear Sirs

MAXX Bioscience Holdings Limited (the “Company”) and its subsidiaries (the “Group”)

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group (the “Pro Forma NTA Statement”) set out on page 94 in the section headed “Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group” of Appendix I of the Company’s circular dated 27 January 2005 (the “Circular”) in connection with the Company’s proposed open offer on the basis of two offer shares for every one share held on the record date (the “Open Offer”), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Open Offer might have affected the relevant financial information presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Pro Forma NTA Statement in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Pro Forma NTA Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma NTA Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma NTA Statement with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the Pro Forma NTA Statement.

The Pro Forma NTA Statement has been prepared on the basis set out on page 94 in the section headed “Unaudited pro forma statement of adjusted consolidated net tangible assets of the Group” of Appendix I of the Circular for illustrative purposes only and, because of its nature, it may not be indicative of the financial position of the Group as at 30 June 2004 or at any future date or the results of the Group for any future periods.

Opinion

In our opinion:

- a. the Pro Forma NTA Statement has been properly compiled on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the Pro Froma NTA Statement as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully

KLL Associates CPA Limited

Certified Public Accountants (Practising)

Lee Ka Leung, Daniel

Practising Certificate Number P01220

Hong Kong

8. INDEBTEDNESS

Borrowings

At the close of business on 31 December 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had aggregate outstanding borrowings of approximately HK\$129,132,000, comprising the following:

- (i) secured bank loans of approximately RMB54,200,000 (equivalent to HK\$51,132,000) and were secured by certain of the land use rights and buildings and investments held for disposal of the Group; and
- (ii) unsecured Promissory Notes of HK\$28 million and unsecured Convertible Notes of HK\$50 million issued to Payton Place.

Contingent liabilities

At the close of business on 31 December 2004, being the latest practicable date for the purpose of this indebtedness statement, the Group had no material contingent liabilities.

Disclaimers

Save as aforesaid or otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances or acceptances credits, finance leases or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 December 2004.

9. WORKING CAPITAL

The Directors are of the opinion that, taking into account the cashflow generated from the operating activities, the financial resources available for the Group, including internally generated funds, the available credit facilities and the estimated net proceeds of the Open Offer, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, the date to which the latest published audited financial statements of the Company were made up.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular concerning the Company and its subsidiaries and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts concerning the Company and its subsidiaries not contained herein the omission of which would make any statement herein concerning the Company and its subsidiaries misleading.

DIRECTORS' INTERESTS IN SHARES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of 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 and short positions which they are 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 into in the register referred to therein or which is required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) under the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Interests and short positions in shares, underlying shares and debentures of the Company

Name of director	Number of shares held, capacity and nature of interest			Approximate percentage of the Company’s issued shares capital
	Directly beneficially owned	Through controlled corporation	Long Position/ Short Position	
Ms. Lo	—	472,623,149 (<i>Note</i>)	Long position	40.87%
Siu Siu Ling, Robert	3,314,000	—	Long Position	0.98%

Note: The 472,623,149 shares comprise:

- (i)

interest in 390,014,454 shares held by Vision Ocean (This represents 130,004,818 existing shares held and 260,009,636 Offer Shares undertaken to be accepted by Vision Ocean); and
- (ii)

interest in 82,608,695 shares which represents the conversion rights granted to Payton Place pursuant to the Convertible Notes.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, so far as is known to the Directors and chief executives of the Company, the following parties 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 and underlying shares of the Company

Name of shareholder	Notes	Number of shares of HK\$0.01	Approximate percentage of the Company's issued share
Ms. Lo	(1)	472,623,149	40.87%
Vision Ocean	(1)	390,014,454	36.32%
Payton Place	(1)	82,608,695	23.02%
Get Nice Holdings Limited	(2)	129,816,476	12.04%
Get Nice Incorporated	(2)	129,816,476	12.04%
Honeylink Agents Limited	(2)	129,816,476	12.04%
Ceva Investments Limited		41,180,000	11.50%
Sunny Fortune Limited		37,000,000	11.16%
Emperor International Holdings Limited	(3)	91,678,302	8.51%
GZ Trust Corporation	(3)	91,678,302	8.51%
Jumbo Wealth Limited	(3)	91,678,302	8.51%
Luk Siu Man, Semon	(3)	91,678,302	8.51%
Yeung Sau Shing, Albert	(3)	91,678,302	8.51%

Notes:

- (1) Further details of these shares are included in the section of "Directors' interests in shares".
- (2) These interests represents same parcel of interests in shares held by Get Nice Investment Limited who is one of the Underwriters and is deemed to be interested in 129,816,476 shares by virtue of the Underwriting Agreement.
- (3) These interests represents same parcel of interests in shares held by Emperor Securities Limited who is one of the Underwriters and is deemed to be interested in 91,678,302 shares by virtue of the Underwriting Agreement.

Save as disclosed above, the Directors and the chief executives of the Company are not aware that there is any party who, as at the Latest Practicable Date, had an interest or short positions 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, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such shares.

EXPERT AND CONSENT

The following are the qualifications of the experts who have been named in this document or have given opinions, letters or advice which are contained in this document:

Name	Qualification
South China Capital	a deemed licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (advising on asset management) regulated activities under the SFO
KLL Associates CPA Limited	certified public accountants (practising)

As at the Latest Practicable Date, neither of South China Capital nor KLL Associates CPA Limited have any beneficial interest in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the group and have any interest, either directly or indirectly, in any assets which have been, since 31 December 2003, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of South China Capital and KLL Associates CPA Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and/or references to its names, in the form and context in which it respectively appears.

PROCEDURES FOR DEMANDING A POLL

Pursuant to Bye-law 66(1) of the Bye-Laws of the Company, at any general meeting, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) duly demanded by:

- (i) the chairman of the meeting; or
- (ii) at least three members present in person or by proxy or representative for the time being entitled to vote at the meeting; or

- (iii) any member or members present in person or by proxy or representative and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) any member or members present in person or by proxy or representative and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has entered into any service contract with any member of the Group nor are there any other service contracts proposed which will not expire or be determinable by the Group within one year without payment of compensation (other than statutory compensation).

CORPORATE INFORMATION

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The head office and principal place of business of the Company is at Room 3802, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

- (b) The secretary and qualified accountant of the Company is Mr. Ngai Wai Kin, FCCA, CPA (Practising), CPA (Aust.)

MATERIAL CONTRACTS

The following contracts have been entered into by the Company and its subsidiaries (not being contracts entered into in the ordinary course of business) after the date two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) a share purchase agreement dated 29 October 2003 entered into between Profit Statistics Limited, a subsidiary of the Company and Pro-Tex International Group Limited, an independent third party, relating to the acquisition of the entire issued share capital of Richford Investment Development Limited for a consideration of HK\$16,000,000.00;

- (b) a share purchase agreement dated 8 October 2003 and the supplemental agreement dated 14 October 2003 entered into between the Company and Payton Place Limited (which is beneficially owned by Ms. Lo) relating to the acquisition of 86% equity interest in New Wealth Assets Limited, all rights, title, benefit and interest of and in the shareholder's loan and interest therein due from New Wealth Assets Limited and the 30% of the entire issued share capital of MAXX Immunotech Limited for a consideration of HK\$78,000,000.00;
- (c) the disposal agreement dated 25 March 2004 entered into between Profit Statistics Limited, a subsidiary of the Company and Pro-Tex International Group Limited, an independent third party, relating to the disposal of the entire issued share capital of Richford Investment Development Limited to Pro-Tex International Group Limited for a consideration of HK\$16,000,000.00;
- (d) the underwriting agreement dated 27 March 2004 for the Open Offer of 207,214,500 Shares on the basis of three Open Offer shares for every share as announced on 19 April 2004, details of which are also set out in the Company's circular dated 8 May 2004;
- (e) the subscription agreement dated 8 September 2004 for the issue of 55,180,000 Shares of the Company at a subscription price of HK\$0.136 per Share; and
- (f) the Underwriting Agreement.

MISCELLANEOUS

- (a) Save as disclosed in this circular, none of the Directors, South China Capital nor KLL Associates CPA Limited has, or had any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company or any member of the Group since 31 December 2003, being the date to which the latest published audited accounts of the Company were made up.
- (b) None of the Directors or any of their Associates had any business or interest that directly or indirectly competes or may compete with the business of the Group or had or might have any other conflict of interest.
- (c) None of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.
- (d) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (public holidays excepted) at the Company's principal place of business in Hong Kong at Room 3802, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong from the date of this circular up to and including the Record Date:

- (a) the Memorandum of Association and the Bye-laws of the Company;
- (b) the annual reports of the Company for the year ended 31 December 2003;
- (c) the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2004;
- (d) the letter from Independent Board Committee;
- (e) the material contracts as referred to in the paragraph headed "Material Contracts" in this Appendix II to this circular and their respective circulars;
- (f) the letter of advice prepared by South China Capital, together with the consent letter referred to in this Appendix II to this circular; and
- (g) the comfort letter from KLL Associates CPA Limited, the text of which are reproduced in Appendix I to this circular.



MAXX BIOSCIENCE HOLDINGS LIMITED

(曼盛生物科技集團有限公司*)

(Stock code: 512)

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of MAXX Bioscience Holdings Limited (the “Company”) will be held at 10:00 a.m. on Wednesday, 16 February 2005 at Room 1910-1913, Hutchison House, 10 Harcourt Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing the following ordinary resolution (with or without modification):

“**THAT**, subject to (i) the fulfillment of other conditions in the Underwriting Agreement as defined in the circular of the Company dated 27 January 2005 (the “Circular”), a copy of each of the Underwriting Agreement and the Circular having been tabled at the meeting and respectively initialed by the Chairman for the purpose of identification and respectively marked “A” and “B”, and (ii) the Company’s undertaking to use the proceeds of the Open Offer (as defined hereafter) for early redemption of the Convertible Notes and the Promissory Notes (as defined in the Circular) and working capital of the Company and its subsidiaries:

- (a) the offer (the “Open Offer”) of Shares (the “Offer Shares”) to the shareholders of the Company whose names appear on the register of members of the Company at the close of business on a date to be fixed by the Directors on an assured basis of provisional allotments of two (2) Offer Shares for every one (1) Share then held at the subscription price of HK\$0.11 per Offer Share according to the terms of the Open Offer as set out in the Circular be and is hereby approved, and the Directors be and are hereby authorised to allot and issue the Offer Shares upon acceptance by the shareholders of the Company pursuant to and in accordance with the Open Offer;
- (b) the Underwriting Agreement be and is hereby approved, confirmed and ratified and any Director be and is hereby authorised to do such acts or execute such other documents which may be necessary, desirable or expedient in his/her opinion to carry into effect or to give effect to the terms of the Underwriting Agreement; and
- (c) any Director be and is hereby authorised to do all things and acts and sign all documents which he/she considers necessary, desirable or expedient in connection with the implementation of the Open Offer.”

By Order of the Board

Lo Yuk Yee

Chairman

Hong Kong, 27 January 2005

** For identification purpose only*

NOTICE OF THE SGM

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
3. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be deposited at the principal place of business of the Company in Hong Kong at Room 3802, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Completion and return of the form of proxy will not preclude members from attending and voting at the special general meeting or any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.



MAXX BIOSCIENCE HOLDINGS LIMITED

(曼盛生物科技集團有限公司*)

(Incorporated in Bermuda with limited liability)

FORM OF PROXY

Form of proxy for use at the special general meeting of the shareholders (“SGM”) of MAXX Bioscience Holdings Limited (the “Company”) to be held at 10:00 a.m. on Wednesday, 16 February 2005 at Rooms 1910 - 1913, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

I/We _____ of _____
_____ (Note 1)

being the registered holder(s) _____ of (Note 2) shares of
HK\$0.01 each (the “Shares”) in the share capital of the Company, HEREBY APPOINT
_____ of _____

_____ (Note 3) to act for me/us as my/our proxy at
the SGM (or at any adjourned meeting thereof) to be held at 10:00 a.m. on Wednesday, 16 February
2005 at Rooms 1910 - 1913, Hutchison House, 10 Harcourt Road, Central, Hong Kong for the purpose
of considering and, if thought fit, passing the resolution as set out in the notice (the “Notice”)
convening the SGM and at such meeting (or any adjourned meeting thereof) to vote for me/us and on
my/our behalf in respect of the said resolution as hereunder indicated or, if no such indication is given,
as my/our proxy think fit.

AS ORDINARY RESOLUTION	FOR (Note 4)	AGAINST (Note 4)
To approve the Open Offer.		

Date: _____ Signature: _____ (Note 5)

Notes:

1. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
2. Please insert the number of Shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the Shares registered in your name(s).
3. Please insert the name and address of the proxy desired. **IF NO NAME IS INSERTED, THE CHAIRMAN OF THE MEETING WILL ACT AS YOUR PROXY. ANY ALTERATION MADE IN THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR A RESOLUTION, PLACE A “/” IN THE BOX MARKED “FOR” BESIDE THE RESOLUTION. IF YOU WISH TO VOTE AGAINST A RESOLUTION, PLACE A “/” IN THE BOX MARKED “AGAINST” BESIDE THE RESOLUTION.** Failure to complete the boxes will entitle your proxy to cast his/her vote at his/her discretion on any resolution which has been properly put to the SGM other than those referred to in the Notice.
5. This form of proxy must be signed by you or your attorney duly authorized in writing or, in the case of a corporation, must be under its common seal or the hand of an officer, attorney or other person duly authorized on its behalf.
6. In case of joint registered holders of any Share, any one of such persons may vote at the SGM, either personally or by proxy, in respect of such Share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the SGM in person or by proxy, that one of the said persons so present whose names stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.
7. To be valid, this form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be returned, to the Company Secretary, Mr. Ngai Wai Kin, at Room 3802, Wu Chung House, 213 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the SGM or adjourned meeting (as the case may be).
8. A proxy need not be a member of the Company but must attend the SGM in person to represent you.
9. Completion and delivery of this form of proxy will not preclude you from attending and voting at the SGM if you so wish, and in such event, the form of proxy shall be deemed to be revoked.

* For identification purpose only