




ESSEX

ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)



A n n u a l R e p o r t 2 0 0 1

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Chairman's Statement

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Ngiam Mia Je Patrick
Chairman and Executive Director

The inaugural year of the new millennium was an uneasy watershed for the global economy. The September 2001 terrorists' attacks in the US further exacerbated the fragile physiology of the global economy, serving as a trigger point to send trading environments into a tailspin.

Despite the brittle and murky global economic conditions, as well as the legacy from the meltdown of the equities market, the Group stayed its course and accomplished its objectives for 2001.

SUCCESSFUL IPO — TIMELY AND STRATEGIC LISTING

The Company was successfully listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 June 2001 and raised approximately HK\$51 million from the placing of its shares (the "Placing").

The Company's listing on the GEM indicates the Company's status as a significant biopharmaceutical company in the burgeoning China market as well as representing its intention to be a major global entity from one of the most crucial financial centres in the international spectrum.

The Group is well poised to tap and harness the immense market potential of China's rapidly growing and liberalising economy.

FINANCIAL HIGHLIGHTS

Total revenue for the financial year ended 31 December 2001 amounted to approximately HK\$29.7 million. Profit attributable to shareholders for the year ended 31 December 2001 was increased by 105.8% to approximately HK\$2 million.

As at 31 December 2001, the financial position of the Group was extremely healthy. The Group has over HK\$33.4 million in cash and is debt-free in capital structure.

BUSINESS HIGHLIGHTS AND OUTLOOK

During the year under review, the Group channelled significant resources broadly towards the following strategic developments:

- Expanding the breadth and depth of the distribution network in the People's Republic of China (the "PRC").
- Fostering the newly established research and development ("R&D") centre in Shenzhen, the PRC for bio-chemical and traditional Chinese medicine research, complementing the genetic engineering driven R&D centre in Zhuhai, the PRC.
- Adopting the pragmatic approach of protecting the Group's intellectual properties through filing of patents in the PRC.
- Upgrading and expanding the Good Manufacturing Practice ("GMP") certified production facilities for the production of gel and capsule formulation and doubling the production capacity.
- Implementing the Enterprise Resources Planning ("ERP") system to efficiently manage business transactions and planning.

Accomplishments during the year

(1) *Self-developed Products/Project:*

- Sterilized Beifuji Penetrates Surgical Operation Arena — Sterilized Beifuji successfully penetrated the surgical operation arena. It is prescribed by hospitals in major provinces and cities in the PRC such as Shanghai, Zhejiang, Shandong and Jiangsu since May 2001.
- Clinical Trials Approval for the Gel Formulation of Flagship Products — Approval for commencement of clinical trials of 貝復濟 (Beifuji) and 貝復舒 (Beifushu), the two commercialised biopharmaceutical products of the Group, in gel formulation was granted by 中華人民共和國國家藥品監督管理局 (The State Drug Administration of the PRC) ("SDA") in mid-2001. Clinical trials of these two products in gel formulation started in the fourth quarter of 2001.
- Completion of rh-GDNF basic research — Completed the basic research of rh-GDNF and obtained the completion report from 國家科學技術部中國生物工程開發中心 (China Biopharmaceutical Engineering Centre of the Ministry of Science and Technology), an authority which appoints the key scientific and technological projects of the State Ninth Five-year Plan in the PRC, for its merit in attaining the preset standards in completion of rh-GDNF basic research.

(2) Pharmaceutical Projects in Action:

- Patents' Applications — Patents' applications for four new drugs carried out by Essex Pharmaceutical Research Centre Company Limited ("Essex Research") namely 腸寧凝膠 (Chang Ning Ning Jiao), 口瘡寧含片 (Kou Chuang Ning Han Pian), 宮環止血片 (Gong Huan Zhi Xie Pian) and 丹龍醒腦膠囊 (Dang Long Xin Nao Jiao Nang) have been lodged with and acknowledged by 中華人民共和國國家知識產權局 (State Intellectual Property Office of the PRC) in the year under review.
- Two pharmaceutical projects have successfully completed pre-clinical test. Results of pre-clinical test have been submitted to SDA for approval:

宮環止血片 (Gong Huan Zhi Xie Pian)

丹龍醒腦膠囊 (Dang Long Xin Nao Jiao Nang)

- Joint Research and Development Project under Genetic Engineering in the PRC — On 1 November 2001, Zhuhai Essex Bio-Pharmaceutical Company Limited ("Zhuhai Essex"), a subsidiary of the Company, entered into a joint research and development contract with Shanghai Cystron Biomedical Technology Co., Ltd ("Shanghai Cystron"), a company incorporated in Shanghai. Shanghai Cystron is principally engaged in research and development of genetic engineering products.

Under the joint research and development contract, a genetic engineering drug, Calcitonin, is to be developed by using the recombinant DNA technology. Calcitonin is targeted for the treatment of osteoporosis, hypercalcemia and relieve of bone ache.

(3) Accreditation:

Accreditation of the status of 高新技術企業 (New High Technology Enterprise) was granted to Zhuhai Essex by 廣東省科學技術委員會 (Science and Technology Commission of the Guangdong Province) on 13 July 2001.

In 2002, the Group will adopt a pragmatic fiscal and market approach to overcome the challenges presented by the transforming pharmaceutical industry in the PRC following its entry into the World Trade Organization ("WTO") and implementation of health care reforms.

The pragmatical strategy for 2002 will focus on the following developments:

- Increasing the stock of R&D incubated projects and seeking strategic market-oriented collaboration with research institutions in the PRC and foreign partners.

- Propelling broader market reach by increasing penetration into major hospitals in the PRC and breaking into new therapeutic applications for the commercialised products of 貝復濟 (Beifuji) and 貝復舒 (Beifushu).
- Expanding regional presence into country markets such as Thailand, Myanmar and Vietnam.

Concomitantly, the Group will continue its path of fuelling organic growth through instilling higher levels of sales service and discipline in the market-place in the aim to reinforce and raise brand name awareness and the corporate image.

Our management is optimistic of the Group's ability to continue to perform credibly and grow in parallel with the perceptibly robust growth of the PRC market as well from its ability to harness the opportunities offered in regional markets.

APPRECIATION

We look forward with confidence to 2002, based on our ability to promptly respond to biopharmaceutical market needs. Our strong commitment and focus have made it possible to perform beyond expectations in an uncertain market.

We acknowledge the support and contribution of business partners, associates, customers and shareholders. On behalf of my fellow directors and management team, I would like to take this opportunity to thank everyone, particularly the vibrant management and research and development teams for their loyalty, contribution and dedication.

The road ahead may be lined with challenges but we move forward in the spirit of partnership and enterprise.

NGIAM MIA JE PATRICK

Chairman and Executive Director

Hong Kong, 14 March 2002

Corporate Information

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BOARD OF DIRECTORS

Ngiam Mia Je Patrick

Chairman and Executive Director

Fang Haizhou

Managing Director and General Manager

Zhong Sheng

Executive Director

NON-EXECUTIVE DIRECTOR

Wong Kui Ming

INDEPENDENT NON-EXECUTIVE DIRECTORS

Fung Chi Ying

Mauffrey Benoit Jean Marie

COMPANY SECRETARY

Yau Lai Man

QUALIFIED ACCOUNTANT

Yau Lai Man

COMPLIANCE OFFICER

Zhong Sheng

AUDIT COMMITTEE

Fung Chi Ying

Mauffrey Benoit Jean Marie

Zhong Sheng

AUTHORISED REPRESENTATIVES

Zhong Sheng

Yau Lai Man

SPONSOR

Dao Heng Securities Limited

REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

Cayman Islands

AUDITORS

Horwath Hong Kong CPA Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2818

China Merchants Tower

Shun Tak Centre

168—200 Connaught Road Central

Hong Kong

HONG KONG SHARE REGISTRAR

Secretaries Limited

5th Floor

Wing On Centre

111 Connaught Road Central

Hong Kong

WEBSITE ADDRESS

www.essexbio.com

PRINCIPAL BANKERS

Dao Heng Bank Limited

Bank of China (Hong Kong) Limited

STOCK CODE

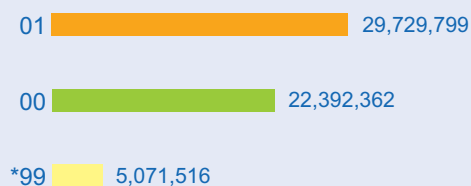
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Financial Highlights

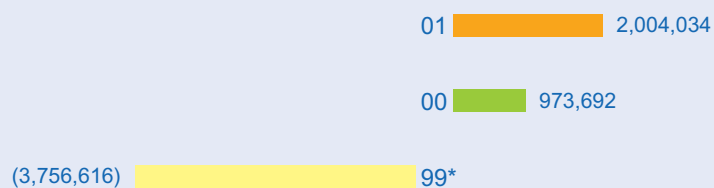
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	Year ended 31 December	
	2001 HK\$	2000 HK\$
Results		
Turnover	29,729,799	22,392,362
Profit attributable to shareholders	2,004,034	973,692
Assets and liabilities		
Total assets	64,934,977	31,665,934
Total liabilities	13,082,773	25,661,903
Shareholders' equity	51,852,204	6,004,031

TURNOVER



PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS



* Period from 19 February 1999 (date of foundation of the Group as defined in prospectus issued by the Company dated 19 June 2001) to 31 December 1999

Financial Highlights**8****(i) Listed on GEM of the Stock Exchange**

The Company was successfully listed on the GEM of the Stock Exchange on 27 June 2001. The Company had raised approximately HK\$51 million from the placing of 102,564,000 shares at HK\$0.50 per share. The 102,564,000 placing shares were approximately 4.5 times subscribed. It represented 20% of the Company's issued share capital following the completion of the Placing.

(ii) Financial Position

Total revenue for the financial year ended 31 December 2001 amounted to approximately HK\$29.7 million, an increase of 32.8% as compared to approximately HK\$22.4 million in the previous year. Fourth quarter revenue was approximately HK\$10.3 million versus approximately HK\$5.1 million in the corresponding quarter of 2000, representing a 99.5% increase.

The improved performance is attributable to increasing market acceptance and penetration of the Group's quality and sophisticated products. Growth was further fuelled by the implementation of an expanded distribution network in the PRC market.

Profit attributable to shareholders for the year ended 31 December 2001 was increased by 105.8% to approximately HK\$2 million, largely due to the Group's strategic increase in equity interest in a profitable subsidiary since mid-2000.

As at 31 December 2001, the financial position of the Group was extremely healthy. The Group has over HK\$33.4 million in cash and is debt-free in capital structure.

MARKET DEVELOPMENTS IN CHINA

As part of its 國家“十五”計劃 (State Tenth Five-Year Plan) (2001–2005), the PRC government has focused on developments in the bioengineering arena with genomic in particular.

The PRC government is set to implement certain preferential policies to propel the development of the biopharmaceutical industry with the intent to incubate a select group of high-tech firms that are equally competent with international counterparts.

The PRC's entry into the WTO is another opportunity for local and foreign companies in the biopharmaceutical industry. WTO membership opens the doorway to a potentially lucrative market of around 1.3 billion consumers.

Furthermore, the PRC's macro-policy in transforming the pharmaceutical and medical insurance arena will result in an increased consumer reach in the local market. The Group's existing products are registered in the basic medical insurance list of eight major provinces and cities in the PRC.

As a developer, manufacturer and distributor of biopharmaceutical products based on genetic engineering technology with fully integrated GMP certified production facilities, professional R&D team and an extensive distribution network across more than 100 cities, the Group is well poised to enhance its PRC market position as well as to establish strategic alliances with international firms.

ACCREDITATION

One of the Group's principal subsidiaries, Zhuhai Essex, has once again been accredited the status of 高新技術企業 (New High Technology Enterprise) by 廣東省科學技術委員會 (Science and Technology Commission of the Guangdong Province) on 13 July 2001. This status is valid for two years from 13 July 2001. During the two years' period, Zhuhai Essex is entitled to certain benefits such as the application of exemption on business tax chargeable on income generated from technology projects and privilege in recruitment of technical staff from other provinces.



The directors believe that the status of 高新技術企業 (New High Technology Enterprise) is a recognition on the genetically driven biopharmaceutical drugs development and manufacturing business focus of Zhuhai Essex.

PRODUCTS DEVELOPMENT

- **Sterilized Beifuji Penetrates Surgical Operation Arena** — Sterilized Beifuji successfully penetrated the surgical operation arena and is prescribed by hospitals in major provinces and cities in the PRC such as Shanghai, Zhejiang, Shandong and Jiangsu since May 2001. During the year under review, the Group channelled considerable research and development resources to develop the sterilized Beifuji, which has successfully penetrated into the surgical operation arena since May 2001.
- **Clinical Trials Approval for the Gel Formulation of Flagship Products** — Approval for commencement of clinical trials of 貝復濟 (Beifuji) and 貝復舒 (Beifushu), the two commercialised biopharmaceutical products of the Group, in gel formulation had been granted by SDA in mid-2001. Clinical trials of these two products in gel formulation started in the fourth quarter of 2001.

貝復濟 (Beifuji) in gel formulation is a derivative of the existing commercialized 貝復濟 (Beifuji) in lyophilized powder and liquid forms. The gel formulation derivative is comparatively persistent when acting on wounds, which in turn promotes therapeutic efficacy.

貝復舒 (Beifushu) in gel formulation is a derivative of the existing commercialized 貝復舒 (Beifushu) eye-drop. The current eye-drop form of 貝復舒 (Beifushu) is being used in hospitals. The gel formulation derivative is more convenient for patients application at home. Gel formulation is perceived to be comparatively easy-to-use and more comfortable as a result of a more smooth and even distribution when applying on conjunctiva. Moreover, the gel formulation is more stable in physical nature, which extends the product's persistency.

RESEARCH AND DEVELOPMENT

- **Patents' Applications** — Patents' applications for four new drugs carried out by Essex Research namely 腸寧凝膠 (Chang Ning Ning Jiao), 口瘡寧含片 (Kou Chuang Ning Han Pian), 宮環止血片 (Gong Huan Zhi Xie Pian) and 丹龍醒腦膠囊 (Dang Long Xin Nao Jiao Nang) have been lodged with and acknowledged by 中華人民共和國國家知識產權局 (The State Intellectual Property Office of the PRC) in the year under review.
- Two pharmaceutical projects have successfully completed pre-clinical test. Results of pre-clinical test have been submitted to SDA for approval:

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- Joint Research and Development Project under Genetic Engineering in the PRC — On 1 November 2001, Zhuhai Essex has entered into a joint research and development contract with Shanghai Cystron, a company incorporated in Shanghai. Shanghai Cystron is principally engaged in the research and development of genetic engineering products.

Under the joint research and development contract, a genetic engineering drug, Calcitonin, is to be developed by using the recombinant DNA technology. Calcitonin is targeted for the treatment of osteoporosis, hypercalcemia and relieve of bone ache.

- Strengthened research and development pipeline — In addition to the existing pharmaceutical projects in the research and development pipeline, the Group has added three new pharmaceutical projects in the year under review.

The three new projects are:

- 丹龍醒腦膠囊 (Dang Long Xin Nao Jiao Nang) — a Chinese medicine for the treatment of vascular dementia.
 - 加味沒竭片 (Jia Wei Mo Jie Pian) — a Chinese medicine for the treatment of dysmenorrhoea.
 - 清心透毒顆粒 (Qing Xin Tou Du Ke Li) — a Chinese medicine for the treatment of viral myocarditis.
- Completion of rh-GDNF basic research — Completed the basic research and obtained the completion report from China Biopharmaceutical Engineering Centre of the Ministry of Science and Technology, an authority which appoints the key scientific and technological projects of the State Ninth Five-year Plan in the PRC, for its merit in attaining preset standards in completion of rh-GDNF basic research. Preparation of proceeding to pre-clinical test is under progress.

New Drug Research Center at the Group's subsidiary, Essex Pharmaceutical Research Centre Company Limited



SALES AND MARKETING

The newly developed Sterilized Beifuji has successfully penetrated into the surgical operation arena. The product is prescribed by hospitals in major provinces and cities in the PRC such as Shanghai, Zhejiang, Shandong and Jiangsu since May 2001.

The Group's strategy is to continuously and pragmatically expand and penetrate the existing market in the PRC for the Group's two commercialised biopharmaceutical products, namely 貝復濟 (Beifuji) and 貝復舒 (Beifushu). The Group organises, among others, training programmes and technical seminars for marketing agents and medical practitioners on a continual basis to nurture and cultivate wider market awareness and acceptance for its products.

In addition, the Group plans to strengthen its sales and distribution network through acquisition or establishment of "in-market" promotion companies. It is expected that the Group can strengthen both the distribution channel and increase the variety of products offered by the Group.



PRODUCTS' PROSPECTS

(1) Beifuji and Beifushu

It is estimated that approximately 500,000 patients applied 貝復濟 (Beifuji) in the year of 2001. This represents approximately 1.6% of the market share in the surface wounds treatment arena. The market share for 貝復舒 (Beifushu) in the corneal treatment arena was estimated at 2.3% with approximately 500,000 patients using 貝復舒 (Beifushu) in the year of 2001.

The development of gel formulation for both products is aimed at increasing the market acceptance and customer satisfaction for the two flagship products: 貝復濟 (Beifuji) and 貝復舒 (Beifushu). Upon commercialization of the gel formulation for both products, the Group expects to increase its market share in both the surface wound and corneal wound arena and hence increase revenue of the Group accordingly.

(2) Protene skincare collection

To expand the product spectrum, the Group engaged in skincare product development for commercial sales. A series of bFGF-based skincare product was successfully developed during the year. bFGF is a growth factor that promotes growth of mesoderm and therefore gives an effective result during skincare application.

The Group is aggressively exploring distribution and marketing opportunities both in the PRC and international markets.

USE OF PROCEEDS

The Company was listed on GEM on 27 June 2001 through a placement of 102,564,000 new shares. The net proceeds from such placement after deduction of the relevant expenses incurred were approximately HK\$35 million. The Group intends to apply such net proceeds for its expanding the distribution channels, development of the Enterprise Resources Planning (“ERP”) System, research and development, expansion of existing production facilities, development and marketing of skincare products.

OUTLOOK

Anticipating a choppy global economy in the coming year, the Group will maintain and consolidate its existing customer base and expand the distribution network in the PRC. Meanwhile, the Group adopts a pragmatic approach to extend presence in new markets by initially focus on neighbouring regions such as Southeast Asia. The Group will remain responsive to the fast changing industry following the PRC’s market liberalisation. The management is optimistic about nurturing steady growth of the Group’s turnover and profit attributable to shareholders, in line with the strong expected growth of the PRC market.

Leveraging on the established distribution channels and market acceptance of the two flagship products, strong research and development pipeline together with the extensive experience and technical expertise of the Group’s management team, the directors are confident that the Group can achieve its objective to become one of the leading global developers and distributors of biopharmaceutical and other pharmaceutical products for the treatment and healing of surface wounds, organ wounds and nervous system damages and diseases.

Progress Against Business Objectives

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COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 19 June 2001 **Actual business progress in respect of the six months period ended 31 December 2001**

Distribution channels and Enterprise Resources Planning (“ERP”) System

- | | |
|--|--|
| 1. To establish a few in-market promotion companies | Formed a strategic alliance with a sale and marketing company for the nation-wide promotion of the Group’s products in the PRC. |
| 2. To continue the preparation for the sales of 貝復濟 (Beifuji) and 貝復舒 (Beifushu) in Hong Kong, Singapore and Malaysia | Proceed with the application for import/export of 貝復濟 (Beifuji) and 貝復舒 (Beifushu) in Vietnam and Myanmar. Further inquiry made to the relevant government authorities regarding import/export of 貝復濟 (Beifuji) and 貝復舒 (Beifushu) in Hong Kong, Singapore and Malaysia. |
| 3. To begin trial-using the systems developed under the ERP system for sales management, customer relationship management, financial management for receivables and the website together with e-mail server and to continue the development of the ERP system and complete the systems for material sourcing, new projects and products management, laboratory management and the financial management for liabilities | The development of ERP system for sales management, customer relationship management, financial management for receivables and the website together with e-mail server were successfully completed in the fourth quarter of 2001 and are under trial using at balance sheet date.

The systems for material sourcing, new projects and products management, laboratory management and the financial management for liabilities are under development. Progress behind the business plan as these systems need to be modified to cope with the operation of the newly established R&D centre in Shenzhen. These systems are expected to be completed in the second quarter of 2002. |

Research and development

- | | |
|--|--|
| 1. To perform clinical trials on the gel formulation of 貝復濟 (Beifuji) and 貝復舒 (Beifushu) | Approval for commencement of clinical trials of 貝復濟 (Beifuji) and 貝復舒 (Beifushu), the two commercialized biopharmaceutical products of the Group, in gel formulation has been granted by SDA in mid-2001. Clinical trials of these two products in gel formulation started in the fourth quarter of 2001. |
| 2. On-going pre-clinical tests on 貝復適 (Beifushi) and 貝復泰 (Beifutai) | Pre-clinical test on 貝復適 (Beifushi) was successfully completed in the fourth quarter of 2001. Results of the pre-clinical test on 貝復適 (Beifushi) were submitted to SDA and pending SDA’s approval. Pre-clinical test on 貝復泰 (Beifutai) is in progress and is expected to be completed in the second quarter of 2003. |

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS *(continued)***Business objectives as stated in the prospectus dated 19 June 2001****Actual business progress in respect of the six months period ended 31 December 2001****Research and development** *(continued)*

3. To complete the basic research on rh-GDNF

Completed the basic research and obtained the completion report from China Biopharmaceutical Engineering Centre of the Ministry of Science and Technology, an authority which appoints the key scientific and technological projects of the State Ninth Five-year Plan in the PRC, for its merit in attaining preset standards in completion of rh-GDNF basic research. Preparation of proceeding to pre-clinical test is under progress.

Production

To commence the expansion of the existing production facilities and capacity by constructing the production facilities for the gel formulation of 貝復濟 (Beifuji) and 貝復舒 (Beifushu)

Acquisition of one set of tubefilling machine to expand the existing production facilities during the year. Further, the Group also acquired a labeling machine to improve the efficiency of production.

Skincare product development

To promote the rb-bFGF based skincare products in Hong Kong, Singapore and Malaysia

Proceed with the application for import/export license for the skincare products in Hong Kong, Singapore and Malaysia. Samples of skincare products have been sent to potential marketing agents in the fourth quarter of 2001.

Profiles of Directors

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Ngiam Mia Je Patrick BSc (1st Class Hons) PhD (BA), aged 47, is the founder of the Group. Dr. Ngiam is the chairman and executive director of the Company. He is responsible for corporate planning, business development strategy and overall direction of the Group. He was awarded the first KPMG Singapore High Tech Entrepreneur Award in 1990. Dr. Ngiam was also awarded the Businessman of the Year in Singapore in 1994. In 1996, Dr. Ngiam was bestowed with an award from France, the Chevalier DE L'ORDRE NATIONAL DU MERITE.

Fang Haizhou, aged 36, is the managing director and general manager of the Company. He is also a senior pharmaceutical engineer. He has obtained a Bachelor degree in Bio-chemical Engineering from 華南工學院 (Southern China Institute) and a Master degree in Engineering from 華南理工大學 (Southern China University of Technology). He has been with Zhuhai Essex since its establishment in June 1996.

Zhong Sheng, aged 37, is an executive director and is responsible for the financial management and administration of the Group. He holds a Master degree in Industrial Economics from 廣東省社會科學院 (Guangdong Academy of Social Sciences). Mr. Zhong was a committee member of 廣西壯族自治區對外經濟貿易委員會 (Committee of Foreign Economics and Trade of Guangxi Zhuang Autonomous Region). Mr. Zhong joined the Group in February 1999. Mr. Zhong has more than five year experience in financial management and project management.

Wong Kui Ming, aged 40, was appointed as non-executive director in 13 June 2001. Mr. Wong has a Bachelor degree of Science in Electrical Engineering from the National Taiwan University and a Master degree in Business Administration from the University of Leicester, United Kingdom. He holds the executive directorship of two listed companies on the Hong Kong Stock Exchange.

Fung Chi Ying, aged 47, was appointed as independent non-executive director of the Company on 13 June 2001. Mr. Fung is a practicing solicitor in Hong Kong. He is presently a partner of Adrian Yeung & Cheng, Solicitors.

Mauffrey Benoit Jean Marie, aged 49, was appointed as independent non-executive director of the Company on 13 June 2001. He is experienced in business development and sales and marketing in several industries in the Asia Pacific region.

The directors herein present their first annual report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

GROUP REORGANIZATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 31 July 2000 under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the reorganization to rationalize the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company of the Group on 13 June 2001 (the "Reorganization").

Further details of the Reorganization, together with the details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 18 and 27 to the financial statements and in the Company's prospectus dated 19 June 2001.

The shares of the Company began trading on the GEM of the Stock Exchange on 27 June 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 18 to the financial statements. There were no changes in the nature of the Group's principal activities during the year.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and profit from operating activities by principal activity and geographical area of operations for the year ended 31 December 2001 is as follows:

	Turnover		Profit from operating activities	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
By activity:				
Sale of biopharmaceutical products	26,431,073	22,392,362	2,652,373	1,588,418
Sale of skincare products	928,466	—	75,799	—
Sale of pharmaceutical research and development projects	2,370,260	—	(359,383)	—
	29,729,799	22,392,362	2,368,789	1,588,418
By geographical area:				
The People's Republic of China, excluding Hong Kong	28,801,333	22,392,362	2,292,990	1,588,418
Hong Kong	928,466	—	75,799	—
	29,729,799	22,392,362	2,368,789	1,588,418

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 26 to 58.

The directors do not recommend the payment of any dividend in respect of the year.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 16 to the financial statements.

INTANGIBLE ASSETS

Details of movements in the intangible assets of the Group during the year are set out in note 17 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 18 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons thereof, and details of the Company's share option scheme are set out in notes 27 and 29 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company's reserves available for distribution amounted to HK\$800,147. In accordance with the laws of the Cayman Islands, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 32% of the total sales for the year and sales to the largest customer included therein amounted to 13%. Purchases from the Group's five largest suppliers accounted for 72.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to 30.6%.

To the best of the directors' knowledge, neither the directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year.

DIRECTORS

The directors of the Company during the year and as at the date of this annual report were as follows:

Executive directors

Ngiam Mia Je Patrick	(appointed on 13 July 2000)
Fang Haizhou	(appointed on 13 July 2000)
Zhong Sheng	(appointed on 13 July 2000)

Non-executive directors

Wong Kui Ming	(appointed on 13 June 2001)
---------------	-----------------------------

Independent non-executive directors

Fung Chi Ying	(appointed on 13 June 2001)
Mauffrey Benoit Jean Marie	(appointed on 13 June 2001)

In accordance with article 87(1) of the Company's articles of association, Mauffrey Benoit Jean Marie will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' remuneration and the five highest paid individuals of the Group are set out in notes 9 and 10 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 27 June 2001. The Company shall be entitled to terminate the appointment at any time without cause by giving not less than six months' prior written notice to the directors. The directors shall not be entitled to terminate the appointment at any time during the initial term of three years unless with the written consent of the Company deliberated by the board of directors.

DIRECTORS' SERVICE CONTRACTS (continued)

The length of the term of appointment for each of the non-executive directors is 30 months commencing from 13 June 2001 subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company.

DIRECTORS' INTEREST IN SHARES

As at 31 December 2001, the interests of the directors and their associates in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance"), are set out below:

Name	Number of issued ordinary shares of HK\$0.10 each in the Company				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Ngiam Mia Je Patrick	26,441,983	12,019,083 (note 1)	288,458,000 (note 2) 6,666,667 (note 3)	—	333,585,733

Notes:

- 12,019,083 shares were held by Ngiam Mia Je Patrick's wife, Lauw Hui Kian, and therefore he is deemed to be interested in these shares.
- 288,458,000 shares were held by Essex Holdings Limited ("Essex Holdings") which is owned as to 50% by Ngiam Mia Je Patrick and as to 50% by Ngiam Mia Kiat Benjamin. Therefore, Ngiam Mia Je Patrick is deemed to be interested in these shares as he is entitled to exercise or control the exercise of more than one-third of the voting power of Essex Holdings at general meetings.
- 6,666,667 shares were held Dynatech Ventures Pte Ltd ("Dynatech") which is owned as to 60% by Essex (Singapore) Pte Ltd ("Essex Singapore") and as to 40% by EDB Ventures Pte Ltd, an independent third party. Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares and therefore, Ngiam Mia Je Patrick is deemed to be interested in these shares as he is entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meeting.

Save as disclosed above as at 31 December 2001, none of the directors or their associates had any personal, family, corporate or other interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 13 March 2002, the following parties had registered an interest of 10% or more in the issued share capital of the Company that were required to be recorded in the register of interests to Section 16(1) of the SDI Ordinance.

Name of shareholder	Number of Shares held	Approximate percentage of shareholding
Essex Holdings Limited	288,458,000	56.25%
Ngiam Mia Je Patrick	333,585,733 <i>(note 1)</i>	65.05%
Ngiam Mia Kiat Benjamin	321,566,650 <i>(note 2)</i>	62.71%
Lauw Hui Kian	333,585,733 <i>(note 3)</i>	65.05%

Notes:

1.
 - (a) 26,441,983 Shares are registered directly in the name of Ngiam Mia Je Patrick;
 - (b) 12,019,083 Shares are held by Lauw Hui Kian, the spouse of Ngiam Mia Je Partick;
 - (c) 288,458,000 Shares are held by Essex Holdings; and
 - (d) 6,666,667 Shares are held by Dynatech.
2.
 - (a) 26,441,983 Shares are registered directly in the name of Ngiam Mia Kiat Benjamin;
 - (b) 288,458,000 Shares are held by Essex Holdings; and
 - (c) 6,666,667 Shares are held by Dynatech.
3.
 - (a) 12,019,083 Shares are registered directly in the name of Lauw Hui Kian; and
 - (b) 321,566,650 Shares are held by Ngiam Mia Je Partick, the spouse of Lauw Hui Kian.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's pre-IPO share option scheme adopted and approved by its shareholders on 13 June 2001 (the "Pre-IPO Share Option Scheme"), the Company granted options to the following directors of the Company which entitle the holders to subscribe for ordinary shares of the Company. Details of the Pre-IPO Share Option Scheme are set out in note 29 to the financial statements. No share option was exercised by any director during the year.

Details of the share options outstanding at the balance sheet date are as follows:

Name of director	Date of grant	Number of options outstanding at 31 December 2001	Exercise price HK\$
Ngiam Mia Je Patrick	13 June 2001	4,500,000	0.10
Fang Haizhou	13 June 2001	4,000,000	0.10
Zhong Sheng	13 June 2001	3,000,000	0.10
Wong Kui Ming	13 June 2001	<u>650,000</u>	0.10
		<u><u>12,150,000</u></u>	

Save as disclosed above, at no time during the year under review was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives (including their spouses or children under 18 years of age) of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTEREST IN CONTRACTS

Save as transactions in connection with the Group Reorganization in preparation for the Company's Placing, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to which the Company, its holding company or any of its subsidiaries was a party during the year.

SPONSOR'S INTERESTS

At the date of this report, Dao Heng Securities Limited ("DHS"), its directors, employees and associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

SPONSOR'S INTERESTS *(continued)*

Pursuant to a sponsor agreement entered into between DHS and the Company, DHS is retained as sponsor of the Company for the period of two years commencing from 1 January 2002. The Company agreed to pay an agreed fee to DHS for its provision of such services.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company's shares were listed on the GEM on 27 June 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since that dated.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors nor the substantial shareholders has any interest in any business that directly or indirectly competes with the business of the Group.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rule since the listing of the Company's shares on the GEM on 27 June 2001.

AUDITORS

Horwath Hong Kong CPA Limited were appointed as the first auditors of the Company for the year ended 31 December 2001.

Horwath Hong Kong CPA Limited retire and a resolution for their re-appointment as auditors of the Company is to be proposed at the forthcoming annual general meeting.

AUDIT COMMITTEE

The Company established an audit committee on 13 June 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Zhong Sheng, an executive director of the Company and Fung Chi Ying and Mauffrey Benoit Jean Marie, who are the independent non-executive directors of the Company. The Group's audited results for the year ended 31 December 2001 have been reviewed by the committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

On behalf of the Board

Ngiam Mia Je Patrick

Chairman and Executive Director

Hong Kong, 14 March 2002

Report of the Auditors

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HORWATH HONG KONG CPA LIMITED*Certified Public Accountants*

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18 Harbour Road

Wanchai Hong Kong

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Facsimile : (852) 2810 0502

(852) 2810 0747

E-mail : horwath@horwath.com.hk

Web Site : www.horwath.com.hk

**To the members Essex Bio-Technology Limited***(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 26 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31 December 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Horwath Hong Kong CPA Limited

Certified Public Accountants

Chan Kam Wing, Clement

Practising Certificate Number P02038

Hong Kong, 14 March 2002

Consolidated Profit and Loss Account

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For the year ended 31 December 2001

	Notes	2001 HK\$	2000 HK\$
Turnover	4	29,729,799	22,392,362
Cost of sales		<u>(5,988,275)</u>	<u>(3,819,955)</u>
Gross profit		23,741,524	18,572,407
Other revenue	6	1,037,747	1,027,919
Distribution and selling costs		<u>(14,853,653)</u>	<u>(13,555,923)</u>
Administrative expenses		<u>(7,556,829)</u>	<u>(4,455,985)</u>
Profit from operating activities	7	2,368,789	1,588,418
Finance costs	8	<u>(41,238)</u>	<u>(84,933)</u>
Profit before tax		2,327,551	1,503,485
Tax	12	<u>—</u>	<u>—</u>
Profit before minority interests		2,327,551	1,503,485
Minority interests		<u>(323,517)</u>	<u>(529,793)</u>
Profit attributable to shareholders	14	<u>2,004,034</u>	<u>973,692</u>
Earnings per share			
Basic	15	<u>0.44 cents</u>	<u>0.25 cents</u>
Diluted	15	<u>0.43 cents</u>	<u>0.25 cents</u>

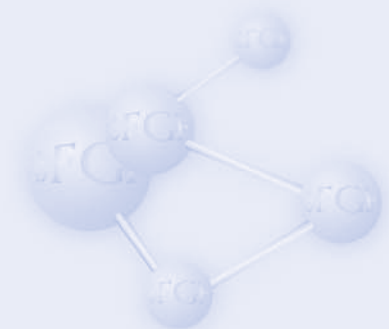


Consolidated Statement of Recognized Gains and Losses

For the year ended 31 December 2001

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	2001 HK\$	2000 HK\$
Exchange (loss)/gain arising on translation of financial statements of subsidiaries not recognized in the consolidated profit and loss account	(57,164)	66,411
Profit attributable to shareholders	<u>2,004,034</u>	<u>973,692</u>
Total recognized gains	1,946,870	1,040,103
Negative goodwill adjustment against capital reserve	<u>(350,568)</u>	<u>—</u>
	<u><u>1,596,302</u></u>	<u><u>1,040,103</u></u>



Consolidated Balance Sheet

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As at 31 December 2001

	Notes	2001 HK\$	2000 HK\$
Non-current assets			
Fixed assets	16	6,277,623	4,798,825
Intangible assets	17	5,742,603	3,108,045
Other investments	19	53,694	53,694
		<u>12,073,920</u>	<u>7,960,564</u>
Current assets			
Inventories	20	588,966	754,604
Trade receivables	21	14,094,324	8,085,515
Deposits, prepayments and other receivables		4,776,028	4,556,523
Amount due from a related company	22	—	496,710
Cash and bank deposits	23	33,401,739	9,812,018
		<u>52,861,057</u>	<u>23,705,370</u>
Current liabilities			
Interest bearing bank and other loans	24	—	5,000,000
Trade and other payables	25	2,043,346	1,411,882
Accruals		3,341,079	2,330,400
VAT payable	26	2,193,306	1,338,664
		<u>7,577,731</u>	<u>10,080,946</u>
Net current assets		<u>45,283,326</u>	<u>13,624,424</u>
Total assets less current liabilities		<u>57,357,246</u>	<u>21,584,988</u>
Non-current liabilities			
Interest bearing bank and other loans	24	—	(11,600,000)
		<u>57,357,246</u>	<u>9,984,988</u>
Minority interests		<u>(5,505,042)</u>	<u>(3,980,957)</u>
		<u>51,852,204</u>	<u>6,004,031</u>
Capital and reserves			
Share capital	27	51,282,000	100,000
Reserves	28	570,204	5,904,031
		<u>51,852,204</u>	<u>6,004,031</u>

Zhong Sheng
Director

Fang Haizhou
Director

Balance Sheet

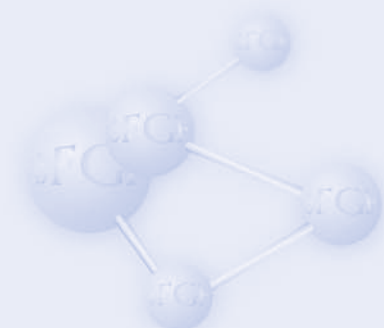
As at 31 December 2001

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	<i>Notes</i>	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Non-current assets			
Interests in subsidiaries	18	<u>26,471,425</u>	100,000
Current assets			
Prepayments and deposits		198,697	—
Cash and bank deposits	23	<u>26,169,468</u>	—
		26,368,165	—
Current liabilities			
Accruals		<u>757,443</u>	—
Net current assets		<u>25,610,722</u>	100,000
		52,082,147	100,000
Capital and reserves			
Share capital	27	51,282,000	100,000
Reserves	28	<u>800,147</u>	—
		52,082,147	100,000

Zhong Sheng
Director

Fang Haizhou
Director

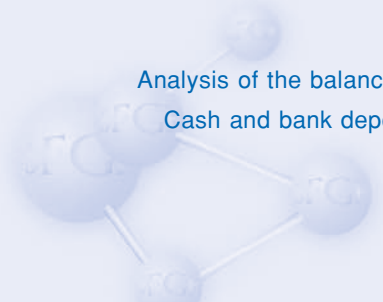


Consolidated Cash Flow Statement

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For the year ended 31 December 2001

	Note	2001 HK\$	2000 HK\$
Net cash outflow from operating activities	30	(2,728,472)	(10,507,745)
Returns on investments and servicing of finance			
Interest received		486,530	73,023
Interest paid		(41,238)	(84,933)
Net cash inflow/(outflow) from returns on investments and servicing of finance		445,292	(11,910)
Investing activities			
Payments to acquire other investments		—	(53,694)
Payments to acquire property, plant and equipment		(2,349,093)	(2,872,544)
Expenditure on development projects		(3,197,702)	(827,638)
Net cash outflow from investing activities		(5,546,795)	(3,753,876)
Net cash outflow before financing		(7,829,975)	(14,273,531)
Financing			
Issue of share capital		51,282,000	7,000,000
Issue of convertible bonds		4,309,200	11,600,000
Expenses paid on issue of shares		(13,364,340)	(2,974,989)
Increase in bank loan		—	5,000,000
Repayment of bank loan and other loans		(11,600,000)	—
Minority interests		850,000	1,695,314
Net cash inflow from financing		31,476,860	22,320,325
Increase in cash and cash equivalents		23,646,885	8,046,794
Cash and cash equivalents at 31 December 2000		9,812,018	1,716,357
Effect of foreign exchange rate changes		(57,164)	48,867
Cash and cash equivalents at 31 December 2001		33,401,739	9,812,018
Analysis of the balances of cash and cash equivalents			
Cash and bank deposits		33,401,739	9,812,018



1. GROUP REORGANIZATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 31 July 2000 under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganization completed on 13 June 2001 (the “Reorganization”) to rationalize the Group’s corporate structure in preparation for the listing of the Company’s shares on The Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company through a subsidiary, Essex Bio-Investment Limited, acquired by share exchange the entire issued share capital of Essex Bio-Pharmacy Limited, the holding company of the PRC subsidiaries included in the Reorganization, and became the holding company of the companies now comprising the Group.

Further details of the Reorganization are set out in the prospectus issued by the Company dated 19 June 2001. Details of the subsidiaries acquired pursuant to the Reorganization are set out in note 18 to the financial statements. The shares of the Company were listed on the GEM of the Stock Exchange with effect from 27 June 2001.

The directors consider the ultimate holding company to be Essex Holdings Limited which was incorporated in Hong Kong.

2. CORPORATE INFORMATION

The Company is an investment holding company. Its subsidiaries principally engage in manufacture and selling of biopharmaceutical products, research and development and sale of pharmaceutical projects in the PRC, and manufacture and selling of skincare products.

3. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

(b) Basis of consolidation

The consolidated financial statements have been prepared using the merger basis of accounting. On this basis, the Company has been treated as the holding company of the subsidiaries acquired through the Reorganization for both financial years presented, rather than from the actual date of acquisition pursuant to the Reorganization on 13 June 2001. Accordingly, the consolidated results and cash flows of the Group for the years ended 31 December 2000 and 2001 include the results and cash flows of the Company and its subsidiaries for the whole year or since their respective dates of incorporation or registration where this is a shorter period. The consolidated balance sheet as at 31 December 2000 has been prepared as if the Reorganization had always been effected. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

3. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)***(b) Basis of consolidation** *(continued)*

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

(c) Subsidiaries

A subsidiary is a company in which the Group holds, directly or indirectly, more than half of the issued capital, or controls more than half the voting power, or if controls the composition of the board of directors.

The Group's investments in foreign investment enterprises in the People's Republic of China (the "PRC") are in the form of a sino-foreign equity joint venture or wholly foreign owned enterprise. The profit sharing ratios and share of net assets are in proportion to their equity interests as set out in the foreign investment contracts. Investments in these foreign investment enterprises are accounted for as subsidiaries as the Group controls their boards of directors and is in a position to exercise control over the financial and operating policies of the enterprises.

In the Company's balance sheet, investment in a subsidiary is stated at cost less any impairment losses, except investment in Essex Bio-Investment Limited has been revalued by the directors to reflect the net book value of the underlying assets of that company as at the date of Reorganization. The result of the subsidiary is accounted for by the Company on the basis of dividends received and receivable.

(d) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries:

- (i) for acquisitions before 1 January 2001, positive goodwill is eliminated against reserves and is reduced by impairment losses; and
- (ii) for acquisitions on or after 1 January 2001, positive goodwill is amortized to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortization and any impairment losses.

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortized to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortization and any impairment losses is included in the carrying amount of the interest in associates or jointly controlled entities.



3. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Goodwill *(continued)*

Negative goodwill arising on acquisitions of controlled subsidiaries, associates and jointly controlled entities represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for as follows:

- (i) for acquisitions before 1 January 2001, negative goodwill is credited to a capital reserve; and
- (ii) for acquisitions on or after 1 January 2001, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognized, it is recognized in the consolidated profit and loss account when the future losses and expenses are recognized. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognized in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortizable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognized immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognized in the consolidated profit and loss account:

- for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for associates and jointly controlled entities, such negative goodwill is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of a controlled subsidiary, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill not previously amortized through the consolidated profit and loss account or which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

(e) Fixed assets

Fixed assets is stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhead costs, is charged to income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalized as an additional cost of the asset.

3. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Fixed assets *(continued)*

Depreciation is provided to write off the cost of fixed assets over their anticipated useful lives on a straight line basis at the following annual rates:

Plant and machinery	9.5%–19%
Furniture, fixtures and office equipment	19%–20%
Motor vehicles	19%–20%

Gains and losses on disposal of fixed assets are recognized in the profit and loss account based on the net disposal proceeds less the carrying amount of the assets.

(f) Research and development expenditure

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized as an expense in the period in which it is incurred.

Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete the development. Expenditure capitalized includes cost of materials, direct labour and an appropriate proportion of overheads. Capitalized development costs are stated at cost less accumulated amortization and impairment losses. Other development expenditure is recognized as an expense in the period in which it is incurred.

Capitalized development expenditure is amortized on a straight line basis over a period of five years, which represents the time period where the related products are expected to be sold, starting from the commencement of sales. The directors consider this treatment results in a proper matching of cost and revenue.

(g) Impairment of assets

Fixed assets and development expenditure are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognized in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of impairment losses recognized in prior year is recorded when there is an indication that the losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the consolidated profit and loss account.

3. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)***(h) Other investments**

The Group's long term interests in companies other than subsidiaries, associated companies and joint ventures are shown as other investments and are stated at cost less any provision made to the extent that the directors consider there has been an impairment loss in the underlying value of the investment.

(i) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is calculated using the weighted average method of costing and includes all costs incurred in bringing the goods to their present location and condition. Net realizable value is based on estimated normal selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(j) Deferred taxation

Deferred taxation is computed under the liability method in respect of the taxation effect arising from timing differences between profits as computed for taxation purposes and profits as stated in the financial statements to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

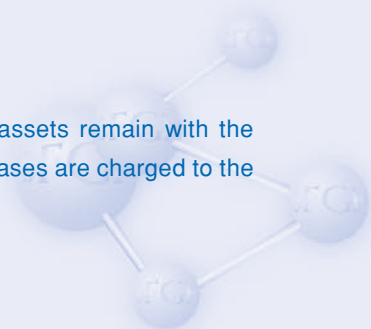
(k) Provisions and contingencies

A provision is recognized when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term.



3. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)***(m) Foreign currency translation**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the financial statements of the individual companies, transactions in other currencies during the period 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 translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains and losses are dealt with in the profit and loss accounts of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all of the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of individual companies within the Group with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average applicable exchange rates during the periods. Exchange differences arising from such translations are dealt with in the exchange translation reserve.

(n) Related parties

Two 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.

(o) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfil the above criteria.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalized as part of the cost of that asset. All other borrowing costs are recognized as an expense in the period in which they are incurred.



3. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)***(q) Revenue recognition**

- (i) Revenue is recognized when the outcome of a transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognized when the merchandise is delivered and title has passed to the customers.
- (ii) Interest income on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(r) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The Scheme became effective in December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions as employer vest fully with the employees when contributed into the Scheme. No forfeited contributions are available to reduce the contributions payable in future years.

The Group has joined a mandatory central pension scheme organized by the PRC government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the income statement as they become payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

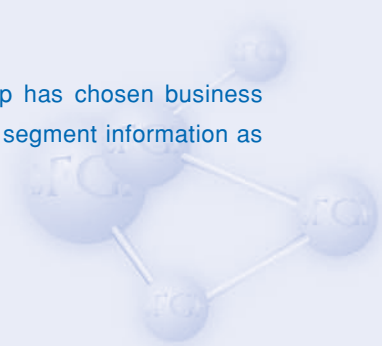
(s) Distribution and selling costs

This primarily comprise advertising and promotion fees, commissions payable to marketing agents, salaries and allowances, travelling and accommodation, rent and building management fees and goods transportation expenses. Distribution and marketing expenses are charged to the income statement in the period in which they are incurred.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.



3. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(continued)***(t) Segment reporting** *(continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

4. TURNOVER

Turnover represents sales value of biopharmaceutical and skincare products supplied to customers, and revenue from sale of pharmaceutical research and development projects.

5. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) Business segments

The Group comprises the following main business segments:

Biopharmaceutical products	:	The manufacture and sale of biopharmaceutical products
Skincare products	:	The manufacture and sale of skincare products
Pharmaceutical research and development projects	:	Sale of pharmaceutical projects

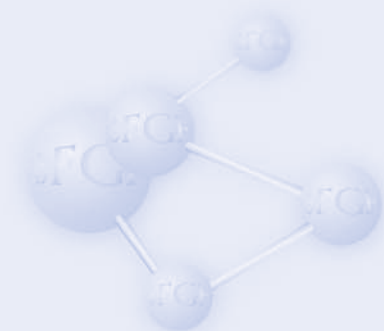


5. SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Biopharmaceutical products		Skincare products		Pharmaceutical research and development projects		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue from external customers	26,431,073	22,392,362	928,466	—	2,370,260	—	29,729,799	22,392,362
Segment result	3,272,373	1,588,418	(944,201)	—	40,617	—	2,368,789	1,588,418
Inter-segment transactions	(620,000)	—	1,020,000	—	(400,000)	—	—	—
Profit from operating activities	2,652,373	1,588,418	75,799	—	(359,383)	—	2,368,789	1,588,418
Finance costs							(41,238)	(84,933)
Taxation							—	—
Minority interests							(323,517)	(529,793)
Profit attributable to shareholders							2,004,034	973,692

	Biopharmaceutical products		Skincare products		Pharmaceutical research and development projects		Inter-segment elimination		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Depreciation for the year	652,113	415,704	82,550	46,057	135,632	12,834				
Amortisation for the year	563,144	510,687	—	—	—	—				
Capital expenditure incurred during the year	2,072,085	3,023,456	56,408	235,746	3,418,302	440,980				
Segment assets	27,521,154	23,453,350	3,260,494	3,652,802	9,240,831	7,886,664	(966,118)	(3,382,282)	39,056,361	31,610,534
Unallocated assets									25,878,616	55,400
Total assets									64,934,977	31,665,934
Segment liabilities	5,473,366	4,681,190	453,026	16,964,206	893,895	37,276	(966,118)	(3,382,282)	5,854,169	18,300,390
Unallocated liabilities									7,228,604	7,361,513
Total liabilities									13,082,773	25,661,903



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5. SEGMENT REPORTING (continued)

(b) Geographical segments

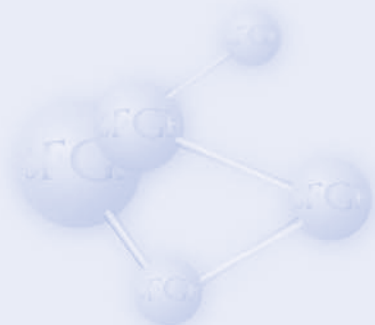
	The Republic of China, excluding Hong Kong		Hong Kong		Consolidated	
	2001	2000	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue from external customers	28,801,333	22,392,362	928,466	—	29,729,799	22,392,362

6. OTHER REVENUE

	2001 HK\$	2000 HK\$
Processing fees	517,217	536,326
Interest received	486,530	73,023
Sundries	34,000	94,034
PRC government subsidies	—	282,600
Refund of indirect PRC taxes	—	41,936
	1,037,747	1,027,919

7. PROFIT FROM OPERATING ACTIVITIES

	2001 HK\$	2000 HK\$
Profit from operating activities is stated after charging the following:		
Depreciation of fixed assets	870,295	474,595
Loss on disposal of fixed assets	—	19,808
Provision for bad and doubtful debts	70,846	16,076
Preliminary expenses written off	—	9,750
Amortization of development expenditure	563,144	510,687
Staff costs excluding directors' remuneration	4,659,630	3,662,849
Net exchange losses	25,226	84
Auditors' remuneration	149,581	100,000



8. FINANCE COSTS

	2001 HK\$	2000 HK\$
Interest on bank loans wholly repayable within five years	<u>41,238</u>	<u>84,933</u>

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2001 HK\$	2000 HK\$
Fees:		
Executive directors	—	—
Independent non-executive directors	<u>225,000</u>	—
	<u>225,000</u>	—
Other emoluments (executive directors):		
Salaries and other benefits	799,157	181,544
Retirement scheme contributions	<u>8,881</u>	<u>2,785</u>
	<u>808,038</u>	<u>184,329</u>
	<u>1,033,038</u>	<u>184,329</u>

The remuneration of the directors is within the following bands:

	2001 Number of directors	2000 Number of directors
HK\$Nil–HK\$1,000,000	<u>6</u>	<u>3</u>

The remuneration paid by the Group to the three (2000: Two) executive directors of the Company for the year ended 31 December 2001 analysed on an individual basis was approximately HK\$319,000 (2000: HK\$127,000), HK\$248,000 (2000: HK\$57,000) and HK\$240,000 (2000: HK\$Nil). The remuneration paid by the Group to the three independent non-executive directors of the Company for the year ended 31 December 2001 was HK\$75,000 each (2000: HK\$Nil).

9. DIRECTORS' REMUNERATION (continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

During the year, share options to subscribe for shares in the Company were granted to the directors of the Company. Details of share options issued are set out in note 29. In the absence of a readily available market value for options on the shares in the Company, the directors were unable to arrive at an accurate assessment of the value of these options. Accordingly, no value was included in director's remuneration in respect of the share options granted.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included three (2000: one) directors, whose remuneration are set out in note 9 above. The details of the aggregate remuneration of the remaining two (2000: four) highest paid, non-director employees during the year are as follows:

	2001 HK\$	2000 HK\$
Salaries and other benefits	553,248	608,900
Retirement scheme contributions	12,103	7,536
	565,351	616,436

The number of the highest paid, non-director employees whose remuneration fell within the following bands:

	2001 Number of employee	2000 Number of employee
HK\$Nil–HK\$1,000,000	2	4

During the year, no emoluments were paid by the Group to the highest paid, non-director employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

During the year, share options to subscribe for 1,400,000 shares and 750,000 shares in the Company of HK\$0.10 each at exercise prices of HK\$0.25 and HK\$0.35 per share were granted to two highest paid non-director employees of the Group respectively. Details of share options issued are set out in note 29. In the absence of a readily available market value for options on the shares in the Company, the directors were unable to arrive at an accurate assessment of the value of these options. Accordingly, no value was included in the remuneration of the highest paid employees in respect of the share options granted.

11. RETIREMENT BENEFITS

The employees of the Group are members of a state-managed retirement benefits scheme operated by the PRC government, or in the case of the employee in Hong Kong, a defined contribution Mandatory Provident Fund retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance. The Company is required to contribute a certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the scheme.

The Group's contribution to retirement benefits schemes for the year ended 31 December 2001 amounted to HK\$217,603 (2000: HK\$94,332).

12. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong.

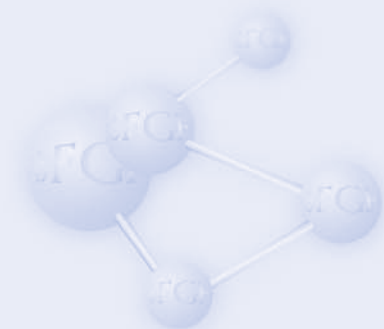
The Group's operating subsidiaries in the PRC are all established and carrying on business in the Special Economic Zones of the PRC as foreign investment enterprises. They are subject to enterprise income tax at a concessionary rate of 15%. One of the Group's subsidiaries, which is engaged in production, is entitled to seek exemption from enterprise income tax for two years starting from the first year of profitable operations after offsetting accumulated losses brought forward, followed by a 50% reduction in enterprise income tax for the next three years. No provision for PRC enterprise income tax had been made as there was no net assessable income during the year after off-setting accumulated losses brought forward.

13. DEFERRED TAX

Deferred tax has not been provided as there were no significant timing differences which would give rise to a deferred tax liability or asset at the balance sheet date (2000: HK\$Nil).

14. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31 December 2001, the Group's profit attributable to shareholders of HK\$2,004,034 included a loss of HK\$169,724 which has been dealt with in the financial statements of the Company.



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15. EARNINGS PER SHARE

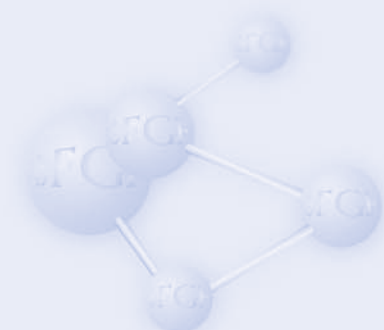
	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Earnings:		
Net profit from ordinary activities attributable to shareholders used in basic and diluted earnings per share calculation	<u>2,004,034</u>	<u>973,692</u>
Shares:		
Weighted average number of ordinary shares used in the basic earnings per share calculation	452,122,502	384,610,666
Weighted average number of ordinary shares on deemed exercise of the convertible bonds outstanding	6,935,197	5,296,804
Weighted average number of ordinary shares on deemed exercise of all share options outstanding	<u>11,832,085</u>	—
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u>470,889,784</u>	<u>389,907,470</u>

The weighted average number of shares used to calculate both the current year and the prior period's earnings per share included 999,999 shares issued on the Reorganization which was deemed to have been completed as at 1 January 2000. The weighted average number of shares used in the current year's basis earnings per share calculation included 102,564,000 shares issued by way of placing.



16. FIXED ASSETS

	Plant and machinery <i>HK\$</i>	Furniture, fixtures and office equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
The Group				
Cost or valuation:				
At 31 December 2000	3,537,209	1,615,155	381,510	5,533,874
Additions	2,019,732	329,361	—	2,349,093
At 31 December 2001	5,556,941	1,944,516	381,510	7,882,967
Accumulated depreciation:				
At 31 December 2000	527,805	183,067	24,177	735,049
Charge for the year	470,838	326,970	72,487	870,295
At 31 December 2001	998,643	510,037	96,664	1,605,344
Net book value:				
At 31 December 2001	4,558,298	1,434,479	284,846	6,277,623
At 31 December 2000	3,009,404	1,432,088	357,333	4,798,825



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17. INTANGIBLE ASSETS

	Development expenditure HK\$
Cost:	
At 1 January 2001	4,312,805
Additions	3,686,858
Disposals	<u>(489,156)</u>
At 31 December 2001	<u>7,510,507</u>
Accumulated amortization:	
At 1 January 2001	1,204,760
Charge for the year	<u>563,144</u>
At 31 December 2001	<u>1,767,904</u>
Net book value:	
At 31 December 2001	<u>5,742,603</u>
At 31 December 2000	<u>3,108,045</u>

At 31 December 2001, all projects with the development expenditure being amortized were in commercial production.

18. INTERESTS IN SUBSIDIARIES

	2001 HK\$	2000 HK\$
Unlisted shares, at cost	100,031	100,008
Revaluation surplus in the year	7,900,000	—
Add: Amounts due from subsidiaries	18,471,425	—
Less: Amounts due to subsidiaries	<u>(31)</u>	<u>(8)</u>
	<u>26,471,425</u>	<u>100,000</u>



18. INTERESTS IN SUBSIDIARIES (continued)

Revaluation surplus arose from the directors' valuation of the Company's investment in Essex Bio-Investment Limited to reflect the book value of underlying assets of that company as at date of Reorganization.

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and without pre-determined repayment terms.

Details of the Company's subsidiaries as at 31 December 2001 are as follows:

Name of company	Place of incorporation and operations	Issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Essex Bio-Investment Limited	The British Virgin Islands	US\$5	100%	—	Investment holding
Essex Bio-Pharmacy Limited	Hong Kong	HK\$8,000,000	—	100%	Investment holding, manufacture and selling of skincare products
Zhuhai Essex Bio-Pharmaceutical Company Limited	The People's Republic of China	RMB20,000,000	—	84.69%	Manufacture and selling of biopharmaceutical products
Essex Pharmaceutical Research Centre Company Limited	The People's Republic of China	HK\$9,150,000	—	66%	Pharmaceutical research and development and sale of pharmaceutical projects

All the above controlled subsidiaries and have been consolidated into the Group's financial statements.

19. OTHER INVESTMENTS

	2001 HK\$	2000 HK\$
The Group		
Unlisted equity interest, at cost	53,694	53,694

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19. OTHER INVESTMENTS (continued)

Details of the Group's unlisted investments are as follows:

Name of investee	Place of registration	Proportion of nominal value of registered capital attributable to the Group
重慶市億勝同安醫藥科技 開發有限公司	The People's Republic of China (the "PRC")	19%

The investee was established in the PRC on 12 October 2000 and has not yet commenced business.

20. INVENTORIES

	2001 HK\$	2000 HK\$
The Group		
Biopharmaceutical products:		
Raw materials	231,509	447,099
Work in progress	7,384	58,927
Finished goods	141,295	248,578
	<u>380,188</u>	<u>754,604</u>
Skincare products:		
Raw materials	111,568	—
Finished goods	97,210	—
	<u>208,778</u>	<u>—</u>
	<u><u>588,966</u></u>	<u><u>754,604</u></u>



21. TRADE RECEIVABLES

The Group's policy is to allow an average credit period of 90 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

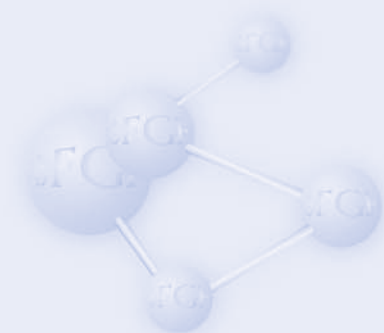
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
0-60 days	7,752,972	4,269,515
61-90 days	1,525,760	1,413,312
>90 days	4,815,592	2,402,688
	14,094,324	8,085,515

22. AMOUNT DUE FROM A RELATED COMPANY

	Outstanding balance at 31/12/2001	Outstanding balance at 01/01/2001	Maximum balance outstanding during the year ended 31/12/2001
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
The Group			
Essex Properties Development Company Limited	—	496,710	496,710

Essex Properties Development Company Limited is under common control of the owners of the ultimate holding company.

The amount represented advances made which was unsecured and non-interest bearing.



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23. CASH AND BANK DEPOSITS

	The Group		The Company	
	2001	2000	2001	2000
	HK\$	HK\$	HK\$	HK\$
Cash and bank balances	7,112,975	9,812,018	525,211	—
Time deposits	25,644,257	—	25,644,257	—
Pledged bank deposits	644,507	—	—	—
	33,401,739	9,812,018	26,169,468	—

Time deposits of HK\$25,644,257 (2000: Nil) are deposited in a bank. In addition, bank balances of HK\$ 644,507 (2000: Nil) are pledged as securities for certain banking facilities.

As at 31 December 2001, cash and bank deposits denominated in Renminbi (“RMB”) amounted to HK\$6,062,847 (2000: HK\$2,476,734). RMB is not freely convertible into foreign currencies in the PRC. Under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

24. INTEREST BEARING BANK AND OTHER LOANS

	2001	2000
	HK\$	HK\$
The Group		
Secured bank loan repayable within one year or on demand	—	5,000,000
Unsecured other loan repayable in the second year	—	6,600,000
Unsecured convertible bonds repayable in the second year	—	5,000,000
	—	16,600,000
Portion classified as current liabilities	—	(5,000,000)
	—	11,600,000

Secured bank loan in 2000 represented a HK\$5,000,000 revolving short term credit facility granted by a bank in Hong Kong at an interest rate equal to prime lending rate plus a margin of 0.5% per annum which was secured by the pledge of a fixed deposit of a director. The loan was obtained in connection with the listing of the Company’s shares on GEM and was fully settled during the year. Loan interest suffered of HK\$129,995 was set against share premium as share issue expenses.

24. INTEREST BEARING BANK AND OTHER LOANS *(continued)*

Three convertible bonds of HK\$2,500,000, HK\$2,500,000 and HK\$4,309,200 were issued during the year prior to the listing of the Company's share on GEM. The bonds were converted into 25,645,334 shares in the Company immediately before the listing in accordance with the terms of the bonds.

A convertible bond of HK\$6,600,000 was issued on 2 August 2000 on similar terms to the three bonds described above in connection with the listing of the Company's shares on GEM. By a cancellation deed dated 1 January 2001, the bond was cancelled and transformed into an unsecured interest bearing loan of the same amount which was fully repaid during the year end. Loan interest suffered of HK\$596,155 was set against share premium as share issue expenses.

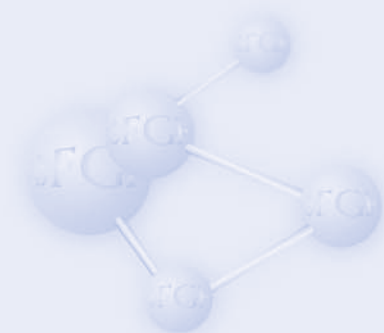
25. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the balance sheet date:

	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
0–60 days	1,101,147	586,991
61–90 days	77,335	50,880
>90 days	864,864	774,011
	<u>2,043,346</u>	<u>1,411,882</u>

26. VAT PAYABLE

The Group's operating subsidiaries in the PRC are subject to Value Added Tax ("VAT"), the principal indirect PRC tax which is charged on the selling price of finished products at a general rate of 17%. An input credit is available whereby input VAT previously paid on purchase of raw materials can be used to offset the output VAT on sales to determine the net VAT payable.



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27. SHARE CAPITAL

	2001		2000	
	<i>Number of shares</i>	<i>HK\$</i>	<i>Number of shares</i>	<i>HK\$</i>
<i>Authorized:</i>				
Ordinary shares of HK\$0.10 each	1,000,000,000	100,000,000	3,900,000	390,000
<i>Issued and fully paid:</i>				
At 1 January 2000, see (b) below			999,999	100,000
Allotted on incorporation			1	—
At 1 January 2001			1,000,000	100,000
Capitalization issue			383,610,666	38,361,067
Shares issued on conversion of convertible bonds			25,645,334	2,564,533
Shares issued by way of placement			102,564,000	10,256,400
At 31 December 2001			512,820,000	51,282,000

The following changes in the authorized and issue share capital of the Company took place during the period from 31 July 2000 (date of incorporation) to 31 December 2001:

- (a) The Company was incorporated on 31 July 2000 with an authorized share capital of HK\$390,000 divided into 3,900,000 ordinary shares of HK\$0.10 each. One share was allotted and issued to Essex Holdings Limited for cash at par.
- (b) On 13 June 2001 in pursuant of the Reorganization, the Company, through Essex Bio-Investment Limited, acquired the entire issued share capital of Essex Bio-Pharmacy Limited by the issuance of 999,999 shares of HK\$0.10 each to the then shareholders of that company. As explained in note 3(b), the acquisition has been accounted for using the merger basis of accounting. Accordingly, the shares issued as consideration for the acquisition has been presented as if they had already been in issue at 31 December 2000.
- (c) On 13 June 2001, the authorized share capital of the Company was increased from HK\$390,000 to HK\$100,000,000 by the creation of an additional 996,100,000 ordinary shares of HK\$0.10 each ranking pari passu in all respects with the then existing issued share capital of the Company.

27. SHARE CAPITAL (continued)

- (d) On 13 June 2001, the Company issued 383,610,666 shares of HK\$0.10 each at par credited as fully paid to shareholders by way of capitalization of the sum of HK\$38,361,067 standing to the credit of the share premium account of the Company.
- (e) On 26 June 2001, the Company issued 25,645,334 shares of HK\$0.10 each on conversion of the convertible bonds described in note 24.
- (f) On 26 June 2001, the Company issued 102,564,000 shares of HK\$0.10 each to investors by way of placing.

28. RESERVES

	Share premium HK\$	Capital reserve and contributed surplus HK\$	Exchange fluctuation reserve HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
The Group					
At 1 January 2000	—	8,613,010	7,534	(3,756,616)	4,863,928
Translation difference on consolidation	—	—	66,411	—	66,411
Net profit for the year	—	—	—	973,692	973,692
At 1 January 2001	—	8,613,010	73,945	(2,782,924)	5,904,031
Translation difference on consolidation	—	—	(57,164)	—	(57,164)
Ordinary shares issued on placing and conversion of convertible bonds	47,770,267	—	—	—	47,770,267
Eliminated on capitalization	(38,361,067)	—	—	—	(38,361,067)
Share issue expenses	(8,439,329)	(7,900,000)	—	—	(16,339,329)
Negative goodwill adjustment	—	(350,568)	—	—	(350,568)
Net profit for the year	—	—	—	2,004,034	2,004,034
At 31 December 2001	969,871	362,442	16,781	(778,890)	570,204

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28. RESERVES (continued)

	Share premium HK\$	Investment revaluation reserve HK\$	Exchange fluctuation reserve HK\$	Accumulated losses HK\$	Total HK\$
The Company					
At 1 January 2001	—	—	—	—	—
Surplus on revaluation of investment in a subsidiary	—	7,900,000	—	—	7,900,000
Ordinary shares issued on placing and conversion of convertible bonds	47,770,267	—	—	—	47,770,267
Eliminated on capitalization	(38,361,067)	—	—	—	(38,361,067)
Share issue expenses	(8,439,329)	(7,900,000)	—	—	(16,339,329)
Net loss for the year	—	—	—	(169,724)	(169,724)
At 31 December 2001	969,871	—	—	(169,724)	800,147

Capital reserve of the Group represented negative goodwill of HK\$713,010 which arose on the acquisition of one of the Group's subsidiaries in the PRC.

Contributed surplus of the Group represents the difference of HK\$7,900,000 between the nominal value of the ordinary share issued by the Company and the aggregate of the share capital of the subsidiaries acquired through an exchange of shares pursuant to the Reorganization.

In accordance with the PRC Companies Law, the Law of the PRC on Sole Foreign Investment Enterprises and the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment, the Company's PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve and at a percentage as determined by management, to the public welfare fund and the enterprise expansion fund. The statutory surplus reserve may be distributed to stockholders subject to PRC regulations and the subsidiaries' articles of association. The enterprise expansion fund is non-distributable. The public welfare fund must be used for capital expenditure on staff welfare facilities. No appropriation to such reserve or fund was made as the subsidiaries did not have any accumulated profits which would trigger such appropriation under the laws of the PRC.

29. SHARE OPTIONS

(i) Pre-IPO Share Option Scheme

On 13 June 2001, the shareholders adopted a Pre-IPO Share Option Scheme. The principal terms of the Pre-IPO Option Scheme are set out in the Company's prospectus dated 19 June 2001. Pursuant to the terms of the Pre-IPO Option scheme, 39,725,000 options to subscribe for ordinary shares in the Company were granted to a number of grantees, including three executive directors, one non-executive director and 145 non-director employees of the Company and its subsidiaries.

Summary details of these options are as follows:

Grantees	Number of share options granted	Exercise price HK\$
Directors		
Ngiam Mia Je Patrick	4,500,000	0.10
Fang Haizhou	4,000,000	0.10
Zhong Sheng	3,000,000	0.10
Wong Kui Ming	650,000	0.10
Other employees		
145 other employees of the Group (holding options of underlying shares between 20,000 shares and 1,800,000 shares)	27,575,000	0.10 to 0.35
	39,725,000	

No options granted pursuant to the Pre-IPO Share Option Scheme as stated above had been exercised or cancelled as at 31 December 2001. However, due to the termination of employment of certain employees, options comprising an aggregate of 1,950,000 underlying shares of the Company had lapsed as at 31 December 2001. As at 31 December 2001, the outstanding options pursuant to the Pre-IPO Share Option Scheme amounted to a total of 37,775,000 underlying shares of the Company.

The above options granted under the Pre-IPO Share Option Scheme will not be exercisable within the first year from the date of listing of the Company's shares on the GEM on 27 June 2001, and up to 50% of the shares comprised in the option granted to a particular grantee can be exercised during the second year. The remaining unexercised options can be exercised during the third to tenth year and thereafter.

(ii) Share Option Scheme

At the balance sheet date, no options had been granted to directors or employees of the Group under the Share Option Scheme adopted by the Company on 13 June 2001.

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30. RECONCILIATION OF PROFIT BEFORE TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$	2000 HK\$
Profit before taxation	2,327,551	1,503,485
Interest income	(486,530)	(73,023)
Interest paid	41,238	84,933
Depreciation of fixed assets	870,295	474,595
Provision for bad and doubtful debts	70,846	16,076
Amortization of development expenditure	563,144	510,687
Loss on disposals of fixed assets	—	19,808
Decrease/(increase) in amount due from a related company	496,710	(396,710)
Decrease in amount due to a related company	—	(1,309,707)
Decrease in amount due to ultimate holding company	—	(1,458,807)
Decrease in amount due to a director	—	(156,000)
Increase in deposits, prepayments and other receivables	(3,194,494)	(965,770)
Decrease/(increase) in inventories	165,638	(297,428)
Increase in trade receivables	(6,079,655)	(7,459,871)
Decrease in deposits received	—	(1,388,676)
Increase/(decrease) in accruals, trade and other payables	1,642,143	(334,698)
Increase in VAT payable	854,642	723,361
	<hr/>	<hr/>
Net cash outflow from operating activities	(2,728,472)	(10,507,745)



31. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

	2001	2000
	HK\$	HK\$
Rental expenses paid to China Academy of Science & Technology Development, PRC	1,112,542	287,172
Rental deposits and prepayments paid to China Academy of Science & Technology Development, PRC	353,309	758,749
Rental expenses paid to Torita Corporation Limited of Zhuhai Special Economic Zone, PRC	—	279,507
Sales to Torita Corporation Limited of Zhuhai Special Economic Zone, PRC	—	22,608
Purchases from Torita Corporation Limited of Zhuhai Special Economic Zone, PRC	—	54,228

China Academy of Science & Technology Development is the 34% minority equity holder of the Company's subsidiary, 深圳億勝醫藥科技發展有限公司 (Essex Pharmaceutical Research Centre Company Limited).

Torita Corporation Limited of Zhuhai Special Economic Zone was the 30% minority equity holder of the Company's subsidiary, 珠海億勝生物製藥有限公司 (Zhuhai Essex Bio-Pharmaceutical Company Limited) for the period from 30 June 1999 to 20 June 2000.

In the opinion of the directors, the above related party transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

32. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2001 not provided for in the financial statements were as follows:

	2001	2000
	HK\$	HK\$
The Group		
Contracted but not provided for	2,194,442	56,520

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33. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases are as follows:

	2001	2000
	HK\$	HK\$
Properties	1,442,349	594,216
Plant and machinery	339,579	339,579
	1,781,928	933,795

At 31 December 2001, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2001		2000	
	Properties	Plant and machinery	Properties	Plant and machinery
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
The Group				
Within 1 year	1,476,778	339,579	1,490,310	339,579
After 1 year but within 5 years	2,764,436	679,158	4,115,054	1,018,737
After 5 years	289,114	—	415,273	—
	4,530,328	1,018,737	6,020,637	1,358,316

Operating lease payments represent rentals payable by the Group on certain property, plant and machinery. Leases are negotiated for an average term of three years at fixed rent.

34. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 14 March 2002.



Notice of Annual General Meeting

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NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of ESSEX BIO-TECHNOLOGY LIMITED (the “Company”) will be held at Marriott Ballroom (Queensway & Victoria), Level 3, JW Marriot Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 18 April 2002 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31 December 2001.
2. To elect directors and to authorise the board of directors of the Company (“Board of Directors”) to fix the directors’ remuneration.
3. To appoint auditors and to authorise the Board of Directors to fix their remuneration.
4. As special business, to consider and if thought fit, pass the following resolutions as ordinary resolutions:

A. **“THAT**

- (a) subject to paragraph (c) of the Resolution, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as defined below) to allot, issue and deal with the new additional shares in the capital of the Company, and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Right Issue (as defined below), (ii) the exercise of any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and its subsidiaries and/or other eligible persons of shares or rights to acquire shares of the Company or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of the cash payment for a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and

- (d) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

“Right Issue” means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside the Hong Kong Special Administrative Region of the People’s Republic of China).

B. “THAT

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to purchase its own shares on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”), subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange or of any other stock exchange, be and is hereby generally and unconditionally approved and authorised;
- (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and

- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”
- C. “**THAT** conditional upon Resolutions 4A and 4B being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in Resolution 4B shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to Resolution 4A above.”

On behalf of the Board

Yau Lai Man

Company Secretary

Hong Kong, 25 March 2002

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, in the event of, a poll, vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy must be deposited with the Company’s branch share registrar in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.

Notice of Annual General Meeting

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- (3) Where there are joint holders of any shares in the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he were solely entitled thereto, but if more than one of such joint holders are present at the meeting, the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.