ESSEX

ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2002

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.

Contents

Ngiam Mia Je Patrick
Chairman and Executive Director

In 2002, the Group accomplished an optimal revenue growth of 23.9% to approximately HK$35.7 million in the manufacture, distribution and sale of biopharmaceutical products.

The Group prudently invested in and implemented strategies during the year of 2002 to:

- Entrenching market presence and continuously strengthening its sales and marketing distribution network - strategic implementation of the direct representative offices ("DROs");
- Establishing a non-exclusive commercial relationship with Novo Nordisk (China) Pharmaceuticals Co., Ltd. ("Novo"), a famous international pharmaceutical company, for distributing its biopharmaceutical insulin products.
- Enhancing product reputation; and
- Priming its research and development ("R&D") pipeline with pragmatic high-technology, market driven pharmaceutical projects.

The proactive and prudent strategies gear the Group for accelerated growth and were formulated based on market experience garnered prior to and following the Group's successful listing on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Exchange") in 2001.

FINANCIAL HIGHLIGHTS

The Group performed credibly in the backdrop of the strategic investments in sales and marketing, and research and development initiatives.

Group revenue for the financial year ended 31 December 2002 increased by 23.9% to approximately HK$35.7 million.

Revenue from the manufacture and sale of biopharmaceutical products for the financial year ended 31 December 2002 increased by 7.8% to approximately HK$28.5 million as compared to 2001.

Further, revenue of approximately HK$7.2 million was derived from the distribution of Novo's biopharmaceutical insulin products started in the fourth quarter.

Loss attributable to shareholders for the year ended 31 December 2002 was approximately HK$3.8 million. It was mainly caused by the increase of operating costs following the expansion of the R&D centre in Essex Pharmaceutical Research Centre Company Limited ("Essex Research") and the expansion and strengthening of the sales and distribution network in the People's Republic of China ("PRC"). During the year under review, approximately HK$0.8 million of accounts receivable outstanding over six months was fully provided for prudent sake.

As at 31 December 2002, the Group maintained a healthy financial position and has over HK$21.8 million in cash.

ENTRENCHING MARKET PRESENCE, CONTINUOUSLY STRENGTHENING SALES AND DISTRIBUTION NETWORK THROUGH DIRECT REPRESENTATIVE OFFICES

Through a series of marketing activities to consistently promote the efficacy of the flagship biopharmaceutical products, 貝復濟 (Beifuji) and 貝復舒 (Beifushu), the Group enhanced its market presence, and consequently secured a prime and significant position in the biopharmaceutical sector of the market.

貝復濟 (Beifuji) and 貝復舒 (Beifushu), both category I biopharmaceutical products, are gaining widespread and increasing acceptance for its effectiveness in the treatment of surface and corneal wounds.

Significantly, the Group devised and implemented the DROs strategy in 2002 to further strengthen and expand the sales and distribution network in the PRC.

The aim of the DROs is to enable the Group to more pragmatically and efficiently drive penetration of the biopharmaceutical products to hospitals and the end-markets in the PRC. The Group has since established 4 DROs in Beijing, Nanjing, Shanghai and Harbin. The Group intends to establish 6 more DROs in other major provinces in the PRC during the year of 2003.

ESTABLISHING A NON-EXCLUSIVE COMMERCIAL RELATIONSHIP WITH NOVO

In the fourth quarter of 2002, the Group successfully secured a non-exclusive commercial relationship with Novo for distributing its world renowned biopharmaceutical insulin products in the north-east region in the PRC.

ENHANCING PRODUCT REPUTATION

The relentless R&D pursuit for innovative pharmaceutical products with high technological excellence, immense social health impact and mass consumer application has enhanced the Group's product reputation in the market.

In the fourth quarter of 2002, a subsidiary of the Company, Essex Research, was conferred a prestigious inaugural grant by 深圳市科技局 (Shenzhen Science and Technology Bureau) for its successful research in the arena of traditional Chinese medicine ("TCM") under the herbal medicine classification.

A total of 60 outstanding projects were selected from a pool of more than 500 corporate applications across various high-technology disciplines including bio-technology, pharmaceutical and information technology industries in the PRC. Essex Research's winning drug investigated the potential of developing and standardising the inherent efficacy of a traditional herb by extracting and purifying the effective component as a launch pad for a new pharmaceutical product development project for mass consumer application with high social benefits.

The grant established the Group within the elite circle of pharmaceutical companies recognised by 深圳市科技局 (Shenzhen Science and Technology Bureau) expert advisory board for TCM pharmaceutical project technological and marketable excellence.

PRIMING R&D PIPELINE WITH PRAGMATIC HIGH-TECHNOLOGY, MARKET DRIVEN PROJECTS

Concomitantly, the Group maintains a strategy of nurturing the R&D pipeline with a stockpile of projects carried out by Essex Research that is also tagged as Xcelerator.

Xcelerator's emphasis on accelerated incubation and commercialisation of new drug products has had positive impact on the Group's product roll out.

To date, the Group has successfully achieved the milestones set for its R&D pipeline projects; which are for the treatment and healing of surface wound, corneal wound, duodenal ulcers and nervous system diseases and damages.

OUTLOOK

For the year 2003, the Group will stay focused in maintaining the optimal growth and revenue performance momentum.

To accomplish this, the Group's management will relentlessly strive to execute its plan of:

- Completing the establishment of a total of 10 DROs;
- Expanding market coverage and penetration of the flagship biopharmaceutical products 貝復濟 (Beifuji) and 貝復舒 (Beifushu) and the insulin products;
- Launching the gel formulation of 貝復濟 (Beifuji) and 貝復舒 (Beifushu);
- Initiating strategic marketing efforts on the new drug projects;
- Pursuing the scheduled milestones for a total of 21 projects in the R&D pipeline; and
- Further streamline the cost structure and adopt cost cutting measures which include wage cuts of 20% for management personnel.

The Group is optimistic about its performance and continues to expect positive growth in 2003.

APPRECIATION

We acknowledge the dedicated contribution of business partners, associates, shareholders and staff. In particular, we appreciate the commitment of the management team in fulfilling the Group's vision as a leading biopharmaceutical company.

Ngiam Mia Je Patrick
Chairman and Executive Director

13 March 2003

Staff working in part of the Group's GMP compliant production facilities

BOARD OF DIRECTORS

Executive Directors
Ngiam Mia Je Patrick *(Chairman)*
Fang Haizhou *(Managing Director and General Manager)*
Zhong Sheng

Non-executive Directors
Wong Kui Ming
Chan Albert Wai-Kit

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 2818
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

AUDITORS

Horwath Hong Kong CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
British West Indies
Cayman Islands

HONG KONG SHARE REGISTRAR

Hong Kong Share Registrars Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE ADDRESS

www.essexbio.com

PRINCIPAL BANKERS

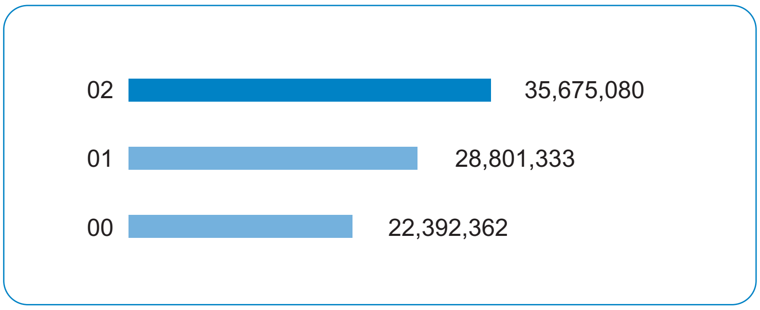
Dao Heng Bank Limited
Bank of China (Hong Kong) Limited
Nanyang Commercial Bank, Ltd.

STOCK CODE

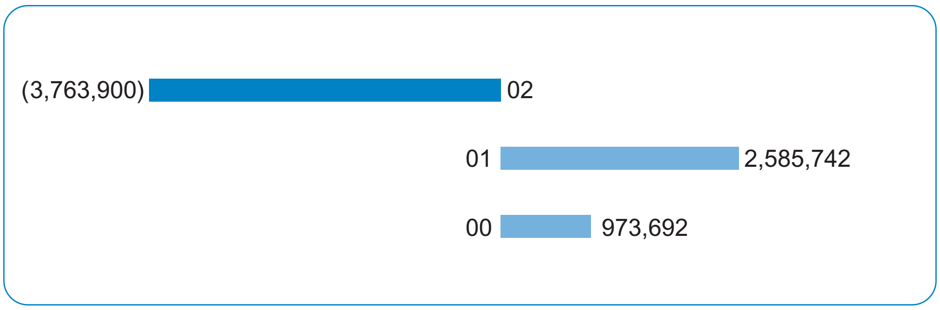
8151

	Year ended 31 December		
	2002	2001	2000
	HK$	HK$	HK$
Results			
Turnover	**35,675,080**	28,801,333	22,392,362
(Loss)/profit attributable to shareholders	**(3,763,900)**	2,585,742	973,692
Assets and liabilities			
Total assets	**73,684,460**	64,934,977	31,665,934
Total liabilities	**21,386,886**	9,713,215	25,661,903
Shareholders' equity	**52,297,574**	55,221,762	6,004,031

TURNOVER



(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS



BUSINESS REVIEW

During the year under review, the Group was principally engaged in the manufacture and sale of biopharmaceutical products for the treatment and healing of surface wounds and organ wounds. The Group also engaged in the research and development of biopharmaceutical products for the treatment of duodenal ulcers, osteoporosis and nervous system damages and diseases, as well as pharmaceutical projects for TCM and chemical drug. In the fourth quarter of 2002, the Group successfully secured a non-exclusive commercial relationship with Novo for distributing its world renowned insulin products in the north-east region in the PRC.

For the year ended 31 December 2002, total turnover increased by 23.9% to approximately HK$35.7 million. Manufacture and sale of biopharmaceutical products continued to be the Group's core revenue generator. Turnover for the year ended 31 December 2002 for the sale of biopharmaceutical products increased by 7.8% to approximately HK$28.5 million as compared to last year. The increase of turnover is further attributed by the distribution of Novo's biopharmaceutical insulin products started in the fourth quarter of 2002. The overall gross profit margin decreased from 80.1% for the year ended 31 December 2001 to 67.8% for the year under review. The decrease was resulted from a lower gross profit margin from distribution of biopharmaceutical insulin products, even though the gross profit margin from sale of the Group's flagship biopharmaceutical products, 貝復舒 (Beifushu) and 貝復濟 (Beifuji), remain unchanged at over 84.5%.

OPERATIONS REVIEW

Accreditation

In the fourth quarter of 2002, a subsidiary of the Company, Essex Research, was conferred a prestigious inaugural grant by 深圳市科技局 (Shenzhen Science and Technology Bureau) for its successful research in the arena of TCM under the herbal medicine classification.

A total of 60 outstanding projects were selected from a pool of more than 500 corporate applications across various high-technology disciplines including bio-technology, pharmaceutical and information technology industries in the PRC. Essex Research's winning drug investigated the potential of developing and standardising the inherent efficacy of a traditional herb by extracting and purifying the effective component as a launch pad for a new pharmaceutical product development project for mass consumer application with high social benefits.

The grant established the Group within the elite circle of pharmaceutical companies recognised by 深圳市科技局 (Shenzhen Science and Technology Bureau) expert advisory board for TCM pharmaceutical project technological and marketable excellence.

A herb belonging the Ampelopsis family, which is used at the winning drug being conferred a grant from the Shenzhen Science and Technology Bureau

Product development

The category I biopharmaceutical pipeline product 貝復適 (Beifushi) has been given approval by The State Drug Administration of the PRC ("SDA") to commence clinical trials in the treatment and healing of duodenal ulcers during the year under review.

Studies reveal that 貝復適 (Beifushi) increases concomitantly the rate of cure and enhances the quality of healing through an effective regeneration-triggering mechanism which translate to a significant curb in duodenal ulcer relapse when compared with the conventional mechanism of suppressing ulcer-causing secretions prevailing in the existing drug market.

Total market size for duodenal and gastric ulcers in the PRC is estimated to exceed RMB7.5 billion in 2001, according to the China Health Yearbook. Patients suffering from duodenal and gastric ulcer experienced an approximate ratio of 3:1, which infer a market value of above RMB 5 billion for the duodenal ulcer market alone.

The clinical trial of 貝復適 (Beifushi) is in progress and scheduled for completion in 2004. The commercial availability is expected to commence in 2005.

Streamlined operation

The Group's operations in Shenzhen and Zhuhai were streamlined during the year under review for better operational efficiency and management. The sales and marketing operations of Zhuhai Essex Bio-Pharmaceutical Company Limited ("Zhuhai Essex") was relocated from Shenzhen to Zhuhai on 1 July 2002, to stay within the same premises of Zhuhai Essex. The vacated space in Shenzhen is used by Essex Research for its TCM and chemical pharmaceutical research and development facility expansion.

Research and development pipeline

Currently the Group has a total of 21 projects in the research and development pipeline. The therapeutic focus of these projects are in surface wounds, organ wounds, osteoporosis, nervous system disorders, cardiovascular, anti-virus, geriatric, digestive system and gynecology.

Upgrading of production facilities

The upgrading of production facilities of Zhuhai Essex to include the manufacturing of biopharmaceutical products in gel formulation was successfully carried out in July 2002. Zhuhai Essex is now capable of producing biopharmaceutical products in the formulations of powder, liquid, eye drop and gel. 貝復濟 (Beifuji) and 貝復舒 (Beifushu) in gel formulation are expected to go into commercial production in the fourth quarter of 2003.

Wholly owned Zhuhai Essex

Following the completion of the acquisition of 15.31% equity stake in Zhuhai Essex on 24 June 2002, Zhuhai Essex became a wholly owned subsidiary of the Company and will contribute positively to the future development and growth of the Group.

Strengthening and expansion of the distribution network

In the third quarter of 2002, the Group adopted and implemented the strategy of establishing direct representative offices ("DROs"). The effect of the DROs is to enable the Group to more pragmatically and effectively promote and drive penetration of the biopharmaceutical products to hospitals and end markets.

4 DROs were established in Beijing, Nanjing, Shanghai and Harbin during the year 2002. The Group intends to establish 6 more DROs in other major provinces in the PRC before the end of 2003. The investment costs to complete the DROs program from the third quarter of 2002 to the end of 2003 is estimated to be approximately HK$ 4 million. Set up costs of the DROs will be absorbed as incurred and the Group expects contributions from the DROs will start in mid-2003. The DROs network will drive sustainable growth and profitability when fully implemented and operation.

FINANCIAL REVIEW

Group revenue for the financial year ended 31 December 2002 increased by 23.9% to approximately HK$35.7 million.

Revenue from the manufacture and sale of biopharmaceutical products for the financial year ended 31 December 2002 increased by 7.8% to approximately HK$28.5 million as compared to 2001.

Further, revenue of approximately HK$7.2 million was derived from the distribution of Novo's biopharmaceutical insulin products started in the fourth quarter.

The overall gross profit margin decreased from 80.1% in last year to 67.8% for the year under review as the gross profit margin from the distribution of biopharmaceutical insulin products was lower than the manufacture and sale of the Group's flagship biopharmaceutical products, 貝復濟 (Beifuji) and 貝復舒 (Beifushu), even though the gross profit margin from sale of 貝復濟 (Beifuji) and 貝復舒 (Beifushu) remain unchanged at over 84.5%. The Group's overall gross profit increased by 4.8% to approximately HK$24.2 million as compared to the corresponding previous year.

However, the Group suffered a loss of approximately HK$3.8 million for the year ended 31 December 2002 due to the increase of distribution and selling costs and administrative expenses.

Distribution and selling costs increased to approximately HK$19.5 million for the year ended 31 December 2002 from approximately HK$14.9 million in last year. The increase was mainly a result of the investments in 4 DROs, increase of marketing and promotional activities and increase of sales commission during the year under review.

Administrative expenses increased during the year under review to approximately HK$11.1 million from approximately HK$7.6 million in last year. The increase was mainly attributable to the expansion of the research and development centre of Essex Research which is responsible for carrying out research and development of TCM and chemical pharmaceutical projects. 15 projects were carried out during the previous corresponding year compared to 21 projects in the year under review. Hence, corresponding administrative expenses increased accordingly. In addition, approximately HK$0.8 million of accounts receivable outstanding over six months was fully provided in the current year for prudent sake.

As at 31 December 2002, the Group maintained a healthy financial position and has over HK$21.8 million in cash (2001: HK$33.4 million).

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

USE OF PROCEEDS

The net proceeds raised from the placing of the Company's shares on GEM on 27 June 2001 ("Placing") were approximately HK$35 million. During the year under review, the Group utilised approximately HK$18.1 million for various purposes as detailed below; which were in line with the expected use of net proceeds as described in the prospectus of the Company dated 19 June 2001.

- approximately HK$5.7 million was used to expand the distribution channels and enterprise resources planning system.
- approximately HK$6.8 million was used to fund the research and development.
- approximately HK$4.6 million was used to upgrade the existing production facilities.
- approximately HK$1 million was used to promote the rb-bFGF based skincare products in Malaysia, Vietnam and Myanmar.

The remaining net proceeds at 31 December 2002 was approximately HK$7 million. The directors intend to use the net proceeds in the manner as disclosed in the Company's prospectus dated 19 June 2001.

SIGNIFICANT INVESTMENT

As at 31 December 2002, the Group did not have any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group entered into a sale and purchase agreement and a supplemental agreement both dated 15 May 2002 with PharmaCap Corp. ("PharmaCap") wherein the Group agreed to purchase and PharmaCap agreed to sell the remaining 15.31% of the interests in Zhuhai Essex at a consideration of HK$3,422,159 to be satisfied by the issue and allotment of 34,000,000 new shares by the Company to PharmaCap.

Zhuhai Essex is a wholly foreign owned enterprise established in the PRC and was owned as to 84.69% by the Group before the acquisition. Upon completion of the acquisition on 24 June 2002, Zhuhai Essex became a wholly owned subsidiary of the Company.

GEARING RATIO

The gearing ratio of the Group, based on total liabilities to shareholders' funds, was 0.41 as at 31 December 2002 (2001: 0.18).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cash flows, balance of proceeds from Placing and bank loans.

As at 31 December 2002, the Group had cash and bank balances of approximately HK$21.8 million as compared to approximately HK$33.4 million as at 31 December 2001. In addition, as at 31 December 2002, the Group had a short-term bank loan of RMB10 million (equivalent to approximately HK$9.4 million).

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy to borrow in local currencies to minimise currency risk.

CAPITAL STRUCTURE

During the year, the Company issued in total 42,420,000 new ordinary shares of par value of HK$0.1 each, comprising 8,420,000 shares allotted at HK$0.1 each pursuant to the exercise of the share options under pre-IPO share option scheme, and 34,000,000 shares allotted at HK$0.1 per share as the consideration paid for the acquisition of 15.31% of Zhuhai Essex.

CHARGES ON GROUP ASSETS

As at 31 December 2002, a bank deposit of HK$10 million was pledged to a bank as security for the short-term loan to the Group.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2002.

EMPLOYEES

As at 31 December 2002, the Group had 158 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the year under review and the previous year amounted to approximately HK$7.5 million and approximately HK$5.7 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Each of the 3 executive directors has entered into a director's service agreement with the Company. Under the service agreements, they have been appointed to act as executive directors for an initial term of three years commencing from 27 June 2001. The initial annual remuneration were fixed in the respective service agreement and each of them is also entitled to a management bonus which shall be in an aggregate amount equal to 6% of the audited consolidated profits of the Group before taxation and extraordinary items for the relevant financial year, provided that such consolidated profits shall exceed HK$5,000,000, which is payable within three months after the availability of the audited consolidated accounts of the Group for the relevant financial year.

Pursuant to a pre-IPO share option scheme adopted by the Company on 13 June 2001, the Company had granted pre-IPO share options to 149 employees (including 3 executive directors of the Company) of the Group to subscribe for a total of 39,725,000 shares, representing in aggregate approximately 7.75% of the issued share capital of the Company immediately following the completion of the Placing and the capitalization issue, at a subscription price ranging from 20% to 70% of the listing issue price of HK$0.5 per share.

In accordance with the Company's share option scheme (the "Share Option Scheme") which was adopted on 13 June 2001 and which will expire on 12 June 2011, a committee of the Company may grant options to eligible employees of the Company and any of its subsidiaries to subscribe for shares in the Company.

At the date of this report, 1,500,000 share options under the Share Option Scheme have been granted to the eligible employee of the Group, representing 0.27% of the shares of the Company in issue. The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time. The total number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the shares of the Company in issue at any point of time.

HK$1 is payable on the grant of an option. Options may be exercised in phases at any time from the date of grant of the share option to the third anniversary up to the tenth anniversary (determined by a committee of the Company) from the date of grant. The exercise price is determined by a committee of the Company, and will not be less than the higher of (i) the closing price of the share of the Company as stated in the Exchange's daily quotations sheet for trades in one or more board lots of shares on the date of grant of the option; (ii) the average of the closing prices of the shares of the Company as stated in the Exchange's daily quotation sheets for trades in one or more board lots of shares on the five business days immediately preceding the relevant offer date in respect of such option; and (iii) the nominal value of a share of the Company.

Details of the share options granted under the Share Option Scheme:

Number of employee	**Number of share options**	**Date of grant**	**Exercise price per share** *HK$*	**Exercise period** *(Note)*
1	1,500,000	26 September 2002	0.16	4 July 2003 to 3 July 2006

Note:

No options may be exercised within 12 months after the completion of 12 months' full-time services with the Group.

No options have been exercised, cancelled or lapsed during the period from the date of grant to 31 December 2002.

Under the Share Option Scheme, the share options of the Group can only be granted to eligible employees of the Group. The directors are of the view that the purpose of a share option scheme is to enable the Group to grant share options to selected participants as incentive or rewards for their contributions to the Group, without limiting to the class of eligible employees of the Group. In order for the Company to be able to grant options to other eligible participants (as detailed in the circular of the Company dated 19 March 2003), a new share option scheme is proposed to be approved and adopted by the shareholders of the Company in the forthcoming general meeting.

OUTLOOK

The Group aims to capture a significant market share of the biopharmaceutical sector in the PRC through continuously introducing high-technology, market driven products and strengthening its sales and marketing distribution network through the establishment of 10 DROs in the major provinces in the PRC. The completion and operations of the established DROs network will sustain growth and drive profitability; despite disrupting near term revenue performance and negative impact on profits of the Group.

Business objectives as stated in the prospectus dated 19 June 2001	Actual business progress
Distribution channels and Enterprise Resource Planning System ("ERP System")	
1. To continue the establishment of in-market promotion companies.	Expanded the sales and marketing forces for the nation-wide promotion of the Group's products in the PRC.
2. To begin the promotional activities 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 and Thailand.
3. To use the system development under the ERP System for quality management, production management and the ledger accounts management.	The development of ERP System for procurement management, inventory management, hospital management, promotion management and the ledger accounts management were successfully completed during the year and are under trial using at balance sheet date.
Research and development	
1. To submit to SDA for approving the commencement of clinical trials and to begin clinical trials for 貝復適 (Beifushi).	Obtained approval from SDA for the commencement of clinical trials for 貝復適 (Beifushi) and commenced the clinical trials in the fourth quarter.
2. To continue the pre-clinical tests on 貝復泰 (Beifutai).	Pre-clinical tests on 貝復泰 (Beifutai) are in progress.
3. To continue the pre-clinical tests on rh-GDNF.	Pre-clinical tests on rh-GDNF are in progress.
4. To continue the investment in pharmaceutical projects.	The Group currently has 21 projects in the research and development pipeline.

Production

1	To complete the construction of the production facilities for the gel formulation of 貝復濟 (Beifuji) and 貝復舒 (Beifushu).	Construction of the production facilities for the gel formulation of 貝復濟 (Beifuji) and 貝復舒 (Beifushu) was completed by end of July 2002.
2	To obtain the SDA approval for the commercial production for the gel formulation of 貝復濟 (Beifuji) and 貝復舒 (Beifushu) and obtain GMP certificate for the production facilities for gel formulation of 貝復濟 (Beifuji) and 貝復舒 (Beifushu).	Application for GMP certificate for the production facilities of gel formulation of of 貝復濟 (Beifuji) and 貝復舒 (Beifushu) was lodged during the year under review.

Skincare product development

1	To continue the promotion of 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 various potential marketing agents.

Ngiam Mia Je Patrick, aged 48, 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 37, 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 38, 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 six years experience in financial management and project management.

Wong Kui Ming, aged 41, 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 a listed company on the Hong Kong Stock Exchange.

Chan Albert Wai-Kit, aged 43, was appointed as non-executive director in 3 July 2002. Dr. Chan graduated from the Chinese University of Hong Kong in 1982 with a Bachelor of Science Degree in Biology and received Doctoral Degrees in Philosophy and Jurisprudence from the Baylor College of Medicine in 1987 and Columbia University School of Law in the United States in 1992 respectively. Dr. Chan is currently the principal of the Law Offices of Albert Wai-Kit Chan, LLC in New York and has more than ten years' experience in legal and general management.

Fung Chi Ying, aged 48, 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 50, 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 report and the audited financial statements of Essex Bio-Technology Limited (the "Company") and of the consolidated financial statements of the Company and its subsidiaries (Collectively referred to as the "Group") for the year ended 31 December 2002.

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 significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and results from operating activities by principal activity and geographical area of operations for the year ended 31 December 2002 is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 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 64.

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

INTANGIBLE ASSETS

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

FIXED ASSETS

Details of movements in the fixed 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.

Under the existing share option scheme of the Group, the share options of the Group can only be granted to eligible employees of the Group. The directors are of the view that the purpose of a share option scheme is to enable the Group to grant share options to selected participants as incentive or rewards for their contributions to the Group, without limiting to the class of eligible employees of the Group. In order for the Company to be able to grant options to other eligible participants (as detailed in the circular of the Company dated 19 March 2003), a new share option scheme is proposed to be approved and adopted by the shareholders of the Company in the forthcoming general meeting.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company did not have any reserves available for distribution as calculated in accordance with the laws of the Cayman Islands. 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 34.33% of the total sales for the year and sales to the largest customer included therein amounted to 8.66%. Purchases from the Group's five largest suppliers accounted for 89.17% of the total purchases for the year and purchases from the largest supplier included therein amounted to 76.32%.

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 report were as follows:

Executive directors
Ngiam Mia Je Patrick
Fang Haizhou
Zhong Sheng

Non-executive directors
Wong Kui Ming
Chan Albert Wai-Kit (appointed on 3 July 2002)

Independent non-executive directors
Fung Chi Ying
Mauffrey Benoit Jean Marie

In accordance with article 87(1) of the Company's articles of association, Fung Chi Ying and 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.

The length of the term of appointment for Chan Albert Wai-Kit is 30 months commencing from 3 July 2002 while the length of the term of appointment for each of the other 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 2002, the interests of the directors and their associates (as defined in the GEM Listing Rules) 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"), were set out below:

	Number of issued ordinary shares of HK$0.10 each in the Company				
Name	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Ngiam Mia Je Patrick	2,250,000	—	288,458,000 *(note 1)* 6,666,667 *(note 2)*	—	297,374,667
Fang Haizhou	2,000,000	—	—	—	2,000,000
Zhong Sheng	1,500,000	—	—	—	1,500,000
Wong Kui Ming	325,000	—	—	—	325,000

Notes:

1. 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.

2. 6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which is wholly owned by Essex (Singapore) Pte Ltd ("Essex Singapore"). 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 2002, none of the directors or their associates (as defined in the GEM Listing Rules) 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 31 December 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	Number of shares held	Approximate percentage of shareholding
Essex Holdings Limited	288,458,000	51.95%
Ngiam Mia Je Patrick	297,374,667 *(note 1)*	53.56%
Ngiam Mia Kiat Benjamin	295,449,667 *(note 2)*	53.21%
Lauw Hui Kian	297,374,667 *(note 3)*	53.56%

Notes:

1. (a) 2,250,000 shares are registered directly in the name of Ngiam Mia Je Patrick;

   (b) 288,458,000 shares are held by Essex Holdings; and

   (c) 6,666,667 shares are held by Dynatech.

2. (a) 325,000 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) 297,374,667 shares are held by Ngiam Mia Je Patrick, 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.

Details of the share options granted and outstanding at 31 December 2002 were as follows:

		Number of options			
			exercised/		Exercise
Name of director	Date of grant	granted	lapsed	outstanding	price
					HK$
Ngiam Mia Je Patrick	13 June 2001	4,500,000	2,250,000	2,250,000	0.10
Fang Haizhou	13 June 2001	4,000,000	2,000,000	2,000,000	0.10
Zhong Sheng	13 June 2001	3,000,000	1,500,000	1,500,000	0.10
Wong Kui Ming	13 June 2001	650,000	325,000	325,000	0.10
145 other employees or directors of subsidiaries of the Company	13 June 2001	27,575,000	4,945,000	22,630,000	0.10 to 0.35
		39,725,000	11,020,000	28,705,000	

Subject to the terms of the Pre-IPO Share Option Scheme, such options are exercisable within five years from the date of grant.

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

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to which the Company, its holding companies or any of its subsidiaries was a party during the year.

SPONSOR'S INTERESTS

As at 12 March 2003, 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.

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

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

COMPETITION AND CONFLICT OF INTERESTS

None of the directors or 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 Rules 5.28 to 5.39 of the GEM Listing Rule throughout the year ended 31 December 2002.

AUDITORS

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 2002 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, 13 March 2003

Horwath

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To the members of Essex Bio-Technology Limited (億勝生物科技有限公司)

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 64 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 Company's and the Group's circumstances, 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 2002 and of the loss 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

13 March 2003

Consolidated Profit and Loss Account

For the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Notes	**2002**	2001
TURNOVER	*4*	**$35,675,080**	$28,801,333
Cost of sales		**(11,484,334)**	(5,728,073)
Gross profit		**$24,190,746**	$23,073,260
Other revenue	*6*	**1,600,931**	1,706,011
Distribution and selling costs		**(19,474,593)**	(14,853,653)
Administrative expenses		**(11,146,765)**	(7,556,829)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	*7*	**$(4,829,681)**	$2,368,789
Finance costs	*8*	**(61,897)**	(41,238)
(LOSS)/PROFIT BEFORE TAXATION		**$(4,891,578)**	$2,327,551
Taxation	*12*	**—**	—
(LOSS)/PROFIT AFTER TAXATION		**$(4,891,578)**	$2,327,551
Minority interests		**1,127,678**	258,191
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	*14*	**$(3,763,900)**	$2,585,742
(LOSS)/EARNINGS PER SHARE			
Basic	*15*	**(0.68) cent**	0.53 cent
Diluted	*15*	**N/A**	0.51 cent

The notes on pages 32 to 64 form part of these financial statements.

As at 31 December 2002
(Expressed in Hong Kong dollars)

	Notes	2002	2001
Assets and liabilities			
Non-current assets			
Intangible assets	16	**$9,974,732**	$5,742,603
Fixed assets	17	**8,511,783**	6,277,623
Other investments	19	**53,694**	53,694
		$18,540,209	$12,073,920
Current assets			
Inventories	20	**1,608,108**	588,966
Trade receivables	21	**19,514,258**	14,094,324
Other receivables, deposits and prepayments		**12,184,457**	4,776,028
Cash and bank deposits	22	**21,837,428**	33,401,739
		55,144,251	52,861,057
Current liabilities			
Bank loan	23	**9,420,000**	—
Trade and other payables	24	**3,283,596**	2,043,346
Accruals		**4,374,642**	3,341,079
VAT payable	25	**1,989,702**	2,193,306
Obligations under finance leases	26	**168,618**	—
		19,236,558	7,577,731
Net current assets		**$35,907,693**	$45,283,326
Total assets less current liabilities carried forward		**$54,447,902**	$57,357,246

The notes on pages 32 to 64 form part of these financial statements.

As at 31 December 2002
(Expressed in Hong Kong dollars)

	Notes	**2002**	2001
Total assets less current liabilities brought forward		**$54,447,902**	$57,357,246
Non-current liabilities			
Obligations under finance leases	*26*	**(289,089)**	—
Minority interests		**(1,861,239)**	(2,135,484)
Net assets		**$52,297,574**	$55,221,762
Capital and reserves			
Share capital		**$55,524,000**	$54,682,000
Reserves		**(3,226,426)**	539,762
Shareholders' funds		**$52,297,574**	$55,221,762

These financial statements were approved and authorised for issue by the board of directors on 13 March 2003.

Zhong Sheng
Director

Fang Haizhou
Director

The notes on pages 32 to 64 form part of these financial statements.

(Expressed in Hong Kong dollars)

	Share capital	Share premium	Capital reserve and contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total
The Group						
At 1 January 2001						
As previously stated	$100,000	$—	$8,613,010	$73,945	$(2,782,924)	$6,004,031
Zhuhai Essex	3,400,000	—	(350,568)	—	(612,150)	2,437,282
As restated	$3,500,000	$—	$8,262,442	$73,945	$(3,395,074)	$8,441,313
Translation difference on consolidation	—	—	—	(57,164)	—	(57,164)
Ordinary shares issued on placing and conversion of convertible bonds	12,820,933	47,770,267	—	—	—	60,591,200
Eliminated on capitalisation	38,361,067	(38,361,067)	—	—	—	—
Share issue expenses	—	(8,439,329)	(7,900,000)	—	—	(16,339,329)
Net profit for the year	—	—	—	—	2,585,742	2,585,742
At 31 December 2001	$54,682,000	$969,871	$362,442	$16,781	$(809,332)	$55,221,762
At 1 January 2002						
As previously stated	$51,282,000	$969,871	$362,442	$16,781	$(778,890)	$51,852,204
Zhuhai Essex	3,400,000	—	—	—	(30,442)	3,369,558
	$54,682,000	$969,871	$362,442	$16,781	$(809,332)	$55,221,762
Translation difference on consolidation	—	—	—	(2,288)	—	(2,288)
Ordinary shares issued on exercised of share options	842,000	—	—	—	—	842,000
Net loss for the year	—	—	—	—	(3,763,900)	(3,763,900)
At 31 December 2002	$55,524,000	$969,871	$362,442	$14,493	$(4,573,232)	$52,297,574

The Group carried out a restructure and increased its equity interest in Zhuhai Essex Bio-Pharmaceutical Company Limited ("Zhuhai Essex") from 84.69% to 100% by acquiring the remaining 15.31% equity interest from the minority shareholder of Zhuhai Essex. The consideration for the acquisition was satisfied by the issuance of 34,000,000 new ordinary shares of $0.1 each in the Company to the minority shareholder on 24 June 2002. The Group accounted for the acquisition of this minority interest using the merger method of accounting. Accordingly Zhuhai Essex is treated as if it had always been a wholly owned subsidiary of the Group. Opening equity has been restated to reflect the restructure of the Group by the acquisition of all the minority interest of Zhuhai Essex. Minority interests and earnings per share of the Group for the year ended 31 December 2001 have also been restated.

The notes on pages 32 to 64 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2002
(Expressed in Hong Kong dollars)

	Notes	**2002**	2001
Net cash outflow from operating activities	*30*	**$(17,785,101)**	$(2,769,710)
Investing activities			
Expenditure on development projects		**(2,581,677)**	(3,197,702)
Payments to acquire fixed assets		**(2,498,241)**	(2,349,093)
Interest received		**512,623**	486,530
Acquisition of a subsidiary	*33*	**3,835**	—
Net cash outflow from investing activities		**(4,563,460)**	(5,060,265)
Net cash outflow before financing activities		**$(22,348,561)**	$(7,829,975)
Financing activities	*31*		
Increase in bank loan		**9,420,000**	—
Capital contribution from minority interest		**850,000**	850,000
Issue of share capital		**842,000**	51,282,000
Increase in pledged bank deposits		**(10,000,000)**	—
Payments of finance leases		**(328,895)**	—
Issue of convertible bonds		**—**	4,309,200
Expenses paid on issue of shares		**—**	(13,364,340)
Repayment of bank loan and other loans		**—**	(11,600,000)
Net cash inflow from financing activities		**783,105**	31,476,860
(Decrease)/increase in cash and cash equivalents		**$(21,565,456)**	$23,646,885
Cash and cash equivalents at beginning of year		**33,401,739**	9,812,018
Effect of foreign exchange rate changes		**1,145**	(57,164)
Cash and cash equivalents at end of year		**$11,837,428**	$33,401,739
Analysis of the balances of cash and cash equivalents			
Cash and bank deposits		**$21,837,428**	$33,401,739
Less: Pledged bank deposits		**(10,000,000)**	—
		$11,837,428	$33,401,739

The notes on pages 32 to 64 form part of these financial statements.

As at 31 December 2002
(Expressed in Hong Kong dollars)

	Notes	**2002**	2001
Assets and liabilities			
Non-current assets			
Interests in subsidiaries	*18*	**$41,076,438**	$26,471,425
Current assets			
Prepayments and deposits		**178,271**	198,697
Cash and bank deposits	*22*	**12,411,180**	26,169,468
		12,589,451	26,368,165
Current liabilities			
Accruals		**980,612**	757,443
Net current assets		**11,608,839**	25,610,722
Net assets		**$52,685,277**	$52,082,147
Capital and reserves			
Share capital	*27*	**$55,524,000**	$51,282,000
Reserves	*28*	**(2,838,723)**	800,147
Shareholders' funds		**$52,685,277**	$52,082,147

These financial statements were approved and authorised for issue by the board of directors on 13 March 2003.

Zhong Sheng
Director

Fang Haizhou
Director

The notes on pages 32 to 64 form part of these financial statements.

(Expressed in Hong Kong dollars)

1. CORPORATE INFORMATION

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.

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 People's Republic of China (the "PRC").

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

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants ("HKSA") which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 15 (Revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

The changes to the Group's accounting policies and the effect of adopting these new and revised policies are set out below:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and set out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a statement of changes in equity is now presented on page 29 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 15 (Revised) prescribes the format for the cash flow statement. The principal impact of the revision of this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the cash flow statement set out on page 30 of the financial statements and the notes thereto have been revised in accordance with the new requirements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits.

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 SSAP issued by the HKSA, 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 both the acquisition and the merger methods of accounting. Where the acquisition method is used, the results of subsidiaries are included from the date of acquisition. Under the merger method of accounting, the Company records its investment in subsidiaries in the balance sheet at the nominal value of the shares issued. Merged subsidiaries are treated as if they had always been members of the Group rather than from the actual date of acquisition. Accordingly, the consolidated results and cash flows of the Group for the years ended 31 December 2001 and 2002 include the results and cash flows of the acquired subsidiaries for the whole year or since their respective dates of incorporation or registration where this is a shorter period. The corresponding figures for the previous year include their results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue.

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, directly or indirectly, controls more than one half of the voting power, has the power to govern the financial and operating polices; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The Group's investments in foreign investment enterprises in 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.

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

(c) Subsidiaries *(continued)*

In the Company's balance sheet, investment in Essex Bio-Investment Limited has been stated at the directors' valuation to reflect the value of the underlying assets and liabilities of that company as at the balance sheet date. Increases in valuation are credited to valuation reserve. Decreases in valuation are first set off against increases on earlier valuations and thereafter debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

(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 amortised 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 amortisation and impairment losses.

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised 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 amortisation and any impairment losses is included in the carrying amount of the interest in associates or jointly controlled entities.

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

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

(d) Goodwill *(continued)*

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 recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised 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 amortised 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 any 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 profit and loss account in the year 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 capitalised 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 recognised in the profit and loss account based on the net disposal proceeds less the carrying amount of the assets.

Construction in progress represents buildings, plant and machinery and other property, plant and equipment under construction and is stated at costs. Cost comprises direct cost of construction as well as interest charges during the period of construction, installation and testing and certain exchange differences on any related borrowed funds. Capitalisation of interest charges ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Construction in progress is transferred to fixed assets when it is completed and ready for its intended use.

(f) Research and development expenditure

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

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

Capitalised development expenditure is amortised 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.

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

(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 recognised in the profit and loss account. 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 recognised in prior year is recorded when there is an indication that the losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the profit and loss account.

(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 realisable 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 realisable 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 recognised as an expense in the year in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

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

(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 recognised 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 recognised 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 recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(l) Leases

(i) Finance leases

Leases where substantially all the risks and rewards of ownership of assets are transferred to the lessees are accounted for as finance leases. The amount capitalised as an asset at the inception is the present value of minimum lease payments payable during the term of the lease. The corresponding leasing commitments less the interest element are recorded as obligations under finance leases. Rentals payable in respect of finance leases are apportioned between finance charges and reduction of outstanding lease obligations based upon the interest rates implicit in the relevant leases.

(ii) 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 year 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 year. 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 capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the year in which they are incurred.

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

(q) Revenue recognition

i) Revenue is recognised 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 recognised 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) Employee benefits

i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service as a result of services rendered by employees up to the balance sheet date less accumulated pension benefits attributable to contributions made by the Group.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

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

(r) Employee benefits *(continued)*

iii) 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. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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 organised 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 profit and loss account as they became 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 profit and loss account in the year 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 year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

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 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.

Sales and profit from operating activities of skincare products in Hong Kong which amounted to $928,466 and $75,799 respectively in 2001 are no longer regarded as a key component of the Group's business activities. Consequently, sales and results of skincare products are no longer shown as a separate business segment but included in unallocated expenses. Comparatives for 2001 have been restated accordingly.

(Expressed in Hong Kong dollars)

5. SEGMENT REPORTING *(continued)*

(a) Business segments

The Group comprises the following main business segments:-

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

	Biopharmaceutical products		Pharmaceutical research and development projects		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001
Revenue from external customers	**$35,675,080**	$26,431,073	**$—**	$2,370,260	**$35,675,080**	$28,801,333
Segment result	**$750,729**	$3,272,373	**$(3,316,700)**	$40,617	**$(2,565,971)**	$3,312,990
Unallocated expenses					**(2,263,710)**	(944,201)
(Loss)/profit from operating activities					**$(4,829,681)**	$2,368,789
Finance costs					**(61,897)**	(41,238)
Taxation					**—**	—
Minority interest					**1,127,678**	258,191
(Loss)/profit attributable to shareholders					**$(3,763,900)**	$2,585,742
Segment assets	**$47,951,971**	$27,521,154	**$8,605,447**	$9,240,831	**$56,557,418**	$36,761,985
Unallocated assets					**17,127,042**	28,172,992
Total assets					**$73,684,460**	$64,934,977
Segment liabilities	**$16,283,474**	$5,473,366	**$1,395,139**	$893,895	**$17,678,613**	$6,367,261
Unallocated liabilities					**3,708,273**	3,345,954
Total liabilities					**$21,386,886**	$9,713,215
Depreciation for the year	**$824,753**	$652,113	**$333,055**	$135,632		
Amortisation for the year	**610,187**	563,144	**—**	—		
Capital expenditure incurred during the year	**3,021,570**	2,072,085	**2,831,244**	3,418,302		

(Expressed in Hong Kong dollars)

5. SEGMENT REPORTING *(continued)*

(b) Geographical segments

The sales of the Group during the years ended 31 December 2001 and 2002 were made in the PRC.

6. OTHER REVENUE

	2002	2001
Interest income	**$512,623**	$486,530
Sale of skincare products	**479,262**	668,264
Commission income	**319,007**	—
Processing fees	**229,719**	517,217
Consultancy fees	**46,535**	—
Exchange gains	**12,785**	—
Sundries	**1,000**	34,000
	$1,600,931	$1,706,011

7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

	2002	2001
(Loss)/profit from operating activities is stated after charging the following:-		
Staff costs excluding directors' remuneration	**$5,689,360**	$4,659,630
Depreciation of fixed assets	**1,247,535**	870,295
Provision for bad and doubtful debts	**847,800**	70,846
Amortisation of development expenditure	**552,219**	563,144
Auditors' remuneration	**255,181**	149,581
Amortisation of goodwill	**57,968**	—
Net exchange losses	**—**	25,226

(Expressed in Hong Kong dollars)

8. FINANCE COSTS

	2002	2001
Interest on bank and other loans wholly repayable within five years	**$57,904**	$41,238
Finance leases interest	**3,993**	—
	$61,897	$41,238

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:-

	2002	2001
Fees:-		
Executive directors	**$—**	$—
Independent non-executive directors	**420,000**	225,000
	$420,000	$225,000
Other emoluments (executive directors):-		
Salaries and other benefits	**$1,315,040**	$799,157
Retirement scheme contributions	**39,143**	8,881
	$1,354,183	$808,038
	$1,774,183	$1,033,038

(Expressed in Hong Kong dollars)

9. DIRECTORS' REMUNERATION *(continued)*

Number of the directors whose remuneration falls within the following bands:-

	2002 **Number of directors**	2001 Number of directors
$Nil - $1,000,000	**7**	6

The remuneration paid by the Group to the three (2001: three) executive directors of the Company for the year ended 31 December 2002 analysed on an individual basis was approximately $505,000 (2001: $240,000), $428,083 (2001: $319,000) and $421,100 (2001: $248,000). Remuneration of $120,000 each was paid to three independent non-executive directors of the Company for the year ended 31 December 2002 (2001: $75,000 each) and remuneration of $60,000 was paid to the independent non-executive director appointed during the year.

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 6,075,000 share options were granted to the directors under the Pre-IPO Share Option Scheme approved by the shareholders on 13 June 2001. The market value per share at the date of grant is $0.108. Benefits in kind included $48,600 of shares acquired and consideration paid by the directors under the Pre-IPO Share Option Scheme during the year. Details of options granted and exercised during the year are set out in Note 29 to the financial statements.

10. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included three (2001: three) directors, whose remuneration are set out in Note 9 above. Details of the remuneration of the remaining two (2001: two) highest paid, non-director employees during the year are as follows:-

	2002	2001
Salaries and other benefits	**$956,000**	$553,248
Retirement scheme contributions	**22,200**	12,103
	$978,200	$565,351

(Expressed in Hong Kong dollars)

10. FIVE HIGHEST PAID INDIVIDUALS *(continued)*

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

	2002	2001
	Number of employee	Number of employee
$Nil - $1,000,000	**2**	2

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.

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 2002 amounted to $235,219 (2001: $217,603).

12. TAXATION

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 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.

13. DEFERRED TAX

Deferred tax has not been provided as there were no significant timing differences which would give rise to deferred tax liabilities or assets at the balance sheet date (2001: Nil).

(Expressed in Hong Kong dollars)

14. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31 December 2002, the Group's loss attributable to shareholders of $(3,763,900) (2001: profit of $2,585,742) included a loss of $(3,638,870) (2001: loss of $(169,724)) which has been dealt with in the financial statements of the Company.

15. (LOSS)/EARNINGS PER SHARE

	2002	2001
(Loss)/Earnings:		
Net (loss)/profit from ordinary activities attributable to shareholders used in basic and diluted (loss)/earnings per share calculation	**$(3,763,900)**	$2,585,742
Shares:		
Weighted average number of ordinary shares used in the basic (loss)/earnings per share calculation	**555,240,000**	486,122,502

(i) The weighted average number of shares used to calculate both the current year and the prior year's (loss)/earnings per share includes 999,999 shares issued on 13 June 2001 to acquire Essex Bio-Pharmacy Limited and 34,000,000 shares issued on 24 June 2002 to acquire the remaining equity interest in Zhuhai Essex Bio-Pharmaceutical Company Limited. The shares were deemed to have been issued as at 1 January 2001.

(ii) Diluted loss per share for the year ended 31 December 2002 has not been presented as the outstanding options had an anti-dilutive effect on the basic loss per share for the year. The calculation of the diluted earnings per share for the year ended 31 December 2001 was based on the net profit from ordinary activities attributable to shareholders of the Company and 504,889,784 shares.

(Expressed in Hong Kong dollars)

16. INTANGIBLE ASSETS

	Development expenditure	Goodwill	Total
Cost:			
At 1 January 2002	$7,510,507	$—	$7,510,507
Acquisition of a subsidiary *(note 33)*	—	2,318,735	2,318,735
Additions	2,581,677	—	2,581,677
Disposals	(58,096)	—	(58,096)
At 31 December 2002	$10,034,088	$2,318,735	$12,352,823
Accumulated amortisation:			
At 1 January 2002	$1,767,904	$—	$1,767,904
Charge for the year	552,219	57,968	610,187
At 31 December 2002	$2,320,123	$57,968	$2,378,091
Net book value:			
At 31 December 2002	$7,713,965	$2,260,767	$9,974,732
At 31 December 2001	$5,742,603	$—	$5,742,603

At 31 December 2002, all projects whose capitalised development expenditure was subject to amortisation were in commercial production.

(Expressed in Hong Kong dollars)

17. FIXED ASSETS

	Construction in progress	Plant and machinery	Furniture, fixtures and office equipment	Motors vehicles	Total
The Group					
Cost or valuation:					
At 31 December 2001	$—	$5,556,941	$1,944,516	$381,510	$7,882,967
Acquisition of a subsidiary	—	—	207,052	—	207,052
Additions	970,604	1,297,730	229,907	786,602	3,284,843
At 31 December 2002	$970,604	$6,854,671	$2,381,475	$1,168,112	$11,374,862
Accumulated depreciation:					
At 31 December 2001	$—	$998,643	$510,037	$96,664	$1,605,344
Acquisition of a subsidiary	—	—	10,200	—	10,200
Charge for the year	—	747,849	385,816	113,870	1,247,535
At 31 December 2002	$—	$1,746,492	$906,053	$210,534	$2,863,079
Net book value:					
At 31 December 2002	$970,604	$5,108,179	$1,475,422	$957,578	$8,511,783
At 31 December 2001	$—	$4,558,298	$1,434,479	$284,846	$6,277,623

The net book value of the fixed assets of the Group included an amount of $749,239 (2001: $Nil) in respect of assets held under finance leases. The related depreciation charge was $37,363 (2001: $Nil).

(Expressed in Hong Kong dollars)

18. INTERESTS IN SUBSIDIARIES

	2002	2001
Unlisted shares, at cost	**$100,031**	$100,031
Revaluation surplus	**6,300,000**	7,900,000
Unlisted shares, at valuation	**$6,400,031**	$8,000,031
Add : Amount due from a subsidiary	**34,676,438**	18,471,425
Less : Amount due to a subsidiary	**(31)**	(31)
	$41,076,438	$26,471,425

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

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

(Expressed in Hong Kong dollars)

18. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the Company's subsidiaries as at 31 December 2002 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 *Direct*	*Indirect*	Principal activities
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
Zhuhai Essex Bio-Pharmaceutical Company Limited	The People's Republic of China	RMB20,000,000	—	100%	Manufacture and selling of biopharmaceutical products
Essex Pharmaceutical Research Centre Company Limited	The People's Republic of China	HK$10,000,000	—	66%	Pharmaceutical research and development and sale of pharmaceutical projects
Essex Medipharma (Zhuhai) Company Limited	The People's Republic of China	RMB3,000,000	—	100%	Marketing of biopharmaceutical products

(Expressed in Hong Kong dollars)

19. OTHER INVESTMENTS

	2002	2001
The Group		
Unlisted equity interest, at cost	**$53,694**	$53,694

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	19%

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

20. INVENTORIES

	2002	2001
The Group		
Biopharmaceutical products:		
Raw materials	**$233,198**	$231,509
Work in progress	**—**	7,384
Finished goods	**1,374,910**	141,295
	$1,608,108	$380,188
Skincare products:		
Raw materials	**$—**	$111,568
Finished goods	**—**	97,210
	$—	$208,778
	$1,608,108	$588,966

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:

	2002	2001
0-60 days	**$10,773,944**	$7,752,972
61-90 days	**2,345,800**	1,525,760
> 90 days	**6,394,514**	4,815,592
	$19,514,258	$14,094,324

22. CASH AND BANK DEPOSITS

	The Group		**The Company**	
	2002	2001	**2002**	2001
Cash and bank balances	**$9,732,992**	$7,112,975	**$306,744**	$525,211
Time deposits	**12,104,436**	25,644,257	**12,104,436**	25,644,257
Pledged bank deposits	**—**	644,507	**—**	—
	$21,837,428	$33,401,739	**$12,411,180**	$26,169,468

As at 31 December 2002, time deposits included an amount of $10,000,000 (2001: Nil) pledged to a bank to secure a loan granted by the bank to the Group (Note 23). In addition, bank balances of $Nil (2001: $644,507) were pledged as securities for certain banking facilities.

As at 31 December 2002, cash and bank deposits denominated in Renminbi ("RMB") amounted to $7,627,985 (2001: $6,062,847). 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.

(Expressed in Hong Kong dollars)

23. BANK LOAN

	2002	2001
The Group		
Bank loan repayable within one year	**$9,420,000**	$—

The bank loan represents a RMB10,000,000 revolving short term credit facility granted by a bank in the PRC, bears interest at prime lending rate plus 5% per annum and is secured by the fixed deposits of the Company (Note 22).

24. TRADE AND OTHER PAYABLES

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

	2002	2001
0-60 days	**$1,611,468**	$1,101,147
61-90 days	**68,365**	77,335
> 90 days	**1,603,763**	864,864
	$3,283,596	$2,043,346

25. 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.

(Expressed in Hong Kong dollars)

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	**2002**	2001
Amounts payable under finance leases:				
Within one year	**$182,560**	$—	**$168,618**	$—
In the second to fifth years inclusive	**312,979**	—	**289,089**	—
	$495,539	$—	**$457,707**	$—
Less:				
Future finance charges	**(37,832)**	—	**N/A**	N/A
Present value of lease obligations	**$457,707**	$—	**$457,707**	$—
Less:				
Amount due for settlement within 12 months (shown under current liabilities)			**(168,618)**	—
Amount due for settlement after 12 months			**$289,089**	$—

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is three years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

(Expressed in Hong Kong dollars)

27. SHARE CAPITAL

	2002 and 2001	
	Number of shares	Amount
The Company		
Authorised:		
Ordinary shares of $0.10 each	1,000,000,000	$100,000,000
Issued and fully paid:		
At 1 January 2001	1	$—
Shares issued to acquire Essex Bio-Pharmacy Limited	999,999	100,000
Capitalisation issue	383,610,666	38,361,067
Shares issued under 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
Shares issued to acquire the remaining equity of a subsidiary	34,000,000	3,400,000
Share options exercised	8,420,000	842,000
At 31 December 2002	555,240,000	$55,524,000

27. SHARE CAPITAL *(continued)*

The following changes in the authorised and issue share capital of the Company took place during the period from 1 January 2001 to 31 December 2002:

(a) On 13 June 2001 in pursuant of the reorganisation prior to listing on GEM, 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 $0.10 each to the then shareholders of that company. The acquisition has been accounted for using the merger basis of accounting. Accordingly, the shares issued have been presented as if they had been in issue at 31 December 2000 in the balance sheet of the Group.

(b) On 13 June 2001, the authorised share capital of the Company was increased from $390,000 to $100,000,000 by the creation of an additional 996,100,000 ordinary shares of $0.10 each ranking pari passu in all respects with the then existing issued share capital of the Company.

(c) On 13 June 2001, the Company issued 383,610,666 shares of $0.10 each at par credited as fully paid to shareholders by way of capitalisation of the sum of $38,361,067 standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of new shares issued by way of placing on 26 June 2001.

(d) On 26 June 2001, the Company issued 25,645,334 shares of $0.10 each on conversion of the convertible bonds.

(e) On 26 June 2001, the Company issued 102,564,000 shares of $0.10 each to investors by way of placing.

(f) On 24 June 2002, the Company issued 34,000,000 shares of $0.10 each as consideration for the acquisition of the remaining 15.31% equity interest in Zhuhai Essex from the minority shareholder. The acquisition has been accounted for using the merger method of accounting. Accordingly, the shares issued have been presented as if they had been in issued at 31 December 2000 in the balance sheet of the Group.

(g) On 16 September, 18 September, 23 September and 1 November 2002 the Company respectively issued 2,025,000, 160,000, 6,075,000 and 160,000 shares of $0.10 each for cash at par upon the exercise of share options.

(Expressed in Hong Kong dollars)

28. RESERVES

	Share premium	Revaluation reserve	Accumulated losses	Total
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 conversation 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
Net loss for the year	—	—	(3,638,870)	(3,638,870)
At 31 December 2002	$969,871	$—	$(3,808,594)	$(2,838,723)

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 statutory surplus reserve was made in these financial statements as the subsidiaries did not have any accumulated profits which would trigger such appropriation under the laws of the PRC.

(Expressed in Hong Kong dollars)

29. SHARE OPTIONS

(i) Pre-IPO Share Option Scheme

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 4 directors of the Company and 145 other employees or directors of the Group which entitle the holders to subscribe for ordinary shares of the Company.

Details of the share options granted to the 4 directors of the Company and 145 other employees or directors of the Group which remained outstanding at 31 December 2002 were as follows:

		Number of options			
Name of director	**Date of grant**	**granted**	**exercised/ lapsed**	**outstanding**	**Exercise price**
					HK$
Ngiam Mia Je Patrick	13 June 2001	4,500,000	2,250,000	2,250,000	0.10
Fang Haizhou	13 June 2001	4,000,000	2,000,000	2,000,000	0.10
Zhong Sheng	13 June 2001	3,000,000	1,500,000	1,500,000	0.10
Wong Kui Ming	13 June 2001	650,000	325,000	325,000	0.10
145 other employees or directors of the Group	13 June 2001	27,575,000	4,945,000	22,630,000	0.10 to 0.35
		39,725,000	11,020,000	28,705,000	

Subject to the terms of the Pre-IPO Share Option Scheme, such options are exercisable within five years from the date of grant.

(ii) Share Option Scheme

As at 31 December 2002, the following share options granted by the Company to the employee of the Group to acquire shares under the Share Option Scheme adopted and approved by its shareholders on 26 September 2002 were outstanding:

Number of employee	**Number of share options**	**Date of grant**	**Exercise price per share**	**Exercise period**
				(Note)
1	1,500,000	26 September 2002	$0.16	4 July 2003 to 3 July 2006

Note:

No option may be exercised within 12 months after the completion of 12 months' full-time services with the Group.

No options have been exercised, cancelled or lapsed during the period from the date of grant to 31 December 2002.

(Expressed in Hong Kong dollars)

30. RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002	2001
(Loss)/profit before taxation	**$(4,891,578)**	$2,327,551
Interest income	**(512,623)**	(486,530)
Interest expense	**13,963**	41,238
Depreciation of fixed assets	**1,247,535**	870,295
Amortisation of development expenditure	**552,219**	563,144
Amortisation of goodwill	**57,968**	—
Provision for bad and doubtful debts	**847,800**	70,846
Development expenditure written off	**58,096**	—
Operating (loss)/profit before working capital changes	**$(2,626,620)**	$3,386,544
(Increase)/decrease in inventories	**(1,019,142)**	165,638
Increase in trade receivables	**(6,180,775)**	(6,079,655)
Increase in other receivables, deposits and prepayments	**(4,720,097)**	(3,194,494)
Decrease in amount due from a related company	**—**	496,710
(Decrease)/increase in accruals, trade and other payables	**(3,020,900)**	1,642,143
(Decrease)/increase in VAT payable	**(203,604)**	854,642
Interest paid	**(13,963)**	(41,238)
Net cash outflow from operating activities	**$(17,785,101)**	$(2,769,710)

31. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital	**Finance lease obligations**
Balance at 31 December 2001	**$54,682,000**	$—
Exercise of share options	**842,000**	—
Inception of finance leases	**—**	786,602
Repayment of the amounts borrowed	**—**	(328,895)
Balance at 31 December 2002	**$55,524,000**	$457,707

(Expressed in Hong Kong dollars)

32. NON-CASH TRANSACTIONS

During the year the Group entered into finance lease arrangements in respect of motor vehicles with a total capital value at the inception of the leases of $786,602.

33. ACQUISITION OF A SUBSIDIARY

The effects of acquisition of subsidiary on the financial position of the Group during the year are as follows:

	2002
Net liabilities acquired on 1 October 2002:	
Fixed assets	**$196,852**
Trade receivables	**86,959**
Other receivables, deposits and prepayments	**2,688,332**
Cash and bank deposits	**3,836**
Trade and other payables	**(5,294,713)**
	$(2,318,734)
Goodwill on acquisition	**2,318,735**
Consideration	**$1**
Satisfied by:	
Cash	**$1**

The subsidiary acquired during the year contributed $14,262 to the Group's net operating cash flows.

Analysis of the net cash inflow in respect of the acquisition of a subsidiary:

	2002
Cash consideration	**$1**
Cash and bank deposits	**(3,836)**
Net cash inflow in respect of the acquisition of a subsidiary	**$(3,835)**

(Expressed in Hong Kong dollars)

34. RELATED PARTY TRANSACTIONS

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

	2002	2001
Rental expenses paid to China Academy of Science & Technology Development, PRC	**$936,816**	$1,112,542
Rental deposits and prepayments paid to China Academy of Science & Technology Development, PRC	**343,252**	353,309

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).

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.

35. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2002 not provided for in the financial statements were as follows:-

	2002	2001
The Group		
Contracted but not provided for	**$2,025,140**	$2,194,442

(Expressed in Hong Kong dollars)

36. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases are as follows:-

	2002	2001
Properties	**$1,371,280**	$1,442,349
Plant and machinery	**339,579**	339,579
	$1,710,859	$1,781,928

At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:-

	2002		2001	
	Properties	**Plant and machinery**	Properties	Plant and machinery
The Group				
Within 1 year	**$1,240,038**	**$339,615**	$1,476,778	$339,579
After 1 year but within 5 years	**1,773,057**	**339,615**	2,764,436	679,158
After 5 years	**162,955**	**—**	289,114	—
	$3,176,050	**$679,230**	$4,530,328	$1,018,737

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