ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2003

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

Spurred by the unwavering commitment to implement its strategies and accomplish optimal revenue growth in extremely challenging market conditions, 2003 was also a period of rationalisation and consolidation of the Group's overall business.

The impetus for rationalisation and consolidation was to elevate the Group's ability to focus and channel its resources to further develop its core business of the manufacture and sale of biopharmaceutical products.

In 2003, the Group sagaciously implemented product development, sales and marketing, and investment strategies. The strategies were aimed at entrenching market presence and continuously strengthening the sales and marketing distribution network through the strategic implementation of the direct representative offices ("DROs") and priming the research and development ("R&D") pipeline with pragmatic high-technology, market driven projects focused on the core biopharmaceutical products.

In the year under review, another five DROs were established. As at 31 December 2003, a total of nine DROs have been established in major provinces in the People's Republic of China ("PRC"). The DROs enable the Group to more pragmatically and effectively promote and drive penetration of the biopharmaceutical products to hospitals and end markets.

Strategically, the Group decided to cease operations of its R&D centre in Shenzhen which focused on traditional Chinese medicine ("TCM") and chemical drugs. The move enables the Group to better effectively utilise its resources and realise return on investments on its core business of the manufacture and sale of biopharmaceutical products.

Another significant development was obtaining approval from the State Food Drug Administration of China ("SFDA") in January 2004 for the commercial production of 貝復濟凝膠劑型(Beifuji gel formulation), a derivative of the flagship category I biopharmaceutical product 貝復濟(Beifuji). The requisite Good Manufacturing Practice ("GMP") certificate for the operation of distribution and manufacturing of 貝復濟凝膠劑型(Beifuji gel formulation) is expected to be obtained in mid 2004. Beifuji gel formulation provides an alternative formulation to hospitals and end markets and will extend the drug's market coverage.

FINANCIAL HIGHLIGHTS

Group turnover for the year ended 31 December 2003 increased by 5.4% to approximately HK$37.6 million when compared to the turnover of approximately HK$35.7 million in the previous year. Turnover of approximately HK$15.2 million was derived from the distribution of biopharmaceutical insulin products.

Overall gross profit margin, however, decreased to 52.1% for the year ended 31 December 2003 when compared to 67.8% in the previous year. Overall gross profit margin was weighed down by the lower gross profit margin derived from distributing biopharmaceutical insulin products, despite an approximately 83% gross profit margin recorded from the sale of the flagship biopharmaceutical products 貝復舒(Beifushu) and 貝復濟(Beifuji) in the year under review.

The Group registered a loss of approximately HK$18.4 million for the year ended 31 December 2003 due to the increase of distribution and selling expenses and administrative expenses.

Distribution and selling expenses slightly increased by 4.9% to approximately HK$20.4 million for the year ended 31 December 2003.

General and administrative expenses increased during the year under review to approximately HK$19.9 million from approximately HK$11.1 million in the previous year. The increase was mainly attributable to the write-off of approximately HK$2.6 million for the development costs for TCM and chemical pharmaceutical projects undertaken by the R&D centre in Shenzhen and approximately HK$0.7 million for plant and machinery in the laboratory of the R&D centre in Shenzhen. In addition, approximately HK$5.1 million of accounts receivable outstanding over a period of six months were fully provided for.

OUTLOOK

The Group will focus on driving organic growth from its core biopharmaceutical products through the established distribution network that has been developed and nurtured over the years.

With signs of economic recovery towards the tail end of 2003, the Group expects to perform better in 2004 barring any unforeseen circumstances.

APPRECIATION

The Group acknowledges the dedicated contribution and commitment of business partners, associates, shareholders and staff, particularly in an extremely challenging and difficult economic environment.

Ngiam Mia Je Patrick
Chairman
23 March 2004

BOARD OF DIRECTORS

Executive Directors

Ngiam Mia Je Patrick *(Chairman)*
Fang Haizhou *(Managing Director)*
Zhong Sheng

Non-executive Directors

Wong Kui Ming (resigned on 7 April 2003)
Chan Albert Wai-Kit (resigned on 7 April 2003)

Independent Non-executive Directors

Fung Chi Ying
Mauffrey Benoit Jean Marie

COMPANY SECRETARY

Yau Lai Man *FCCA, AHKSA, CPA*

QUALIFIED ACCOUNTANT

Yau Lai Man *FCCA, AHKSA, CPA*

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 (Note)

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

WEBSITE ADDRESSES

www.essexbio.com

PRINCIPAL BANKERS

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

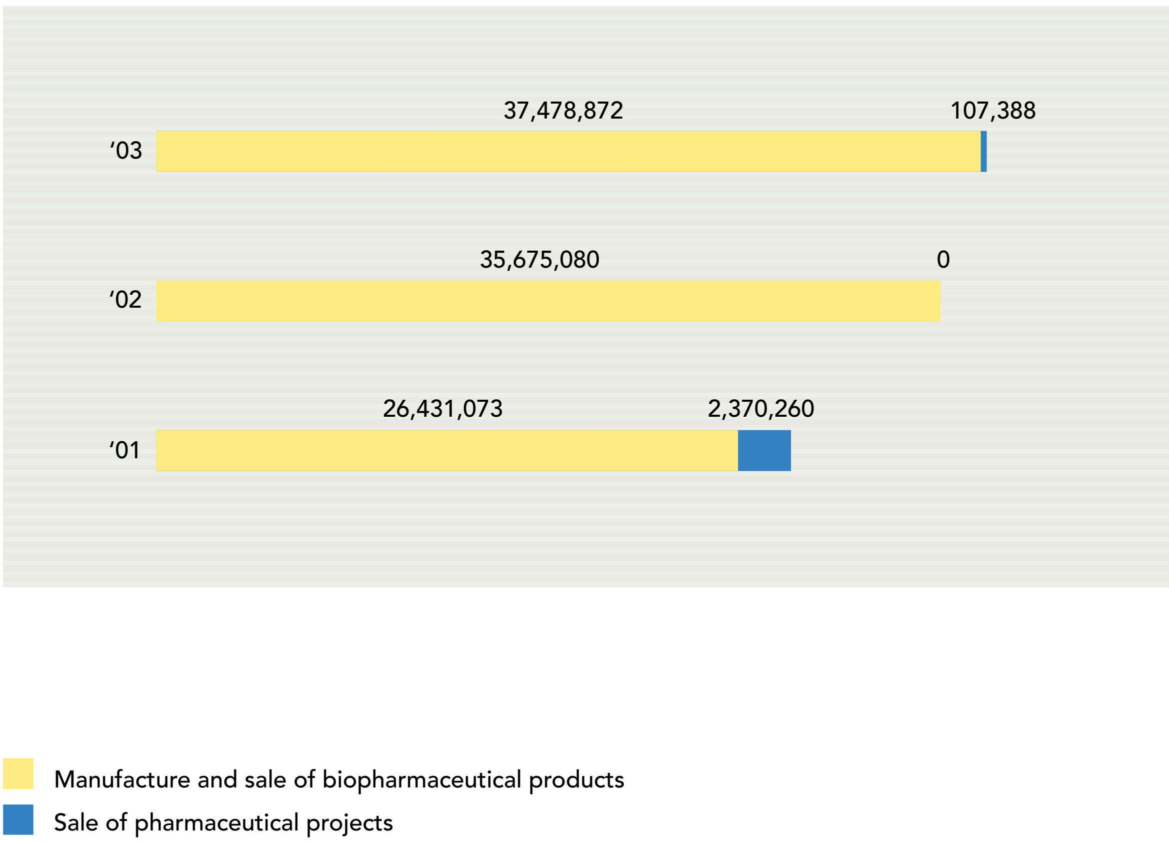
STOCK CODE

8151

Note: Sponsor agreement between the Company and Dao Heng Securities Limited expired on 31 December 2003.

	Year ended 31 December	
	2003	2002
	HK$	HK$
RESULTS		
Turnover	**37,586,260**	35,675,080
Loss attributable to shareholders	**(18,355,091)**	(3,763,900)
ASSETS AND LIABILITIES		
Total assets	**45,156,285**	73,684,460
Total liabilities	**(11,213,802)**	(21,386,886)
Shareholders' equity	**33,942,483**	52,297,574

TURNOVER BY BUSINESS SEGMENTS



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, hypercalcemia, nervous system damages and diseases during the year.

For the year ended 31 December 2003, total turnover increased slightly by 5.4% to approximately HK$37.6 million. The overall gross profit margin decreased to 52.1% for the year ended 31 December 2003 when compared to 67.8% in the previous year. The decrease was a result of the lower gross profit margin derived from the distribution of biopharmaceutical insulin products. Gross profit margin from sale of the Group's flagship biopharmaceutical products 貝復濟 (Beifuji) and 貝復舒 (Beifushu) remained unchanged at approximately 83%.

OPERATIONS REVIEW

Obtained Good Supply Practice Certificate

On 10 February 2004, the Group obtained the Good Supply Practice ("GSP") certificate from the SFDA for the period from 10 February 2004 to 9 February 2009.

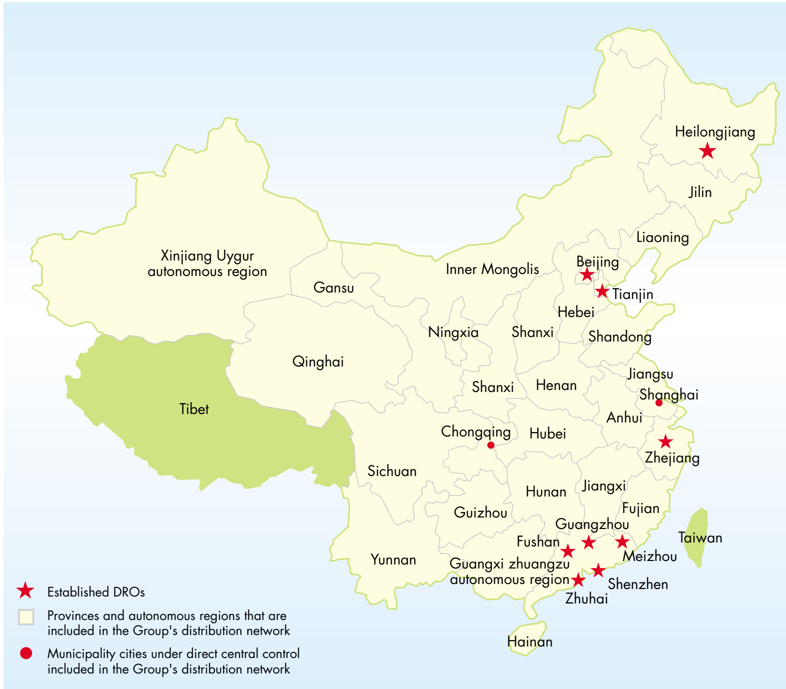
The GSP are guidelines and regulations from time to time issued pursuant to the Law of the PRC on the Administration of Pharmaceuticals as part of quality assurance to ensure that pharmaceutical products subject to those guidelines and regulations are consistently distributed in compliance with prescribed quality control standards for safe and effective use by the public. Requirements are set in terms of hardware and software standards such as specified storage conditions for warehouse, information management policy, personnel qualifications, etc. to avoid any deterioration or contamination of drugs arising from malpractice at the distribution chain. In accordance with the SFDA's announcement, both GSP and GMP certificates are mandatory for operation of distribution and manufacturing of pharmaceutical products in the PRC on 31 December 2004 and 30 June 2004 respectively.

According to the China Daily, only approximately 80 of the 16,500 medicine distribution companies in the territory have obtained the GSP certificate as of January 2003. The 0.5% certified companies command a privileged and market competitive position in the total pool of distribution enterprises in the PRC.

The Group, together with the GMP certificate obtained in 2000, is now recognised as a full-fledged authorised manufacturer and distributor in the PRC pharmaceutical arena and is strategically and competitively poised to extend its market coverage and penetration of its flagship biopharmaceutical products as well as third party pharmaceutical products.

Training workshop for its GSP certification

Entrenching Market Presence, Continuously Strengthening Sales And Distribution Network Through Direct Representative Offices



The Group continued to execute its plan of establishing a network of DROs, which was adopted since the third quarter of 2002.

DROs are strategically located nationwide to complement the already established distribution network and are aimed at providing more effective control and management of market coverage and reach.

As at 31 December 2003, a total of nine DROs have been established throughout major provinces in the PRC.

Priming R&D Pipeline With Pragmatic High-Technology, Market Driven Products

The cessation of the R&D operations in Shenzhen enables the Group to better effectively utilise its resources and realise return on investments.

The Group will channel its resources to focus on cultivating its genetic R&D activities at its Zhuhai facilities. Genetic drug projects in the product pipeline include 貝復適(Beifushi), 貝復泰(Beifutai), Calcitonin, rh-GDNF, 貝復濟凝膠劑型(Beifuji gel formulation) and 貝復舒凝膠劑型(Beifushu gel formulation).


Sales and marketing meeting to report and review sales performance


Forum for flagship product Beifushu


Event for product promotion

The development status of each genetic drug project:

- 貝復適(Beifushi) – Clinical trials are in progress and are expected to be completed in 2005. 貝復適(Beifushi) is a category I biopharmaceutical product designed for the treatment and healing of duodenal ulcers.

- 貝復泰(Beifutai) – Pre-clinical tests have been concluded and pending SFDA's approval to start clinical trials. 貝復泰(Beifutai) is a category I biopharmaceutical product based on rh-bFGF for the treatment of nervous system diseases and damages.

- Calcitonin – Pre-clinical tests are in progress. Calcitonin is a designated category I biopharmaceutical product targeted for the treatment of osteoporosis, hypercalcemia and the relief of bone ache. On 1 November 2001, the Group entered into a joint research development contract with Shanghai Cystron Biomedical Technology Co., Ltd ("Shanghai Cystron"), a company incorporated in Shanghai. Under the joint research and development contract, a genetic engineering drug, Calcitonin, was developed by using recombinant DNA technology.

- rh-GDNF – Pre-clinical tests are in progress and expected to be completed in 2005. rh-GDNF is a neurotrophic factor for the treatment of nervous system damages and diseases.

- 貝復濟凝膠劑型(Beifuji gel formulation) – The Group obtained approval from SFDA in January 2004 for the commercial production of 貝復濟凝膠劑型(Beifuji gel formulation). The requisite GMP certificate is expected to be obtained in mid 2004. Once the GMP certificate is obtained, the Group can start to manufacture and distribute the 貝復濟凝膠劑型(Beifuji gel formulation). It is the Group's first line of self-developed category I biopharmaceutical product based on rb-bFGF for the treatment and healing of surface wounds.

- 貝復舒凝膠劑型(Beifushu gel formulation) – Pending SFDA approval for commercial production. 貝復舒凝膠劑型(Beifushu gel formulation) is a derivative of the flagship category I biopharmaceutical product. It is used for the treatment of corneal wounds.

The Group's genetic drug product spectrum focuses on the treatment and healing of surface wound, corneal wound, duodenal ulcers, osteoporosis, hypercalcemia, nervous system diseases and damages.

FINANCIAL REVIEW

Group turnover for the year ended 31 December 2003 increased by 5.4% to approximately HK$37.6 million when compared to the turnover of approximately HK$35.7 million in the previous year. Turnover of approximately HK$15.2 million was derived from the distribution of biopharmaceutical insulin products. The sales of the Group during the years ended 31 December 2003 and 2002 were made in the PRC.

Overall gross profit margin, however, decreased to 52.1% for the year ended 31 December 2003 when compared to 67.8% in the previous year. Overall gross profit margin was weighed down by the lower gross profit margin derived from distributing biopharmaceutical insulin products, despite an approximately 83% gross profit margin recorded from the sale of the flagship biopharmaceutical products 貝復舒(Beifushu) and 貝復濟(Beifuji) in the year under review.

The Group registered a loss of approximately HK$18.4 million for the year ended 31 December 2003 due to the increase of distribution and selling expenses and administrative expenses.

Distribution and selling expenses increased slightly to approximately HK$20.4 million in the year under review when compared to approximately HK$19.5 million incurred in the previous year. It mainly included investments in DROs, expenses of marketing and promotional activities and sales commission.

Administrative expenses increased to approximately HK$19.9 million in the year under review when compared to approximately HK$11.1 million in the corresponding previous year. The increase was mainly attributable to the write-off of approximately HK$2.6 million and approximately HK$0.7 million for the development costs for TCM and chemical pharmaceutical projects undertaken by the R&D centre in Shenzhen and the carrying value of the plant and machinery in the laboratory of the R&D centre in Shenzhen, respectively. In addition, approximately HK$5.1 million of accounts receivable outstanding over a period of six months was fully provided for.

As at 31 December 2003, the Group maintained a healthy financial position and has over HK$10.5 million in cash (2002: approximately HK$21.8 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 the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 June 2001 ("Placing") were approximately HK$35 million. During the year under review, the Group utilised approximately HK$6.2 million for various purposes as detailed below; which were in line with the expected use of net proceeds as described in the Company's prospectus dated 19 June 2001 ("Prospectus").

- approximately HK$1.2 million was used to expand the distribution channels.
- approximately HK$3.8 million was used to fund the research and development.
- approximately HK$1.2 million was used to extend the production facilities.

SIGNIFICANT INVESTMENT

On 2 December 2003, the Group entered into a convertible loan agreement with AsiaPharm Group Ltd ("AsiaPharm") whereby the Group agreed to make available to AsiaPharm a convertible loan facility of an amount of US$1,200,000 (equivalent to HK$9,360,000).

Details of the transaction were specified in the circular issued by the Company on 19 December 2003.

Save as disclosed above, the Group did not have any significant investments during the year under review.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES/FUTURE PLANS FOR MATERIAL INVESTMENT

On 6 March 2004, the Group entered into a sale and purchase agreement with a third party whereby the third party would purchase the Group's 66% equity interest in Essex Pharmaceutical Research Centre Company Limited, at a consideration of RMB330,000 (equivalent to approximately HK$311,000).

Save as disclosed above, there had been no material acquisitions and disposals during the year. At present, the Company and the Group have no plans for material investments or capital assets other than those set out in the Prospectus.

GEARING RATIO

The gearing ratio of the Group, based on total liabilities to shareholders' fund, was 0.33 as at 31 December 2003 (2002: 0.41).

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2003, the Group had cash and bank balances of approximately HK$10.5 million as compared to approximately HK$21.8 million as at 31 December 2002. In addition, as at 31 December 2002, the Group had a short-term bank loan of RMB10 million (equivalent to HK$9,420,000) which was fully settled during the year.

FOREIGN EXCHANGE EXPOSURE

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

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares. The Group has no borrowing and long-term debts as at 31 December 2003.

CHARGES ON GROUP ASSETS

As at 31 December 2003, the Group did not have any charges on its assets.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2003.

EMPLOYEES

As at 31 December 2003, the Group had 92 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$7.8 million and approximately HK$7.5 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending on the financial performance of the Group. Details of the share option schemes are disclosed in note 31 to the financial statements of this report.

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.

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 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 the 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 in respect of the year ended 31 December 2003
Distribution channels	
1. To enlarge capital investment in the established in-market promotion joint ventures.	Expanded the sales and marketing forces for the nation-wide promotion of the Group's product in the PRC.
2. To continue the promotional activities for the sales of 貝復濟(Beifuji) and 貝復舒(Beifushu) in Hong Kong, Singapore and Malaysia. Subject to the grant of necessary approval(s) from the relevant government authority, to launch 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, Thailand and other Asian countries.
Research and development	
1. To conduct and continue clinical trials for 貝復適(Beifushi).	Clinical trials in 貝復適(Beifushi) are in progress and expected to be completed in 2005.
2. To begin and continue clinical trials on 貝復泰(Beifutai).	Completed the pre-clinical tests on 貝復泰(Beifutai). Pending SFDA's approval to start the clinical trials.
3. To complete pre-clinical tests on rh-GDNF and to submit to SFDA for approving the commencement of clinical trials.	Pre-clinical tests on rh-GDNF are in progress and expected to be completed in 2005.
Production	
1. To commence engineering design and ordering of equipment and machinery, and to commence the construction of production facilities for capsule formulation of 貝復適(Beifushi).	Commenced the engineering design for the production facilities for capsule formulation of 貝復適(Beifushi) in July 2003.

Ngiam Mia Je Patrick

Aged 49, 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 38, is the managing director and general manager of the Company. He is also a senior pharmaceutical engineer. He has a Bachelor's degree in Bio-chemical Engineering from 華南工學院 (Southern China Institute) and a Master's 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 39, is an executive director and is responsible for the financial management and administration of the Group. He holds a Master's 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 seven years experience in financial management and project management.

Fung Chi Ying

Aged 49, 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 51, 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 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 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements. During the year, the Group ceased operations of its research and development centre in Shenzhen and subsequently disposed of its 66% equity interest in Essex Pharmaceutical Research Centre Company Limited after year end. Details of the cessation and disposal are set out in notes 9 and 39 to the financial statements respectively. There were no other significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 23 to 59.

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

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 18 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There was no movement in the Company's authorised share capital during the year. Details of movements in the Company's share capital, together with the reasons thereof, and details of the Company's share option schemes are set out in notes 29 and 31 to the financial statements.

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity on page 25, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company did not have any reserves available for distribution as calculated in accordance with the Companies Law 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 and when they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 47% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 19% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 78% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 66% of the Group's total purchases.

None of the directors of the Company, or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital), had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Ngiam Mia Je Patrick
Fang Haizhou
Zhong Sheng

Non-executive directors:

Wong Kui Ming	(resigned on 7 April 2003)
Chan Albert Wai-Kit	(resigned on 7 April 2003)

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 will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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 term of appointment for each of the independent non-executive directors will expire on the date on which the annual general meeting of the Company for the year ended 31 December 2003 is held subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the year.

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

As at 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Rule 5.40 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Directly beneficially owned	Through spouse or child under 18	Through controlled corporation	Beneficiary of a trust	Total
Ngiam Mia Je Patrick	2,250,000	–	288,458,000 *(note 1)*	–	297,374,667
			6,666,667 *(note 2)*		
Fang Haizhou	2,000,000	–	–	–	2,000,000
Zhong Sheng	1,500,000	–	–	–	1,500,000

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 was deemed to be interested in these shares as he was 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 was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meeting.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Interest in underlying shares of the Company:

Share options granted under the Pre-Scheme (note):

	Number of share options beneficially and directly held by the directors and outstanding as at 31 December 2003	Percentage of the share options to the Company's issued share capital as at 31 December 2003
Directors of the Company		
Ngiam Mia Je Patrick	2,250,000	0.41%
Fang Haizhou	2,000,000	0.36%
Zhong Sheng	1,500,000	0.27%

Note: Please refer to note 31 to the financial statements for details of the Pre-Scheme (as defined in note 31 to the financial statements) and share options granted thereunder, including the above share options granted to the above directors.

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 December 2003, none of the directors, chief executives of the Company or their associates had any personal, family, corporate or other interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Rule 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and in the share option scheme disclosures in note 31 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

As at 31 December 2003, the following shareholders had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Save as disclosed above, as at 31 December 2003 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company) whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept by the Company under Section 336 of the SFO.

SPONSOR'S INTEREST

As at 31 December 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 to 31 December 2003. The Company agreed to pay an agreed fee to DHS for its provision of such services.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 36 to the financial statements. Save as disclosed therein, there were no other transactions to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules and accounting principles generally accepted in Hong Kong.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 39 to the financial statements.

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 Rules for the year ended 31 December 2003.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.23 and 5.24 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, Fung Chi Ying and Mauffrey Benoit Jean Marie, who are the independent non-executive directors of the Company and Zhong Sheng, who is the executive director of the Company. The audit committee held four meetings during the year ended 31 December 2003. The Group's audited results for the year ended 31 December 2003 have been reviewed by the audit 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.

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.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick
Chairman
Hong Kong
23 March 2004

Horwath

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

We have audited the financial statements on pages 23 to 59 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 of the state of affairs of the Company and of the Group as at 31 December 2003 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
Hong Kong
Chan Kam Wing, Clement
Practising Certificate number P02038
23 March 2004

Consolidated Profit and Loss Account

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

	Notes	2003	2002
Turnover	4		
Continuing operations		$37,478,872	$35,675,080
Discontinuing operations		107,388	–
		$37,586,260	$35,675,080
Cost of sales		(18,004,125)	(11,484,334)
Gross profit		$19,582,135	$24,190,746
Other revenue	6	868,584	1,600,931
Distribution and selling expenses		(20,429,200)	(19,474,593)
Administrative expenses		(19,885,519)	(11,146,765)
Loss from operating activities	7	$(19,864,000)	$(4,829,681)
Finance costs	8	(297,822)	(61,897)
Loss before taxation			
Continuing operations		$(14,847,909)	$(1,574,878)
Discontinuing operations		(5,313,913)	(3,316,700)
		$(20,161,822)	$(4,891,578)
Taxation	13	–	–
Loss after taxation		$(20,161,822)	$(4,891,578)
Minority interests		1,806,731	1,127,678
Loss attributable to shareholders	15	$(18,355,091)	$(3,763,900)
Loss per share			
Basic	16	(3.31) cents	(0.68) cent
Diluted	16	N/A	N/A

Consolidated Balance Sheet

At 31 December 2003

(Expressed in Hong Kong dollars)

	Notes	2003	2002
Non-current assets			
Intangible assets	17	$8,249,133	$9,974,732
Fixed assets	18	6,654,303	8,511,783
Other investment	20	–	53,694
		$14,903,436	$18,540,209
Current assets			
Short term convertible loan	21	9,360,000	–
Inventories	22	429,239	1,608,108
Trade receivables	23	7,457,600	19,514,258
Other receivables, deposits and prepayments		2,483,890	12,184,457
Cash and bank deposits	24	10,522,120	21,837,428
		30,252,849	55,144,251
Current liabilities			
Bank loan	25	–	9,420,000
Trade and other payables	26	4,024,137	3,283,596
Accruals		4,993,495	4,374,642
VAT payable	27	1,972,416	1,989,702
Obligations under finance leases	28	96,712	168,618
		11,086,760	19,236,558
Net current assets		19,166,089	35,907,693
Total assets less current liabilities carried forward		$34,069,525	$54,447,902
Non-current liabilities			
Obligations under finance leases	28	(72,534)	(289,089)
Minority interests		(54,508)	(1,861,239)
Net assets		$33,942,483	$52,297,574
Capital and reserves			
Share capital	29	$55,524,000	$55,524,000
Reserves		(21,581,517)	(3,226,426)
Shareholders' funds		$33,942,483	$52,297,574

Zhong Sheng
Director

Fang Haizhou
Director

Statement of Changes in Equity

(Expressed in Hong Kong dollars)

	Share capital	Share premium	Capital reserve and contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total
	(Note 29)					
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 and at 1 January 2003	$55,524,000	$969,871	$362,442	$14,493	$(4,573,232)	$52,297,574
Net loss for the year	–	–	–	–	(18,355,091)	(18,355,091)
At 31 December 2003	$55,524,000	$969,871	$362,442	$14,493	$(22,928,323)	$33,942,483

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 Zhuhia Essex is treated as if it had always been a wholly owned subsidiary of the Group. Opening equity at 1 January 2002 had been restated to reflect the restructure of the Group by the acquisition of all the minority interest of Zhuhai Essex.

Consolidated Cash Flow Statement

For the year ended 31 December 2003

(Expressed in Hong Kong dollars)

	Notes	2003	2002
Net cash inflow/(outflow) from operating activities	32		
Continuing operations		$9,703,393	$(17,147,935)
Discontinuing operations		(304,874)	(637,166)
		$9,398,519	$(17,785,101)
Investing activities			
Sales proceeds on disposal of fixed assets		234,038	–
Payments to acquire fixed assets		(806,918)	(2,498,241)
Expenditure on development projects		(1,320,873)	(2,581,677)
Short term convertible loan		(9,360,000)	–
Interest received		248,387	512,623
Acquisition of a subsidiary	35	–	3,835
Net cash outflow from investing activities			
Continuing operations		$(10,327,200)	$(1,750,721)
Discontinuing operations		(678,166)	(2,812,739)
		(11,005,366)	(4,563,460)
Net cash outflow before financing activities		$(1,606,847)	$(22,348,561)
Financing activities	33		
Increase in bank loan		–	9,420,000
Capital contribution from minority interest		–	850,000
Issue of share capital		–	842,000
Decrease/(increase) in pledged bank deposits		10,000,000	(10,000,000)
Payments of finance leases		(288,461)	(328,895)
Repayment of bank loan and other loans		(9,420,000)	–
Net cash inflow from financing activities			
Continuing operations		291,539	(66,895)
Discontinuing operations		–	850,000
		291,539	783,105
Decrease in cash and cash equivalents		$(1,315,308)	$(21,565,456)
Cash and cash equivalents at beginning of year		11,837,428	33,401,739
Effect of foreign exchange rate changes		–	1,145
Cash and cash equivalents at end of year		$10,522,120	$11,837,428
Analysis of the balances of cash and cash equivalents			
Cash and bank deposits		$10,522,120	$21,837,428
Less : Pledged bank deposits		–	(10,000,000)
		$10,522,120	$11,837,428

Balance Sheet

At 31 December 2003

(Expressed in Hong Kong dollars)

	Notes	2003	2002
Non-current assets			
Interests in subsidiaries	19	**$44,906,588**	$41,076,438
Current assets			
Prepayments and deposits		**229,659**	178,271
Cash and bank deposits	24	**671,034**	12,411,180
		900,693	12,589,451
Current liabilities			
Accruals		**1,494,997**	980,612
Net current (liabilities)/assets		**(594,304)**	11,608,839
Net assets		**$44,312,284**	$52,685,277
Capital and reserves			
Share capital	29	**$55,524,000**	$55,524,000
Reserves	30	**(11,211,716)**	(2,838,723)
Shareholders' funds		**$44,312,284**	$52,685,277

Zhong Sheng
Director

Fang Haizhou
Director

(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 has adopted, for the first time, the following revised and new Statements of Standard Accounting Practices ("SSAP") issued by the Hong Kong Society of Accountants:

SSAP 12 (Revised)	:	Income Taxes
SSAP 35	:	Government Grants

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

Under the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. The adoption of revised SSAP 12 has had no material impact on the results for the current and prior accounting periods.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

In accordance with SSAP 35, government grants are recognised as income over the periods necessary to match them with the related costs. The Group has elected to apply the requirements of SSAP 35 retrospectively, but the adoption of the Standards has not had any material effect on the results for the current or prior accounting periods since government grants.

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 a members of the Group, rather than from the actual date of acquisition. Accordingly, the consolidated results and cash flows of the Group 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.

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

(c) Subsidiaries *(continued)*

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

In the Company's balance sheet, investment in 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 2002, positive goodwill is eliminated against reserves and is reduced by impairment losses; and

ii) for acquisitions on or after 1 January 2002, 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.

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

(d) Goodwill *(continued)*

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

i) for acquisitions before 1 January 2002, negative goodwill is credited to a capital reserve; and

ii) for acquisitions on or after 1 January 2002, 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.

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

(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.

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 cots 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.

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

(f) Research and development expenditure *(continued)*

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.

(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.

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

(i) Inventories *(continued)*

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.

(j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(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.

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

(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.

(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.

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

(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 fulfill 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.

(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.

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

(r) Employee benefits *(continued)*

i) Employee leave entitlements (continued)

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.

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 expenses

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.

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

(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.

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.

(Expressed in Hong Kong dollars)

5. SEGMENT REPORTING

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

(a) Business segments

The Group comprises the following main business segments:–

Biopharmaceutical products	:	Manufacture and sale of biopharmaceutical products
Pharmaceutical research and development projects	:	Sale of pharmaceutical projects (The activities were discontinued during the year ended 31 December 2003, as detailed in note 9 to the financial statements)

	Continuing sector Biopharmaceutical products		Discontinuing sector Research and development projects		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002
Revenue from external customers	**$37,478,872**	$35,675,080	**$107,388**	$–	**$37,586,260**	$35,675,080
Segment result	**$(11,645,265)**	$750,729	**$(5,313,913)**	$(3,316,700)	**$(16,959,178)**	$(2,565,971)
Unallocated expenses					**(2,904,822)**	(2,263,710)
Loss from operating activities					**$(19,864,000)**	$(4,829,681)
Finance costs					**(297,822)**	(61,897)
Taxation					**–**	–
Minority interest					**1,806,731**	1,127,678
Loss attributable to shareholders					**$(18,355,091)**	$(3,763,900)

(Expressed in Hong Kong dollars)

5. SEGMENT REPORTING *(continued)*

(a) Business segments *(continued)*

	Continuing sector Biopharmaceutical products		Discontinuing sector Research and development projects		Consolidated	
	2003	2002	**2003**	2002	**2003**	2002
Segment assets	**$25,288,547**	$47,951,971	**$2,996,936**	$8,605,447	**$28,285,483**	$56,557,418
Unallocated assets					**16,870,802**	17,127,042
Total assets					**$45,156,285**	$73,684,460
Segment liabilities	**$7,909,924**	$16,283,474	**$2,054,590**	$1,395,139	**$9,964,514**	$17,678,613
Unallocated liabilities					**1,249,288**	3,708,273
Total liabilities					**$11,213,802**	$21,386,886
Depreciation for the year	**$1,030,969**	$824,753	**$604,907**	$333,055	**1,635,876**	1,157,808
Amortisation for the year	**466,361**	610,187	**–**	–	**466,361**	610,187
Capital expenditure incurred during the year	**1,731,482**	3,021,570	**396,309**	2,831,244	**2,127,791**	5,852,814

(b) Geographical segments

The sales of the Group during the years ended 31 December 2003 and 2002 were made in the PRC.

6. OTHER REVENUE

	2003	2002
Government subsidy	**$659,400**	–
Interest income	**248,389**	$512,623
Exchange (loss)/gains	**(179,739)**	12,785
Sundries	**140,534**	1,000
Sale of skincare products	**–**	479,262
Commission income	**–**	319,007
Processing fees	**–**	229,719
Consultancy fees	**–**	46,535
	$868,584	$1,600,931

(Expressed in Hong Kong dollars)

7. LOSS FROM OPERATING ACTIVITIES

	2003	2002
Loss from operating activities is stated after charging the following:–		
Depreciation of fixed assets	**$1,635,876**	$1,247,535
Provision for bad and doubtful debts	**3,272,469**	847,800
Amortisation of development expenditure	**234,487**	552,219
Amortisation of goodwill	**231,874**	57,968
Staff costs excluding directors' remuneration	**6,193,415**	5,689,360
Net exchange losses	**179,739**	–
Auditors' remuneration	**254,736**	255,181
Loss on disposal of fixed assets	**794,484**	–
Other investment written off	**53,694**	–

8. FINANCE COSTS

	2003	2002
Interest on bank and other loans wholly repayable within five years	**$289,972**	$57,904
Finance leases interest	**7,850**	3,993
	$297,822	$61,897

9. DISCONTINUING OPERATIONS

The Group ceased to operate its pharmaceutical research and development projects business during the last quarter of the year.

The carrying amounts of the total assets and liabilities relating to the discontinuing operations at 31 December 2003 were as follows:–

	2003	2002
Total assets	**$2,996,936**	$8,605,447
Total liabilities	**(2,836,619)**	(3,131,216)
Net assets	**$160,317**	$5,474,231

Comparative information for the pharmaceutical research and development projects business in 2002 is included in accordance with SSAP33, "Discontinuing operations".

(Expressed in Hong Kong dollars)

10. 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:–

	2003	2002
Fees:–		
Executive directors	**$–**	$–
Independent non-executive directors	**300,000**	420,000
	300,000	420,000
Other emoluments (executive directors):–		
Salaries and other benefits	**$1,311,840**	$1,315,040
Retirement scheme contributions	**33,272**	39,143
	1,345,112	1,354,183
	$1,645,112	$1,774,183

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

	2003 Number of directors	2002 Number of directors
$Nil – $1,000,000	**7**	7

The remuneration paid by the Group to the three (2002: three) executive directors of the Company for the year ended 31 December 2003 analysed on an individual basis was approximately $480,000 (2002: $505,000), $434,312 (2002: $428,083) and $430,800 (2002: $421,100). Remuneration of $120,000 each was paid to two (2002: two) independent non-executive directors of the Company for the year ended 31 December 2003 (2002: $120,000 each) and remuneration of $30,000 each was paid to two non-executive directors who resigned during the year ended 31 December 2003 (2002: $120,000 and $60,000 were paid to two non-executive directors respectively).

No share option was granted to the directors during the years ended 31 December 2003 and 2002.

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.

(Expressed in Hong Kong dollars)

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included three (2002: three) directors, whose remuneration is set out in Note 10 above. Details of the remuneration of the remaining two (2002: two) highest paid, non-director employees during the year is as follows:–

	2003	2002
Salaries and other benefits	**$1,015,491**	$956,000
Retirement scheme contributions	**14,209**	22,200
	$1,029,700	$978,200

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

	2003 Number of employee	2002 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.

12. 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 employees in Hong Kong, a defined contribution Mandatory Provident Fund retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance. The Group 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 2003 amounted to $342,271 (2002: $235,219).

(Expressed in Hong Kong dollars)

13. 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.

14. DEFERRED TAX

Deferred tax has not been provided as there were no significant timing differences which would give rise to deferred tax liabilities at the balance sheet date (2002 : Nil).

The principal components of the Group's and Company's deferred tax assets not provided for, calculated at 15% – 17.5% (2002 : 15% – 16%) on the cumulative timing differences at the balance sheet date, are as follows:–

	The Group		The Company	
	2003	2002	**2003**	2002
Tax losses	**$3,240,840**	$1,356,078	**$804,411**	$406,692

The potential tax benefits attributable to tax losses of the Group and the Company have not been recognised due to the unpredictability of future profit streams (2002 : Nil).

15. LOSS ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31 December 2003, the Group's loss attributable to shareholders of $18,355,091 (2002: $3,763,900) included a loss of $8,372,993 (2002: $3,638,870) which has been dealt with in the financial statements of the Company.

(Expressed in Hong Kong dollars)

16. LOSS PER SHARE

	2003	2002
Loss:		
Net loss from ordinary activities attributable to shareholders used in basic and diluted loss per share calculation	**$18,355,091**	$3,763,900
Shares:		
Weighted average number of ordinary shares used in the basic loss per share calculation	**555,240,000**	555,240,000

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

(ii) Diluted loss per share for the years ended 31 December 2003 and 2002 have not been presented as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

17. INTANGIBLE ASSETS

	Development expenditure	Goodwill	Total
Cost:			
At 1 January 2003	$10,034,088	$2,318,735	$12,352,823
Additions	1,320,873	–	1,320,873
Disposals	(2,580,111)	–	(2,580,111)
At 31 December 2003	$8,774,850	$2,318,735	$11,093,585
Accumulated amortisation:			
At 1 January 2003	$2,320,123	$57,968	$2,378,091
Charge for the year	234,487	231,874	466,361
At 31 December 2003	$2,554,610	$289,842	$2,844,452
Net book value:			
At 31 December 2003	$6,220,240	$2,028,893	$8,249,133
At 31 December 2002	$7,713,965	$2,260,767	$9,974,732

At 31 December 2003, all projects whose capitalised development expenditure was subject to amortisation were in commercial production.

(Expressed in Hong Kong dollars)

18. FIXED ASSETS

	Construction in progress	Plant and machinery	Furniture, fixtures and office equipment	Motors vehicles	Total
The Group					
Cost or valuation:					
At 31 December 2002	$970,604	$6,854,671	$2,381,475	$1,168,112	$11,374,862
Transfer to fixed assets	(970,604)	970,604	–	–	–
Additions	–	274,123	532,795	–	806,918
Disposals	–	(774,190)	(246,763)	(410,744)	(1,431,697)
At 31 December 2003	$–	$7,325,208	$2,667,507	$757,368	$10,750,083
Accumulated depreciation:					
At 31 December 2002	$–	$1,746,492	$906,053	$210,534	$2,863,079
Charge for the year	–	999,960	492,016	143,900	1,635,876
Written back on disposal	–	(229,477)	(123,164)	(50,534)	(403,175)
At 31 December 2003	$–	$2,516,975	$1,274,905	$303,900	$4,095,780
Net book value:					
At 31 December 2003	$–	$4,808,233	$1,392,602	$453,468	$6,654,303
At 31 December 2002	$970,604	$5,108,179	$1,475,422	$957,578	$8,511,783

The net book value of the fixed assets of the Group included an amount of $365,238 (2002: $749,239) in respect of assets held under finance leases. The related depreciation charge was $91,010 (2002: $37,363).

(Expressed in Hong Kong dollars)

19. INTERESTS IN SUBSIDIARIES

	Company 2003	2002
Unlisted shares, at cost	**$100,031**	$100,031
Revaluation (deficit)/surplus	**(100,031)**	6,300,000
Unlisted shares, at valuation	**$–**	$6,400,031
Add : Amount due from a subsidiary	**44,906,619**	34,676,438
Less : Amount due to a subsidiary	**(31)**	(31)
	$44,906,588	$41,076,438

Revaluation (deficit)/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.

Details of the Company's subsidiaries as at 31 December 2003 were 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 biopharmacetical products

\# As disclosed in note 9 to the financial statements, the subsidiary ceased operation during the last quarter in the year.

(Expressed in Hong Kong dollars)

20. OTHER INVESTMENT

	2003	2002
The Group		
Unlisted equity interest, at cost	**$–**	$53,694

Details of the Group's unlisted investment is 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. Due to the uncertainty in the future development of the investee, the Group has written off the cost of investment in full during the year.

21. SHORT TERM CONVERTIBLE LOAN

On 2 December 2003, the Group entered into a convertible loan agreement and made available to a third party borrower (the "Borrower") a loan in the principal amount of US$1,200,000 (equivalent to HK$9,360,000). The term of the convertible loan facility shall expire on the earlier of (a) 31 May 2004 (the "Final Maturity") or (b) the date of listing (both (a) and (b) are referred to as the "Repayment Date") of the Borrower on a recognised Stock Exchange as the case may be. The term of the convertible loan may be extended for a maximum of 3 calendar months from the Final Maturity if the listing is delayed as a result of a delay in obtaining regulatory approval.

The Borrower shall use the convertible loan facility to fund its corporate restructuring. The Investor shall have the right to convert the full sum of the principal amount of the loan into fully paid new ordinary shares of the Borrower.

No interest shall be payable if the listing is completed on or before 30 June 2004 (the "Listing Target Date"). If the listing is not completed before the Listing Target Date, the Borrower shall pay an interest at a rate of 15% per annum.

As at 31 December 2003 and up to the date of approval of these financial statements, no interest income for the convertible loan has been recorded and the Group has not exercised the convertible loan.

Further details of the short term convertible loan are set out in the Company's circular dated 19 December, 2003.

22. INVENTORIES

	2003	2002
The Group		
Biopharmaceutical products:		
Raw materials	**$280,575**	$233,198
Finished goods	**148,664**	1,374,910
	$429,239	$1,608,108

23. 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:

	2003	2002
0-60 days	**$4,526,658**	$10,773,944
61-90 days	**1,575,525**	2,345,800
> 90 days	**1,355,417**	6,394,514
	$7,457,600	$19,514,258

24. CASH AND BANK DEPOSITS

	The Group		The Company	
	2003	2002	**2003**	2002
Cash and bank balances	**$10,522,120**	$9,732,992	**$671,034**	$306,744
Time deposits	**–**	12,104,436	**–**	12,104,436
	$10,522,120	$21,837,428	**$671,034**	$12,411,180

As at 31 December 2002, time deposits included an amount of $10,000,000 pledged to a bank to secure a loan granted by the bank to the Group (Note 25).

As at 31 December 2003, cash and bank deposits denominated in Renminbi ("RMB") amounted to $3,500,179 (2002 : $7,627,985). 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)

25. BANK LOAN

	2003	2002
The Group		
Bank loan repayable within one year	**$–**	$9,420,000

The bank loan represented a RMB10,000,000 revolving short term credit facility granted by a bank in the PRC. The loan bored interest at prime lending rate plus 5% per annum and was secured by the fixed deposits of the Company (Note 24) and fully repaid during the year.

26. TRADE AND OTHER PAYABLES

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

	2003	2002
0-60 days	**$3,419,194**	$1,611,468
61-90 days	**19,832**	68,365
> 90 days	**585,111**	1,603,763
	$4,024,137	$3,283,596

27. 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)

28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	**2003**	2002
Amounts payable under finance leases:				
Within one year	**$104,562**	$182,560	**$96,712**	$168,618
In the second to fifth years inclusive	**78,421**	312,979	**72,534**	289,089
	$182,983	$495,539	**$169,246**	$457,707
Less:				
Future finance charges	**(13,737)**	(37,832)	**N/A**	N/A
Present value of lease obligations	**$169,246**	$457,707	**$169,246**	$457,707
Less:				
Amount due for settlement within 12 months (shown under current liabilities)			**(96,712)**	(168,618)
Amount due for settlement after 12 months			**$72,534**	$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)

29. SHARE CAPITAL

	2003 and 2002	
	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 2002	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 and 2003	555,240,000	$55,524,000

The following changes in the authorised and issue share capital of the Company took place during the period from 1 January 2002 to 31 December 2003:

(a) 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 had been accounted for using the merger method of accounting. Accordingly, the shares issued had been presented as if they had been in issued at 31 December 2000 in the balance sheet of the Group.

(b) 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 $0.1 each for cash at par upon the exercise of share options.

30. RESERVES

	Share Premium	Accumulated losses	Total
The Company			
At 1 January 2002	$969,871	$(169,724)	$800,147
Net loss for the year	–	(3,638,870)	(3,638,870)
At 31 December 2002 and at 1 January 2003	$969,871	$(3,808,594)	$(2,838,723)
Net loss for the year	–	(8,372,993)	(8,372,993)
At 31 December 2003	$969,871	$(12,181,587)	$(11,211,716)

30. RESERVES *(continued)*

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.

31. SHARE OPTIONS

(i) Pre-IPO share option scheme

Pursuant to the pre-IPO share option scheme (the "Pre-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.

No further share options would be granted under the Pre-Scheme after listing of the Company's shares on the GEM. All these share options were granted on 13 June 2001 and may be exercised in the following manner:

(a) 50% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 12 months from 27 June 2001 on which the shares are listed on the GEM;

(b) 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 24 months from 27 June 2001; and

(c) the remaining 25% of the share options so granted to him/her (rounded down to the nearest whole number) after the expiry of 36 months from 27 June 2001.

Each grantee has paid HK$1 to the Company as the consideration for such grant.

The Pre-Scheme remains in force for a period of 10 years with effect from 13 June 2001.

(Expressed in Hong Kong dollars)

31. SHARE OPTIONS *(continued)*

(i) Pre-IPO share option scheme *(continued)*

The following share options were outstanding under the Pre-Scheme:

	Number of options			
Name of participant	granted	exercised/ lapsed	outstanding at 31 December 2003	Exercise price
				HK$
Ngiam Mia Je Patrick	4,500,000	2,250,000	2,250,000	0.10
Fang Haizhou	4,000,000	2,000,000	2,000,000	0.10
Zhong Sheng	3,000,000	1,500,000	1,500,000	0.10
146 other employees	28,225,000	9,100,000	19,125,000	0.10 to 0.35
	39,725,000	14,850,000	24,875,000	

(ii) Share Option Scheme

On 20 June 2003, a further share option scheme (the "Post-Scheme") was approved. The purpose of the Post-Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Post-Scheme include directors of the Company or any of its subsidiaries, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, person or entity that provides research, development or other technological support to the Group, and any minority shareholder in the Company's subsidiaries.

The total number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-Scheme and other schemes (including the Pre-Scheme) of the Company must not exceed 30% of the shares in issue from time to time. A nominal consideration of HK$1 is payable by the grantee upon acceptance of an option.

The subscription price of shares under the Post-Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the higher of; (i) the nominal value of the shares: (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; and (iii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant share option.

(Expressed in Hong Kong dollars)

31. SHARE OPTIONS *(continued)*

(ii) Share Option Scheme *(continued)*

Any grant of options under the Post-Scheme to a connected person or any of their respective associates must be approved by all the independent non-executive directors (excluding any independent non-executive directors who is the grantee). Where any grant of options to a substantial shareholder or an independent non-executive director or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the shares in issue; and

(b) having an aggregate value, based on the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the relevant offer date of each offer, in excess of HK$5 million;

Such further grant of options must be approved by shareholders (to whom a circular of the company has been issued) of the Company. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such must be taken on a poll.

(Expressed in Hong Kong dollars)

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

	2003	2002
Loss before taxation	**$(20,161,822)**	$(4,891,578)
Interest income	**(248,387)**	(512,623)
Interest expense	**297,822**	13,963
Depreciation of fixed assets	**1,635,876**	1,247,535
Provision for bad and doubtful debts	**3,272,469**	847,800
Amortisation of development expenditure	**234,487**	552,219
Amortisation of goodwill	**231,874**	57,968
Loss on disposal of fixed assets	**794,484**	–
Development expenditure written off	**2,580,111**	58,096
Other investment written off	**53,694**	–
Operating loss before working capital changes	**$(11,309,392)**	$(2,626,620)
Decrease/(increase) in other receivables, deposits and prepayments	**9,700,567**	(4,720,097)
Decrease/(increase) in inventories	**1,178,869**	(1,019,142)
Decrease/(increase) in trade receivables	**8,784,189**	(6,180,775)
Increase/(decrease) in accruals, trade and other payables	**1,359,394**	(3,020,900)
Decrease in VAT payable	**(17,286)**	(203,604)
Interest paid	**(297,822)**	(13,963)
Net cash inflow/(outflow) from operating activities	**$9,398,519**	$(17,785,101)

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Finance lease obligations
Balance at 31 December 2002	$457,707
Repayment of the amounts borrowed	(288,461)
Balance at 31 December 2003	$169,246

34. NON-CASH TRANSACTIONS

During the year ended 31 December 2002, 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.

(Expressed in Hong Kong dollars)

35. PURCHASE OF A SUBSIDIARY

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

	2003	2002
Net liabilities acquired:		
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 ended 31 December 2002 contributed $14,262 to the Group's net operating cash flows.

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

	2003	2002
Cash consideration	**$–**	$(1)
Cash and bank deposits	**–**	3,836
Net cash inflow in respect of the purchase of a subsidiary	**$–**	3,835

(Expressed in Hong Kong dollars)

36. RELATED PARTY TRANSACTIONS

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

	2003	2002
Rental expenses paid to China Academy of Science & Technology Development, PRC	**$825,741**	$936,816
Rental deposits and prepayments paid to China Academy of Science & Technology Development, PRC	**–**	343,252

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.

37. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2003 not provided for in the financial statements were as follows:–

	2003	2002
The Group		
Contracted but not provided for	**$–**	$2,025,140

(Expressed in Hong Kong dollars)

38. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases were as follows:–

	2003	2002
Properties	**$1,308,579**	$1,371,280
Plant and machinery	**339,579**	339,579
	$1,648,158	$1,710,859

At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases were payable as follows:–

	2003		2002	
	Properties	**Plant and machinery**	Properties	Plant and machinery
The Group				
Within 1 year	**$631,684**	**$339,615**	$1,240,038	$339,615
After 1 year but within 5 years	**485,146**	**–**	1,773,057	339,615
After 5 years	**–**	**–**	162,955	–
	$1,116,830	**$339,615**	$3,176,050	$679,230

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.

39. POST BALANCE SHEET EVENT

On 6 March 2004, the Group entered into a sale and purchase agreement with a third party whereby the third party would purchase the Group's interest of 66% in Essex Pharmaceutical Research Centre Company Limited at a consideration of approximately HK$311,000. The disposal gain to the Group was approximately HK$200,000.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2004.

Financial Summary

(Expressed in Hong Kong dollars)

RESULTS	2003 HK$	Year ended 31 December 2002 HK$	2001 HK$	2000 HK$	Period from 19 February 1999 to 31 December 1999 HK$
TURNOVER					
Continuing operations	**37,478,872**	35,675,080	26,431,073	22,392,362	5,071,516
Discontinuing operations	**107,388**	–	2,370,260	–	–
	37,586,260	35,675,080	28,801,333	22,392,362	5,071,516
Cost of sales	**(18,004,125)**	(11,484,334)	(5,728,073)	(3,819,955)	(1,598,974)
Gross profit	**19,582,135**	24,190,746	23,073,260	18,572,407	3,472,542
Other revenue	**868,584**	1,600,931	1,706,011	1,027,919	214,681
Distribution and selling expenses	**(20,429,200)**	(19,474,593)	(14,853,653)	(13,555,923)	(7,005,741)
Administrative expenses	**(19,885,519)**	(11,146,765)	(7,556,829)	(4,455,985)	(1,856,660)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	**(19,864,000)**	(4,829,681)	2,368,789	1,588,418	(5,175,178)
Finance costs	**(297,822)**	(61,897)	(41,238)	(84,933)	–
(LOSS)/PROFIT BEFORE TAXATION					
Continuing operations	**(14,847,909)**	(1,574,878)	3,086,934	1,963,266	(5,175,178)
Discontinuing operations	**(5,313,913)**	(3,316,700)	(759,383)	(459,781)	–
	(20,161,822)	(4,891,578)	2,327,551	1,503,485	(5,175,178)
Taxation	**–**	–	–	–	–
LOSS AFTER TAXATION	**(20,161,822)**	(4,891,578)	2,327,551	1,503,485	(5,175,178)
Minority interests	**1,806,731**	1,127,678	258,191	156,326	–
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS	**(18,355,091)**	(3,763,900)	2,585,742	1,659,811	(5,175,178)

ASSETS AND LIABILITIES

	2003 HK$	At 31 December 2002 HK$	2001 HK$	2000 HK$	1999 HK$
Non-current assets	**14,903,436**	18,540,209	12,073,920	7,960,564	5,193,458
Current assets	**30,252,849**	55,144,251	52,861,057	23,705,370	3,531,017
Current liabilities	**(11,086,760)**	(19,236,558)	(7,577,731)	(10,080,946)	(9,005,473)
Net current assets/(liabilities)	**19,166,089**	35,907,693	45,283,326	13,624,424	(5,474,456)
Non-current liabilities	**(127,042)**	(2,150,328)	(2,135,484)	(13,152,845)	–
Net assets/(liabilities)	**33,942,483**	52,297,574	55,221,762	8,432,143	(280,998)

Notes:

1. The summary of consolidated results of the Group includes the results of the Company and its subsidiaries as if the current Group structure had been in existence throughout the financial periods, or from the respective dates of their incorporation where this is a shorter period. The summary of the consolidated results of the Group for the period from 19 February 1999 to 31 December 1999 and the year ended 31 December 2000 has been prepared from the financial statements of the companies now comprising the Group for the period from 19 February 1999 to 31 December 1999 and the year ended 31 December 2000 prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated results of the Group for the year ended 31 December 2001 are as set out in the annual report of the Company for that year. The consolidated results of the Group for the years ended 31 December 2002 and 2003 are set out on page 23 of the audited financial statements.

2. The consolidated balance sheets as at 31 December 1999 and 2000 have been extracted from the financial information of the Company for the period from 19 February 1999 to 31 December 1999 and the year ended 31 December 2000 prepared for the purpose of the listing of the Company's shares on the GEM. The consolidated balance sheets as at 31 December 2002 and 2003 are as set out on page 24 of the audited financial statements.