



ESSEX BIO-TECHNOLOGY LIMITED
億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)



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DNA

ANNUAL REPORT
2004

Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock 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 Stock 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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Essex Bio-Technology Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Essex Bio-Technology Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CHAIRMAN'S STATEMENT



NGIAM MIA JE PATRICK

Chairman

I am pleased to report to the shareholders of Essex Bio-Technology Limited that encouraging performance has been achieved and the Group has turned around with sustainable quarter-to-quarter profit during the year.

The Group registered the profit attributable to shareholders of approximately HK\$7.6 million for the year ended 31 December 2004, a significant turnaround when compared to the loss of approximately HK\$18.4 million for the corresponding previous year.

Financial Performance

	Quarterly Results		Yearly Results	
	For the three months ended		2004	2003
	31 December 2004	31 December 2003		
	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Turnover	11.9	6.0	38.9	37.6
Profit/(loss) attributable to shareholders	0.8	(11.6)	7.6	(18.4)

The board of directors does not recommend the payment of a final dividend for the year ended 31 December 2004.

Business Review

Year 2004 was a successful year. Leveraging on the fastest growing economy of China and the effectiveness of the Group's development strategies, the Group turned around with an impressive financial results in the year under review. Sales of the flagship biopharmaceutical products, which have relatively higher gross profit margin, rose 64.9% to approximately HK\$38.9 million, amplifying the overall gross profit margin from 52.1% in last year to 88.7% for the year under review.

The successfully implementation of direct representative offices ("DROs") in strategic cities has strengthened our distribution network and market coverage.

In addition, the cessation of the biopharmaceutical insulin products and the research and development ("R&D") operations in Shenzhen enabled the Group to better utilise its resources and realise return on investments.

Further, the Group's category I biopharmaceutical product 貝復舒(Beifushu) has been listed as an approved drugs on 國家基本醫療保險和工傷保險藥品目錄(2004年版) (The National Medical and Labour Insurance List (2004 version)) announced by Ministry of Labour and Social Security, PRC on 16 September, 2004. Following the successful listing, sales of 貝復舒(Beifushu) are expected to gain greater momentum and continue to contribute positively to Group turnover.

Another achievement in 2004 is the award of the requisite GMP certificate for 貝復濟凝膠劑型(Beifuji gel formulation). It is comparatively persistent when acting on wounds, which in turn promotes therapeutic efficacy. The Group has started to manufacture and distribute 貝復濟(Beifuji), the gel formulation, in early 2005.

Prospects

Our positive performance in 2004 is a strong testimony that our business model and strategy are on the right track. In year 2005, the Group will, therefore, stay focused on driving organic growth from its core biopharmaceutical products through the established distribution network in China.

The Group will also continue to seek further investment opportunities which are sound and with good growth potential and have synergistic benefits to our current operations. The management will continue to grow the Group with the ultimate objective of enhancing our shareholders' value.

Barring any unforeseen circumstances, the Group expects another year of positive growth and performance in 2005.

Appreciation

I would like to express my appreciation to our shareholders, business partners, associates, and staff for their support and confidence in the Group.

Ngiam Mia Je Patrick

Chairman

Hong Kong

16 March 2005

Board of Directors

Executive Directors

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

Independent non-executive Directors

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

Company Secretary

Yau Lai Man *FCCA, CPA*

Qualified Accountant

Yau Lai Man *FCCA, CPA*

Compliance Officer

Zhong Sheng

Audit Committee

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

Authorised Representatives

Zhong Sheng
Yau Lai Man

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

Butterfield Bank (Cayman) Limited
(formerly known as 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
Bank of Communications

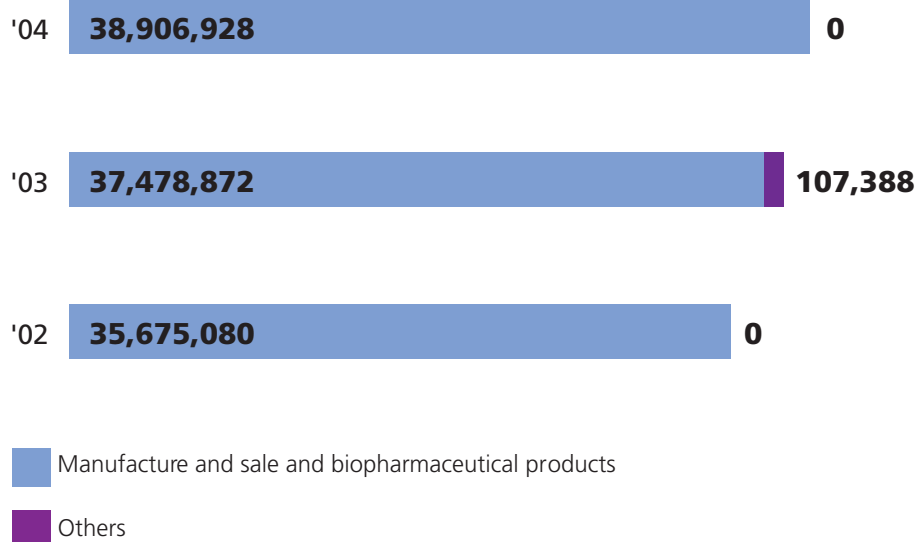
Stock Code

8151

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2004	2003
	HK\$	HK\$
Results		
Turnover	38,906,928	37,586,260
Profit/(loss) attributable to shareholders	7,604,639	(18,355,091)
Assets and liabilities		
Total assets	51,355,948	45,156,285
Total liabilities	(9,808,426)	(11,213,802)
Shareholders' funds	41,547,522	33,942,483

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 eye wounds. The Group also engaged in the research and development of biopharmaceutical products for the treatment of duodenal ulcers, osteoporosis and nervous system damages and diseases, as well as other pharmaceutical projects.

The outbreak of SARS in 2003 created an extremely difficult operating environment for most Hong Kong and PRC businesses, including the Group. Accordingly and proactively, the Group implemented market development and investment strategies to accomplish its business objectives and optimize revenue growth. The effectiveness of these strategies is evident in the positive turnaround in the first half of 2004 and further reinforced by the significant and sustained performance in the second half of 2004 with the Group registering a remarkable profit of approximately HK\$7.6 million for the year ended 31 December 2004.



Guandong province eyes annual exhibition 2004

Achievements

The Group's category I biopharmaceutical product 貝復舒(Beifushu) has been listed as an approved drugs on 國家基本醫療保險和工傷保險藥品目錄 (2004年版) (The National Medical and Labour Insurance List (2004 version)) announced by Ministry of Labour and Social Security, PRC on 16 September 2004. Following the successful listing, sales of 貝復舒(Beifushu) are expected to gain greater momentum and continue to contribute positively to Group turnover.

In addition, the Group obtained the Good Supply Practice ("GSP") certificate on 10 February 2004 from the State Food Drug Administration of China ("SFDA") for the period from 10 February 2004 to 9 February 2009.

The GSP are guidelines and regulations issued from time to time in pursuant of 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 and personnel distribution chain. In accordance with the SFDA's announcement, both GSP and GMP certificates are required for the manufacturing and distribution of pharmaceutical products in the PRC on 31 December 2004 and 30 June 2004 respectively.

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.

Market Development

The Group continued to execute its plan of establishing a network of direct representative offices ("DROs") in strategic cities 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 2004, the Group has nine DROs spreading major provinces in the PRC.

Products Development

貝復濟凝膠劑型(Beifuji gel formulation) – It is a derivative of the existing commercialised 貝復濟(Beifuji) in lyophilized powder and liquid forms. 貝復濟凝膠劑型(Beifuji gel formulation), namely 貝復新(Beifuxin), is comparatively persistent when acting on wounds, which in turn promotes therapeutic efficacy. The Group obtained approval from SFDA in January 2004 for the commercial production of 貝復濟(Beifuji) gel formulation. The requisite GMP certificate was obtained in 2004. The Group started to manufacture and distribute the 貝復濟(Beifuji) gel formulation in early 2005. 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.



Group's new product Beifuxin



Group's flagship product Beifushu

貝復舒凝膠劑型(Beifushu gel formulation) – It is used for the treatment of corneal wounds. It is a derivative of the flagship category I biopharmaceutical product 貝復舒(Beifushu) eye-drop. The current eye-drop form of 貝復舒(Beifushu) is being used in hospitals. 貝復舒凝膠劑型(Beifushu gel formulation) is more convenient for patients application at home. It is perceived to be comparative easy-to-use and more comfortable as a result of a smoother and even distribution when applying on conjunctiva. Moreover, it is more stable in physical nature, which extends the product's persistency. 貝復舒凝膠劑型(Beifushu gel formulation) is pending SFDA's approval for commercial production.

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

Research and Development

The cessation of the research and development ("R&D") operations in Shenzhen in the last quarter of 2003 enabled the Group to better utilise its resources and realise return on investments.

The Group channelled 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), rh-GDNF, 貝復濟凝膠劑型(Beifuji in gel formulation) and 貝復舒凝膠劑型(Beifushu in gel formulation).

- 貝復適(Beifushi) – Clinical trials are in progress and are expected to be completed in 2006. 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;
- rh-GDNF – Pre-clinical tests are in progress and expected to be completed in 2006. rh-GDNF is a neurotrophic factor for the treatment of nervous system damages and diseases.



Automatic tubefiller for the production and packing of Beifuxin

FINANCIAL REVIEW

Sales of the flagship biopharmaceutical products rose 64.9% to approximately HK\$38.9 million for the year ended 31 December 2004 from approximately HK\$23.6 million for the corresponding previous year.

The Group reported over HK\$38.9 million turnover, an increase of 3.5% over last year and registered the profit attributable to shareholders of approximately HK\$7.6 million for the year ended 31 December 2004, a significant turnaround when compared to the loss of approximately HK\$18.4 million for the corresponding previous year.

The turnaround is attributable to the effectiveness of the Group's market development and restructuring strategies that were implemented in 2003 and stringently adhered to throughout the year under review. These included:

- Consistent investment in market development, in particular the establishment of the DROs which complemented the already established distribution network and are aimed at providing more effective control and management of market coverage and reach;
- Major restructuring measures which included the cessation of R&D operations in Shenzhen which enabled the Group to better utilise its resources to focus on cultivating its genetic R&D activities and realise return on investments; and
- Deeper market acceptance and penetration of its core biopharmaceutical products, particularly 貝復舒(Beifushu).

The cessation of the biopharmaceutical insulin products and the accompanying rise in the sales of the flagship biopharmaceutical products bolstered and amplified the gross profit margin from 52.1% to 88.7%.

As a result, overall gross profit for the year ended 31 December 2004 increased to approximately HK\$34.5 million when compared to approximately HK\$19.6 million in last year.

Distribution and selling expenses increased to approximately HK\$23.3 million for the year ended 31 December 2004 when compared to approximately HK\$20.4 million for the corresponding previous year. The increase was mainly attributable to the increase of sales volume in the flagship biopharmaceutical products during the year under review, increase of marketing and promotional activities and increase of sales commission.

Administration expenses decreased to approximately HK\$10.4 million for the year ended 31 December 2004 when compared to approximately HK\$19.9 million for the corresponding previous year. The decrease is mainly attributable to the cessation of the R&D centre in Shenzhen.

The increase in gross profit and the concomitant decrease in operating expenses have resulted in profit attributable to shareholders of approximately HK\$7.6 million for the year ended 31 December 2004.

The Group maintained a healthy financial position with approximately HK\$23.4 million cash on hand (2003: approximately HK\$10.5 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.

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 Company and the Group have no borrowing and long-term debts.

SIGNIFICANT INVESTMENTS

As at 31 December 2004, the Group did not have any significant investments.

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 all the Group's interest in Essex Pharmaceutical Research Centre Company Limited, at a consideration of RMB330,000 (equivalent to 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.

GEARING RATIO

The gearing ratio of the Group, based on total liabilities to shareholders' fund, was 0.24 times as at 31 December 2004 (2003: 0.33 times).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cash flows.

As at 31 December 2004, the Group had cash and cash equivalents of approximately HK\$23.4 million as compared to approximately HK\$10.5 million as at 31 December 2003.

FOREIGN EXCHANGE EXPOSURE

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

CHARGES ON GROUP ASSETS

As at 31 December 2004, the Group did not have any charges on its assets.

CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31 December 2004.

EMPLOYEES

As at 31 December 2004, the Group had 106 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\$6.7 million and approximately HK\$7.8 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 29 to the financial statements of this report.

Each of the three executive directors has entered into a director's service agreement with the Company. Under the service agreements, they were appointed to act as executive directors for an initial term of three years from 27 June 2001 to 26 June 2004. Their terms were further extended by another service agreements for a fixed term of three years commencing from 27 June 2004 to 26 June 2007. The 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 for the relevant financial year, provided that such consolidated profits shall exceed HK\$5,000,000, which is payable within three months after the availability of the audited consolidated accounts of the Group for the relevant financial year.

Pursuant to a pre-IPO share option scheme adopted by the Company on 13 June 2001, the Company had granted pre-IPO share options to 149 employees (including 3 executive directors of the Company) of the Group to subscribe for a total of 39,725,000 shares, representing in aggregate approximately 7.75% of the issued share capital of the Company immediately following the completion of the Placing and the capitalization issue, at a subscription price ranging from 20% to 70% of the issue price of HK\$0.50 per share.

At the date of this report, no share options have been granted under the post-IPO share option scheme adopted by the Company on 20 June 2003.

Ngiam Mia Je Patrick

Aged 50, Dr. Ngiam 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. Dr. Ngiam is a founder of the Group which was established in February 1999.

Fang Haizhou

Aged 39, Mr. Fang 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 40, Mr. Zhong 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 year experience in financial management and project management.

Fung Chi Ying

Aged 50, Mr. Fung 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 52, Mr. Mauffrey 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.

Yeow Mee Mooi

Aged 42, Madam Yeow was appointed as independent non-executive director of the Company on 30 September 2004. Madam Yeow graduated from The University of Southwestern Louisiana, the United States of America, with a bachelor degree in business administration. Madam Yeow further obtained her post graduate diploma in financial management from The University of New England, Australia. Madam Yeow is a certified practising accountant of The Hong Kong Institute of Certified Public Accountants and The Australian Society of Certified Practising Accountants. Madam Yeow has over 13 years' taxation, auditing and commercial experience in Hong Kong. Madam Yeow is now a director of a management consulting firm in Hong Kong.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the consolidated financial statements of the Group for the year ended 31 December 2004.

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. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 19 to 50.

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

Financial summary

A summary of the published results and assets and liabilities of the Group for the past five financial years, as extracted from the audited financial statements, is set out on pages 51 to 52. This summary does not form part of the audited financial statements.

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 therefor, and details of the Company's share option schemes are set out in notes 28 and 29 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, being the jurisdiction in which the Company was incorporated, 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 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(b) to the financial statements and in the consolidated statement of changes in equity on page 21 respectively.

Distributable reserves

The Company had no reserves available for cash distribution and/or distribution in specie to shareholders of the Company as at 31 December 2004, as computed in accordance with the Companies Law of the Cayman Islands. The Company's share premium account, with a balance of HK\$969,871, may 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 46.1% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 15.8% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 47.3% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 16.5% 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

Independent non-executive directors:

Fung Chi Ying
Mauffrey Benoit Jean Marie
Yeow Mee Mooi (appointed on 30 September 2004)

In accordance with articles 86(3) and 87(1) of the Company's articles of association, Yeow Mee Mooi and Mauffrey Benoit Jean Marie will retire respectively at the forthcoming annual general meeting and, being eligible, will offer themselves 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 from 27 June 2001 to 26 June 2004. Their terms were further extended by another service agreements for a fixed term of three years commencing from 27 June 2004 to 26 June 2007. 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.

Yeow Mee Mooi has been appointed as an independent non-executive director of the Company for a term of two years commencing on 30 September 2004 and is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association, provided that the appointment may be terminated by the Company, or Madam Yeow, with a written notice of not less than one month unless both parties agree otherwise.

Save as disclosed in notes 10 and 29 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the directors and past directors of the Company as is specified on Sections 161 and 161A of the Companies Ordinance.

REPORT OF THE DIRECTORS

Directors' service contracts (continued)

The term of appointment for each of the other two independent non-executive directors will expire on the date on which the annual general meeting of the Company for the year of 2005 is held and will automatically continue thereafter without a fixed term, subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company.

The Company confirms that it has received from each of its independent non-executive directors a confirmation of his independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") and the Company considers the independent non-executive directors of the Company to be independent.

Directors' interests in contracts

No director had a material beneficial 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 2004, 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 its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of issued ordinary shares of HK\$0.10 each in the Company				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Ngiam Mia Je Patrick	2,250,000	–	288,458,000 <i>(note 1)</i> 6,666,667 <i>(note 2)</i>	–	297,374,667
Fang Haizhou	2,000,000	–	–	–	2,000,000
Zhong Sheng	1,500,000	–	–	–	1,500,000

Notes:

- 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.
- 6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which is wholly owned by Essex Investment (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.

REPORT OF THE DIRECTORS

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):

Name of director	Number of share options beneficially and directly held by the directors and outstanding as at 31 December 2004	Percentage of the share options to the Company's issued share capital as at 31 December 2004
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 29 to the financial statements for details of the Pre-Scheme (as defined in note 29 to the financial statements) and share options granted thereunder, including the above share options granted to the above directors.

Save as disclosed above, as at 31 December 2004, none of the directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules.

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 29 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 minor children, 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.

REPORT OF THE DIRECTORS

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

At 31 December 2004, the following persons 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 in ordinary shares of the Company:

Name	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Essex Holdings Limited	288,458,000	51.95
Ngiam Mia Je Patrick	297,374,667 <i>(note 1)</i>	53.56
Ngiam Mia Kiat Benjamin	295,449,667 <i>(note 2)</i>	53.21
Lauw Hui Kian	297,374,667 <i>(note 3)</i>	53.56

Notes:

- 2,250,000 shares are registered directly in the name of Ngiam Mia Je Patrick.
 - 288,458,000 shares are held by Essex Holdings; and
 - 6,666,667 shares are held by Dynatech.
- 325,000 shares are registered directly in the name of Ngiam Mia Kiat Benjamin.
 - 288,458,000 shares are held by Essex Holdings; and
 - 6,666,667 shares are held by Dynatech.
- 297,374,667 shares are held or deemed to be held by Ngiam Mia Je Patrick, the spouse of Lauw Hui Kian.

Save as disclosed above, as at 31 December 2004, 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 position 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 under Section 336 of the SFO.

Connected and related party transactions

Details of the related party transactions for the year are set out in note 33 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.

Compliance with Rules 5.34 to 5.45 of the GEM Listing Rules

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the year ended 31 December 2004.

Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2004. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the year ended 31 December 2004.

Audit committee

The Company established an audit committee with written terms of reference in compliance with Rule 5.28 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, Mauffrey Benoit Jean Marie and Yeow Mee Mooi. All of them are the independent non-executive directors of the Company. The Group's audited results for the year ended 31 December 2004 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 disclosure 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

16 March 2005

REPORT OF THE AUDITORS

To the members

Essex Bio-Technology Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 19 to 50 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 Institute of Certified Public 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 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

Hong Kong

Chan Kam Wing, Clement

Practising Certificate number P02038

16 March 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

		2004	2003
	Notes	HK\$	HK\$
Turnover	4		
Continuing operations		38,906,928	37,478,872
Discontinuing operations		–	107,388
		38,906,928	37,586,260
Cost of sales		(4,399,848)	(18,004,125)
Gross profit		34,507,080	19,582,135
Other revenue	6	6,811,188	868,584
Distribution and selling costs		(23,311,697)	(20,429,200)
Administrative expenses		(10,394,082)	(19,885,519)
Profit/(loss) from operating activities	7	7,612,489	(19,864,000)
Finance costs	8	(7,850)	(297,822)
Profit/(loss) before taxation			
Continuing operations		7,604,639	(14,847,909)
Discontinuing operations		–	(5,313,913)
		7,604,639	(20,161,822)
Taxation	13	–	–
Profit/(loss) after taxation		7,604,639	(20,161,822)
Minority interests		–	1,806,731
Profit/(loss) attributable to shareholders	15	7,604,639	(18,355,091)
Earnings/(loss) per share	16		
Basic		1.37 cents	(3.31) cents
Diluted		1.37 cents	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2004

		2004	2003
	Notes	HK\$	HK\$
Non-current assets			
Intangible assets	17	6,056,480	8,249,133
Fixed assets	18	4,127,452	6,654,303
Other investments	20	3,761,031	–
		13,944,963	14,903,436
Current assets			
Short term convertible loan	21	–	9,360,000
Inventories	22	467,040	429,239
Trade receivables	23	11,242,328	7,457,600
Other receivables, deposits and prepayments		2,341,304	2,483,890
Cash and bank balances	24	23,360,313	10,522,120
		37,410,985	30,252,849
Current liabilities			
Trade and other payables	25	1,179,557	4,024,137
Accruals and deposits received		6,862,916	4,993,495
VAT payable	26	1,693,419	1,972,416
Obligations under finance leases	27	72,534	96,712
		9,808,426	11,086,760
Net current assets		27,602,559	19,166,089
Total assets less current liabilities		41,547,522	34,069,525
Non-current liabilities			
Obligations under finance leases	27	–	(72,534)
Minority interests		–	(54,508)
Net assets		41,547,522	33,942,483
Capital and reserves			
Share capital	28	55,524,400	55,524,000
Reserves		(13,976,878)	(21,581,517)
Shareholders' funds		41,547,522	33,942,483

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share capital (Note 28) HK\$	Share premium HK\$	Capital reserve and contributed surplus HK\$	Exchange fluctuation reserve HK\$	(Accumulated losses)/ retained profits HK\$	Total HK\$
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 and at 1 January 2004	55,524,000	969,871	362,442	14,493	(22,928,323)	33,942,483
Ordinary shares issued on exercise of share options	400	–	–	–	–	400
Net profit for the year	–	–	–	–	7,604,639	7,604,639
At 31 December 2004	55,524,400	969,871	362,442	14,493	(15,323,684)	41,547,522

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

		2004	2003
	Notes	HK\$	HK\$
Net cash inflow/(outflow) from operating activities	31	2,831,982	9,703,393
Continuing operations		2,831,982	9,703,393
Discontinuing operations		–	(304,874)
		2,831,982	9,398,519
Investing activities			
Proceeds from disposal of fixed assets		942	234,038
Proceeds from disposal of other investments		12,813,485	–
Disposal of a subsidiary	32	107,526	–
Payments to acquire other investments		(2,616,600)	–
Payments to acquire fixed assets		(245,749)	(806,918)
Expenditure on development projects		–	(1,320,873)
Purchase of short term convertible loan		–	(9,360,000)
Interest received		43,319	248,387
Net cash inflow/(outflow) from investing activities		10,102,923	(10,327,200)
Continuing operations		10,102,923	(10,327,200)
Discontinuing operations		–	(678,166)
		10,102,923	(11,005,366)
Net cash inflow/(outflow) before financing activities		12,934,905	(1,606,847)
Financing activities			
Payments of finance leases		(96,712)	(288,461)
Decrease in pledged bank deposits		–	10,000,000
Repayment of bank loan and other loans		–	(9,420,000)
Net cash (outflow)/inflow from financing activities		(96,712)	291,539
Continuing operations		(96,712)	291,539
Discontinuing operations		–	–
		(96,712)	291,539
Increase/(decrease) in cash and cash equivalents		12,838,193	(1,315,308)
Cash and cash equivalents at beginning of year		10,522,120	11,837,428
Cash and cash equivalents at end of year		23,360,313	10,522,120
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		23,360,313	10,522,120

BALANCE SHEET

At 31 December 2004

		2004	2003
	Notes	HK\$	HK\$
Non-current assets			
Interests in subsidiaries	19	44,142,762	44,906,588
Current assets			
Other receivables and prepayments		242,428	229,659
Cash and bank balances		670,476	671,034
		912,904	900,693
Current liabilities			
Other payables and accruals		853,448	1,494,997
Net current assets/(liabilities)		59,456	(594,304)
Net assets		44,202,218	44,312,284
Capital and reserves			
Share capital	28	55,524,400	55,524,000
Reserves	30	(11,322,182)	(11,211,716)
Shareholders' funds		44,202,218	44,312,284

 Director

 Director

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 the development, manufacturing and selling of biopharmaceutical products 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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The new HKFRS may result in changes in the future as to how the Group's financial performance and financial position are presented.

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 HKFRSs (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, 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.

3. BASIS OF PRESENTATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)***(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 policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The Group's investments in foreign investment enterprises in the 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 2000, positive goodwill is eliminated against reserves and is reduced by impairment losses; and
- ii) for acquisitions on or after 1 January 2000, 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 2000, negative goodwill is credited to a capital reserve; and
- ii) for acquisitions on or after 1 January 2000, to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

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

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

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

(e) Fixed assets

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

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

(e) Fixed assets *(Continued)*

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

Plant and machinery	9%	–	19%
Furniture, fixtures and office equipment	18%	–	20%
Motor vehicles	18%	–	20%

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

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

(f) Research and development expenditure

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

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

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

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

(g) Impairment of assets

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

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

(h) Other investments

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

(i) Inventories

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

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

(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 taxation is provided for on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

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

(k) Provisions and contingencies

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

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

(l) Leases

i) *Finance leases*

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

ii) *Operating leases*

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

(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 fulfil the above criteria.

(p) Borrowing costs

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

(q) Revenue recognition

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

(r) Employee benefits

i) Employee leave entitlements

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

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

ii) Profit sharing and bonus plans

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

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

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

(r) Employee benefits *(Continued)*

iii) Retirement benefits scheme

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

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

(s) Distribution and selling costs

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

(t) Segment reporting

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

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

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.

NOTES TO FINANCIAL STATEMENTS

4. TURNOVER

Turnover represents sales value of biopharmaceutical products supplied to customers, less discounts, returns, value added tax and other applicable local taxes, Turnover in 2003 included revenue from sale of pharmaceutical research and development projects.

5. SEGMENT REPORTING

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

(a) Business segments

The Group comprises the following main business segments:–

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

	Continuing sector Biopharmaceutical products		Discontinuing sector Research and development projects		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue from external customers	38,906,928	37,478,872	–	107,388	38,906,928	37,586,260
Segment result	6,349,091	(11,645,265)	–	(5,313,913)	6,349,091	(16,959,178)
Unallocated net gains/(loss)					1,263,398	(2,904,822)
Profit/(loss) from operating activities					7,612,489	(19,864,000)
Finance costs					(7,850)	(297,822)
Taxation					–	–
Minority interest					–	1,806,731
Profit/(loss) attributable to shareholders					7,604,639	(18,355,091)

NOTES TO FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

	Continuing sector Biopharmaceutical products		Discontinuing sector Research and development projects		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment assets	31,374,178	25,288,547	-	2,996,936	31,374,178	28,285,483
Unallocated assets					19,981,770	16,870,802
Total assets					51,355,948	45,156,285
Segment liabilities	8,899,881	7,909,924	-	2,054,590	8,899,881	9,964,514
Unallocated liabilities					908,545	1,249,288
Total liabilities					9,808,426	11,213,802
Depreciation for the year	1,046,139	1,030,969	-	604,907	1,046,139	1,635,876
Amortisation for the year	283,156	466,361	-	-	283,156	466,361
Capital expenditure incurred during the year	245,749	1,731,482	-	396,309	245,749	2,127,791

(b) Geographical segments

The sales of the Group during the years ended 31 December 2003 and 2004 were made in the PRC.

6. OTHER REVENUE

	2004	2003
	HK\$	HK\$
Gain on disposal of other investments	4,597,916	-
Write back of provision for doubtful debts	1,421,452	-
Gain on disposal of a subsidiary	205,050	-
Interest income	43,319	248,389
Exchange gains/(loss)	499,286	(179,739)
Government subsidy	-	659,400
Sundries	44,165	140,534
	6,811,188	868,584

NOTES TO FINANCIAL STATEMENTS

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

	2004	2003
	HK\$	HK\$
Profit/(loss) from operating activities is stated after charging the following:–		
Depreciation of fixed assets	1,046,139	1,635,876
Provision for bad and doubtful debts	–	3,272,469
Amortisation of development expenditure	51,282	234,487
Amortisation of goodwill	231,874	231,874
Staff costs excluding directors' remuneration	5,020,297	6,193,415
Auditors' remuneration	274,130	254,736
Loss on disposal of fixed assets	6,425	794,484
Other investment written off	–	53,694
Development costs written off	648,943	2,580,110

8. FINANCE COSTS

	2004	2003
	HK\$	HK\$
Interest on bank and other loans wholly repayable within five years	–	289,972
Finance leases interest	7,850	7,850
	7,850	297,822

9. DISCONTINUING OPERATIONS

The Group ceased its pharmaceutical research and development projects business during the last quarter of 2003. As further detailed in note 32 to the financial statements, the Group disposed of the subsidiary engaged in this business during the year.

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

	2004	2003
	HK\$	HK\$
Total assets	–	2,996,936
Total liabilities	–	(2,836,619)
Net assets	–	160,317

NOTES TO FINANCIAL STATEMENTS

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:–

	2004	2003
	HK\$	HK\$
Fees:		
Executive directors	–	–
Independent non-executive directors	337,500	300,000
	337,500	300,000
Other emoluments (executive directors):–		
Salaries and other benefits	1,272,640	1,311,840
Retirement scheme contributions	33,656	33,272
	1,306,296	1,345,112
	1,643,796	1,645,112

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

	2004	2003
	Number of directors	Number of directors
\$Nil – \$1,000,000	6	7

The remuneration paid by the Group to the three (2003: three) executive directors of the Company for the year ended 31 December 2004 analysed on an individual basis was approximately HK\$480,000 (2003: HK\$480,000), HK\$434,696 (2003: HK\$434,312) and HK\$391,600 (2003: HK\$430,800). Remuneration of HK\$150,000 each was paid to two (2003: two) independent non-executive directors of the Company for the year ended 31 December 2004 (2003: HK\$120,000 each) and remuneration of HK\$37,500 was paid to one independent non-executive director who was appointed during the year ended 31 December 2004. Remuneration of HK\$30,000 each was paid to two non-executive directors who resigned during the year ended 31 December 2003.

No share option was granted to the directors during the years ended 31 December 2004 and 2003.

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.

NOTES TO FINANCIAL STATEMENTS

11. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included three (2003: three) directors, whose remuneration is set out in note 10 above. Details of the remuneration of the remaining two (2003: two) highest paid, non-director employees during the year is as follows:–

	2004	2003
	HK\$	HK\$
Salaries and other benefits	975,000	1,015,491
Retirement scheme contributions	21,250	14,209
	996,250	1,029,700

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

	2004	2003
	Number of employee	Number of employee
\$Nil – \$1,000,000	2	2

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

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 2004 amounted to HK\$299,681 (2003: HK\$342,271).

13. TAXATION

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

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.

NOTES TO FINANCIAL STATEMENTS

13. TAXATION (Continued)

The Group's taxation charge for the year can be reconciled to the profit/(loss) as stated in the financial statements as follows:–

	2004	2003
	HK\$	HK\$
Profit/(loss) before taxation	7,604,639	(20,161,822)
Taxation calculated at Hong Kong profits tax of 17.5%	1,330,812	(3,528,319)
Tax effect of expenses not deductible for taxation purpose	–	91,430
Tax effect of non-taxable items	(184)	(16,949)
Deferred tax assets not recognised	611,910	3,081,349
Income tax exemption	(945,632)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(128,531)	377,988
Income and expenses not subject to tax	(868,375)	(5,499)
Taxation charge for 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 (2003: Nil).

The principal components of the Group's and Company's deferred tax assets not provided for, calculated at 15% – 17.5% (2003: 15% – 17.5%) on the cumulative timing differences at the balance sheet date, are as follows:–

	The Group		The Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Tax losses	2,659,177	2,846,120	417,686	409,691

The potential tax benefits attributable to tax losses of the Group and the Company have not been recognised due to unpredictability of future profit streams (2003: Nil).

15. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31 December 2004, the Group's profit attributable to shareholders of HK\$7,604,639 (2003: loss of HK\$18,355,091) included a loss of HK\$110,466 (2003: loss of HK\$8,372,993) which has been dealt with in the financial statements of the Company.

16. EARNINGS/(LOSS) PER SHARE

The basic earnings/(loss) per share for the year ended 31 December 2004 is calculated based on the consolidated profit attributable to shareholders of the Company for the year of HK\$7,604,639 (2003: net loss of HK\$18,355,091) and 555,243,156 (2003: 555,240,000) ordinary shares in issue during the year.

The diluted earnings per share amounts for the year ended 31 December 2004 is calculated based on the consolidated profit attributable to shareholders of the Company for the year of HK\$7,604,639 and the weighted average of 555,613,683 ordinary shares assumed to have issued on the deemed exercise of the share options under the Pre-Scheme.

No diluted loss per share is presented for the year ended 31 December 2003 because the share options outstanding had an anti-diluted effect on the basic loss per share for the year.

17. INTANGIBLE ASSETS

	Development expenditure HK\$	Goodwill HK\$	Total HK\$
Cost:			
At 1 January 2004	8,774,850	2,318,735	11,093,585
Disposal of a subsidiary	(1,260,554)	–	(1,260,554)
Write off	(648,943)	–	(648,943)
At 31 December 2004	6,865,353	2,318,735	9,184,088
Accumulated amortisation:			
At 1 January 2004	2,554,610	289,842	2,844,452
Charge for the year	51,282	231,874	283,156
At 31 December 2004	2,605,892	521,716	3,127,608
Net book value:			
At 31 December 2004	4,259,461	1,797,019	6,056,480
At 31 December 2003	6,220,240	2,028,893	8,249,133

At 31 December 2004, all projects whose capitalised development expenditure was subject to amortisation were in commercial production.

NOTES TO FINANCIAL STATEMENTS

18. FIXED ASSETS

	Plant and machinery HK\$	Furniture, fixtures and office equipment HK\$	Motor vehicles HK\$	Total HK\$
The Group				
Cost or valuation:				
At 31 December 2003	7,325,208	2,667,507	757,368	10,750,083
Additions	62,527	183,222	–	245,749
Disposal of a subsidiary	(2,329,811)	(137,863)	–	(2,467,674)
Disposals	(7,715)	–	–	(7,715)
At 31 December 2004	5,050,209	2,712,866	757,368	8,520,443
Accumulated depreciation:				
At 31 December 2003	2,516,975	1,274,905	303,900	4,095,780
Charge for the year	414,723	502,741	128,675	1,046,139
Disposal of a subsidiary	(694,394)	(54,186)	–	(748,580)
Disposals	(348)	–	–	(348)
At 31 December 2004	2,236,956	1,723,460	432,575	4,392,991
Net book value:				
At 31 December 2004	2,813,253	989,406	324,793	4,127,452
At 31 December 2003	4,808,233	1,392,602	453,468	6,654,303

The net book value of the fixed assets of the Group included an amount of HK\$264,339 (2003: HK\$344,054) in respect of assets held under finance leases. The related depreciation charge was HK\$79,715 (2003: HK\$85,731).

NOTES TO FINANCIAL STATEMENTS

19. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$	HK\$
Unlisted shares, at cost	100,031	100,031
Revaluation deficit	(100,031)	(100,031)
Unlisted shares, at valuation	–	–
Add : Amount due from a subsidiary	44,142,793	44,906,619
Less : Amount due to a subsidiary	(31)	(31)
	44,142,762	44,906,588

Revaluation deficit 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 2004 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		Principal activities
			Direct	Indirect	
Essex Bio-Investment Limited	The British Virgin Islands	US\$5	100%	–	Investment holding
Essex Bio-Pharmacy Limited	Hong Kong	HK\$8,000,000	–	100%	Investment holding
Zhuhai Essex Bio-Pharmaceutical Company Limited	The People's Republic of China	RMB20,000,000	–	100%	Manufacturing and selling of biopharmaceutical products
Essex Medipharma (Zhuhai) Company Limited	The People's Republic of China	RMB3,000,000	–	100%	Marketing and distribution of biopharmaceutical products

As disclosed in note 9 to the financial statements, Essex Pharmaceutical Research Centre Company Limited ceased operation during the last quarter of 2003 and was disposed of during the year.

NOTES TO FINANCIAL STATEMENTS

20. OTHER INVESTMENTS

	2004	2003
	HK\$	HK\$
The Group		
Listed equity interest, at cost	3,761,031	–

Subsequent to the balance sheet date, in January 2005, the Group disposed of the above listed equity investments. Gains on disposals were approximately HK\$9,218,000. Details are also disclosed in note 35 to the financial statements.

21. SHORT TERM CONVERTIBLE LOAN

On 2 December 2003, the Group entered into a convertible loan agreement (the "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). Details of the short term convertible loan were set out in the Company's circular dated 19 December 2003.

On 31 March 2004, the Group issued a conversion notice to the Borrower and converted the full sum of the principal amount of the loan of US\$1,200,000 into such number of shares of the Borrower representing approximately 3.84% of the issued and paid-up capital of the Borrower as enlarged by the conversion of the Agreement. Details of the conversion were set out in the Company's announcement dated 7 April 2004.

The Group's investment on the listed shares of the Borrower was held for long term purposes as disclosed in note 20 to the financial statements.

22. INVENTORIES

	2004	2003
	HK\$	HK\$
The Group		
Biopharmaceutical products:		
Raw materials	276,609	280,575
Work in progress	94,540	–
Finished goods	95,891	148,664
	467,040	429,239

At 31 December 2004, no inventories were stated at net realisable value (2003: Nil).

NOTES TO FINANCIAL STATEMENTS

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:

	2004	2003
	HK\$	HK\$
0-60 days	6,039,142	4,526,658
61-90 days	1,680,995	1,575,525
> 90 days	3,522,191	1,355,417
	11,242,328	7,457,600

24. CASH AND BANK BALANCES

As at 31 December 2004, cash and bank balances denominated in Renminbi ("RMB") amounted to approximately HK\$9,770,000 (2003: HK\$3,500,000). 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.

25. TRADE AND OTHER PAYABLES

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

	2004	2003
	HK\$	HK\$
0-60 days	657,752	3,419,194
61-90 days	21,215	19,832
> 90 days	500,590	585,111
	1,179,557	4,024,137

26. VAT PAYABLE

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

NOTES TO FINANCIAL STATEMENTS

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Amounts payable under finance leases:				
Within one year	78,422	104,562	72,534	96,712
In the second to fifth years inclusive	–	78,421	–	72,534
	78,422	182,983	72,534	169,246
Less: Future finance charges	(5,888)	(13,737)	N/A	N/A
Present value of lease obligations	72,534	169,246	72,534	169,246
Less: Amount due for settlement within 12 months (shown under current liabilities)			(72,534)	(96,712)
Amount due for settlement after 12 months			–	72,534

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.

28. SHARE CAPITAL

	Number of ordinary shares of \$0.10 each	Amount
The Company		
Authorised:		
At 31 December 2003 and 31 December 2004	1,000,000,000	100,000,000
Issued and fully paid:		
At 1 January 2003 and 31 December 2003	555,240,000	55,524,000
Exercise of share options (<i>Note</i>)	4,000	400
At 31 December 2004	555,244,000	55,524,400

Note: During the year, the subscription rights attaching to 4,000 share options were exercised at the subscription price of HK\$0.10 per share (note 29(i)), resulting in the issue of 4,000 shares of HK\$0.10 each for a total cash consideration of HK\$400.

29. 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\$0.50 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.

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

Name of participant	Number of share options			At 31 December 2004	Exercise price HK\$
	At 1 January 2004	Exercised during the year	Lapsed during the year		
Directors					
Ngiam Mia Je Patrick	2,250,000	–	–	2,250,000	0.10
Fang Haizhou	2,000,000	–	–	2,000,000	0.10
Zhong Sheng	1,500,000	–	–	1,500,000	0.10
146 other employees	19,125,000	(4,000)	(6,815,000)	12,306,000	0.10 to 0.35
	24,875,000	(4,000)	(6,815,000)	18,056,000	

29. SHARE OPTIONS *(Continued)***(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.

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.

30. RESERVES

(a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 21 of the financial statements.

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.

(b) The Company

	Share Premium HK\$	Accumulated losses HK\$	Total HK\$
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)
Net loss for the year	–	(110,466)	(110,466)
At 31 December 2004	969,871	(12,292,053)	(11,322,182)

NOTES TO FINANCIAL STATEMENTS

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

	2004	2003
	HK\$	HK\$
Profit/(loss) before taxation	7,604,639	(20,161,822)
Finance costs	7,850	297,822
Interest income	(43,319)	(248,387)
Gain on disposal of other investments	(4,597,916)	–
Gain on disposal of a subsidiary	(205,050)	–
Write back of provision for bad and doubtful debts	(1,421,452)	–
Depreciation of fixed assets	1,046,139	1,635,876
Provision for bad and doubtful debts	–	3,272,469
Amortisation of development expenditure	51,282	234,487
Amortisation of goodwill	231,874	231,874
Loss on disposal of fixed assets	6,425	794,484
Development expenditure written off	648,943	2,580,111
Other investment written off	–	53,694
Operating profit/(loss) before working capital changes	3,329,415	(11,309,392)
Decrease in other receivables, deposits and prepayments	1,111,060	9,700,567
(Increase)/decrease in inventories	(37,801)	1,178,869
(Increase)/decrease in trade receivables	(2,363,276)	8,784,189
Increase in accruals, trade and other payables	1,108,940	1,359,394
Decrease in VAT payable	(308,506)	(17,286)
Interest paid	–	(289,972)
Finance leases interest paid	(7,850)	(7,850)
Net cash inflow from operating activities	2,831,982	9,398,519

NOTES TO FINANCIAL STATEMENTS

32. DISPOSAL OF A SUBSIDIARY

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

	2004	2003
	HK\$	HK\$
Net liabilities acquired:		
Fixed assets	1,719,094	–
Intangible assets	1,260,554	–
Other receivables	470	–
Cash and bank balances	16,818	–
Other payables and accruals	(2,054,590)	–
Amounts due to the Group	(782,028)	–
Minority interests	(54,508)	–
	105,810	–
Gain on disposal of a subsidiary	205,050	–
Consideration	310,860	–
Satisfied by:		
Cash	124,344	–
Consideration receivable	186,516	–
	310,860	–

The subsidiary disposed of during the year ended 31 December 2004 contributed HK\$Nil (2003: HK\$304,874 net cash outflow) to the Group's net operating cash flows and utilised HK\$Nil (2003: HK\$678,166) on investing activities.

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

	2004	2003
	HK\$	HK\$
Cash received	124,344	–
Cash and bank balances disposed of	(16,818)	–
Net cash inflow in respect of the disposal of a subsidiary	107,526	–

NOTES TO FINANCIAL STATEMENTS

33. RELATED PARTY TRANSACTIONS

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

	2004	2003
	HK\$	HK\$
Rental expenses paid to China Academy of Science & Technology Development, PRC	–	825,741

China Academy of Science & Technology Development was 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.

34. OPERATING LEASE ARRANGEMENTS

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

	2004	2003
	HK\$	HK\$
Properties	796,821	1,308,579
Plant and machinery	339,579	339,579
	1,136,400	1,648,158

NOTES TO FINANCIAL STATEMENTS

34. OPERATING LEASE ARRANGEMENTS *(Continued)*

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases were payable as follows:–

	2004		2003	
	Properties HK\$	Plant and machinery HK\$	Properties HK\$	Plant and machinery HK\$
The Group				
Within 1 year	1,198,118	–	631,684	339,615
After 1 year but within 5 years	2,433,016	–	485,146	–
After 5 years	1,622,011	–	–	–
	5,253,145	–	1,116,830	339,615

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.

35. POST BALANCE SHEET EVENT

In January 2005, the Group disposed of the investments in listed shares to independent third parties at considerations of approximately HK\$12,979,000. Gains on disposals were approximately HK\$9,218,000. Details of the investments are disclosed in note 20 to the financial statements.

36. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 March 2005.

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2004	2003	2002	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$
TURNOVER					
Continuing operations	38,906,928	37,478,872	35,675,080	26,431,073	22,392,362
Discontinuing operations	–	107,388	–	2,370,260	–
	38,906,928	37,586,260	35,675,080	28,801,333	22,392,362
Cost of sales	(4,399,848)	(18,004,125)	(11,484,334)	(5,728,073)	(3,819,955)
Gross profit	34,507,080	19,582,135	24,190,746	23,073,260	18,572,407
Other revenue	6,811,188	868,584	1,600,931	1,706,011	1,027,919
Distribution and selling costs	(23,311,697)	(20,429,200)	(19,474,593)	(14,853,653)	(13,555,923)
Administrative expenses	(10,394,082)	(19,885,519)	(11,146,765)	(7,556,829)	(4,455,985)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	7,612,489	(19,864,000)	(4,829,681)	2,368,789	1,588,418
Finance costs	(7,850)	(297,822)	(61,897)	(41,238)	(84,933)
PROFIT/(LOSS) BEFORE TAXATION					
Continuing operations	7,604,639	(14,847,909)	(1,574,878)	3,086,934	1,963,266
Discontinuing operations	–	(5,313,913)	(3,316,700)	(759,383)	(459,781)
	7,604,639	(20,161,822)	(4,891,578)	2,327,551	1,503,485
Taxation	–	–	–	–	–
PROFIT/(LOSS) AFTER TAXATION	7,604,639	(20,161,822)	(4,891,578)	2,327,551	1,503,485
Minority interests	–	1,806,731	1,127,678	258,191	156,326
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	7,604,639	(18,355,091)	(3,763,900)	2,585,742	1,659,811

FIVE YEAR FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	At 31 December				
	2004	2003	2002	2001	2000
	HK\$	HK\$	HK\$	HK\$	HK\$
Non-current assets	13,944,963	14,903,436	18,540,209	12,073,920	7,960,564
Current assets	37,410,985	30,252,849	55,144,251	52,861,057	23,705,370
Current liabilities	(9,808,426)	(11,086,760)	(19,236,558)	(7,577,731)	(10,080,946)
Net current assets/(liabilities)	27,602,559	19,166,089	35,907,693	45,283,326	13,624,424
Non-current liabilities	–	(127,042)	(2,150,328)	(2,135,484)	(13,152,845)
Net assets/(liabilities)	41,547,522	33,942,483	52,297,574	55,221,762	8,432,143

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 year ended 31 December 2000 has been prepared from the financial statements of the companies now comprising the Group for 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 years ended 31 December 2001 and 2002 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 2003 and 2004 are set out on page 19 of the audited financial statements.
2. The consolidated balance sheets as at 31 December 2000 have been extracted from the financial information of the Company and its subsidiaries for 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 2001 and 2002 are set out in the annual report of the Company for that year. The consolidated balance sheets as at 31 December 2003 and 2004 are as set out on page 20 of the audited financial statements.