ESSEX

ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8151)

2007

Annual Report

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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 the 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.

Contents

Chairman's Statement

Ngiam Mia Je Patrick
Chairman

I am pleased to report to our valued shareholders and investors that Essex Bio-Technology Limited (the "Company") and its subsidiaries (collectively called the "Group") have achieved record breaking revenue of HK$152.7 million in the year ended 31 December 2007, an increase of 84.4% over the corresponding previous year. The growth was generated organically from the two core businesses: the biopharmaceuticals and the organic and chemical formulated agricultural fertilizers.

Correspondently, the Group recorded a profit attributable to equity holders of the Company of approximately HK$10.6 million, a significant increase of 1.3 times over the corresponding previous year.

FINANCIAL HIGHLIGHTS

During the year under review, sales of flagship biopharmaceutical products increased by around 39% to approximately HK$68.3 million from the preceding year. In addition, the Group's subsidiary, Baoyuan Bio-Agri Technology (Yantai) Ltd. ("Yantai Baoyuan"), generated approximately HK$84.3 million in turnover. As a result, the Group recorded a turnover of approximately HK$152.7 million for the year ended 31 December 2007 as compared to approximately HK$82.8 million in the financial year of 2006. Profit attributable to equity holders of the Company amounted to approximately HK$10.6 million for the year ended 31 December 2007.

	Quarterly Results For the three months ended 31 December		**Yearly Results For the year ended 31 December**	
	2007 ***HK$'m***	2006 *HK$'m*	**2007** ***HK$'m***	2006 *HK$'m*
Turnover	**48.2**	27.9	**152.7**	82.8
Profit/(loss) attributable to equity holders of the Company	**0.7**	(0.1)	**10.6**	4.6

The board of directors (the "Directors") of the Company does not recommend the payment of final dividend for the year ended 31 December 2007.

The Group maintained a prudent fiscal measure and a healthy financial position with approximately HK$38.4 million cash and cash equivalents as at 31 December 2007 (2006: approximately HK$23.1 million).

BUSINESS REVIEW

The result of year 2007 was accomplishing and encouraging which was achieved from the two engines of growth. Firstly, the continued increase in sales of flagship biopharmaceutical products through the well established direct representative offices ("DROs") of the Group in the People's Republic of China ("PRC" or "China"); secondly, the rapid expansion of the organic and chemical formulated agricultural fertilizers business.

The Group maintained its business development strategy to ensure sustaining organic growth from its core biopharmaceutical products, Beifushu and Beifuji, through the established distribution network in China. In addition, the Group strategically promoted its newly commercialized products; 貝復濟凝膠劑型 (Beifuji gel formulation) and 貝復舒凝膠劑型 (Beifushu gel formulation) to be its future growth avenue.

In parallel, the Group's effort was also dedicated towards cultivating and developing the business of agricultural fertilizers through its subsidiary, Yantai Baoyuan, which is principally engaged in the research, development and production of organic and chemical formulated agricultural fertilizers, in solid and liquid forms, for the agriculture industry in China.

PROSPECTS

The Group will continue to strengthen the distribution network for both the biopharmaceutical products and organic and chemical formulated agricultural fertilizers business, as well as looking at ways to penetrate into new markets for sustaining growth.

In addition, we will continue to seek sound investment opportunities to expand the Group's business progressively and achieving synergistic benefits to its current operations and enhancing shareholders value.

APPRECIATION

I would like to acknowledge the dedication of our staff and the continued support of our business partners and shareholders over this period in making improved performance possible. I would like to express my personal appreciation to each of these groups for their contributions.

Ngiam Mia Je Patrick
Chairman

Hong Kong
26 March 2008

Corporate Information

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 *MBA, ACA, CPA* (practising)

QUALIFIED ACCOUNTANT

Yau Lai Man *MBA, ACA, CPA* (practising)

COMPLIANCE OFFICER

Zhong Sheng

AUDIT COMMITTEE

Fung Chi Ying *(Chairman)*
Mauffrey Benoit Jean Marie
Yeow Mee Mooi

AUTHORISED REPRESENTATIVES

Zhong Sheng
Yau Lai Man

WEBSITE ADDRESS

www.essexbio.com

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

AUDITOR

Shu Lun Pan Horwath Hong Kong CPA Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
Grand Cayman
Cayman Islands
P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

HONG KONG SHARE REGISTRAR

Hong Kong Registrars Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited
Bank of Communications

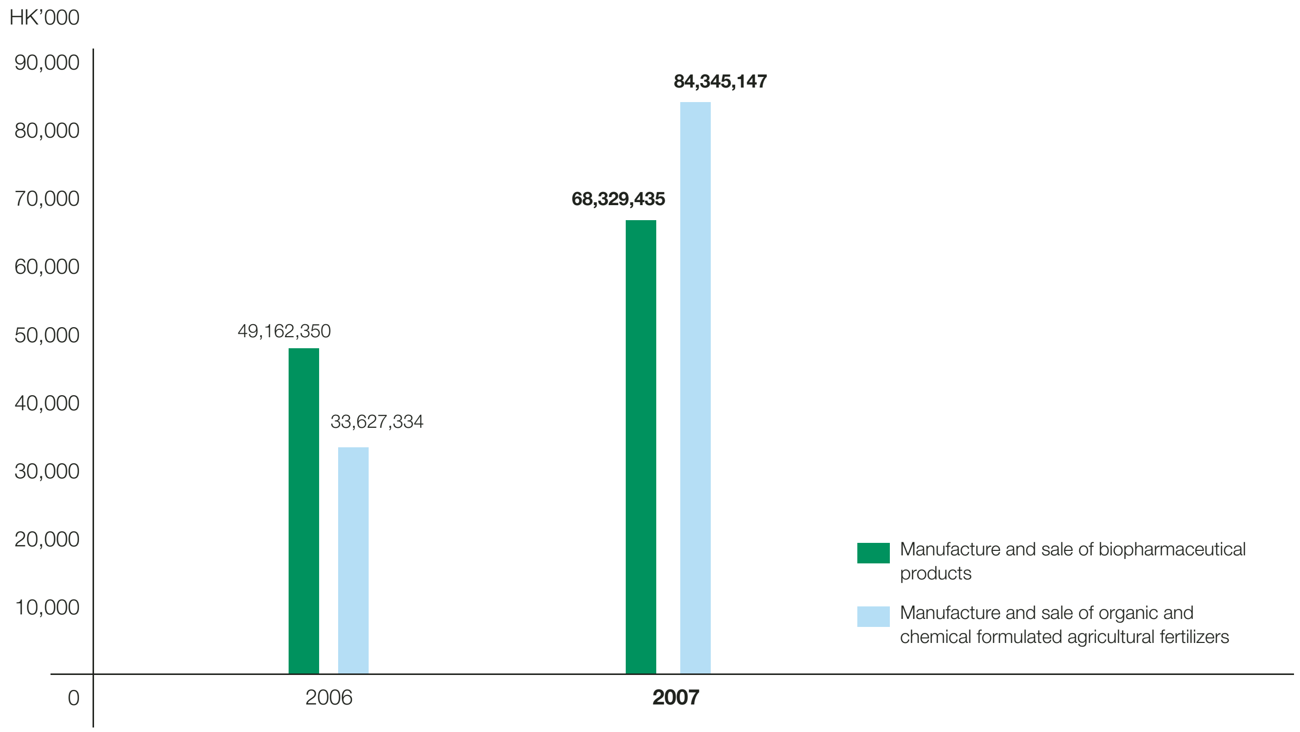
STOCK CODE

8151

Financial Highlights

	Year ended 31 December	
	2007	2006
	HK$	*HK$*
Results		
Turnover	**152,674,582**	82,789,684
Profit attributable to equity holders of the Company	**10,550,164**	4,559,511
Assets and liabilities		
Total assets	**142,125,047**	90,709,956
Total liabilities	**(59,232,241)**	(22,633,827)
Total equity	**82,892,806**	68,076,129
Minority interests	**(5,390,879)**	(4,580,132)
Equity attributable to equity holders of the Company	**77,501,927**	63,495,997

TURNOVER BY PRINCIPAL ACTIVITIES



Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

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 and nervous system damages and diseases, as well as other ophthalmic pharmaceutical projects.

In year 2007, the Group maintained its business development strategy to ensure sustaining organic growth from its core biopharmaceutical products, Beifushu and Beifuji, through the established distribution network in the PRC. In addition, the Group strategically promoted its newly commercialized products; 貝復濟凝膠劑型 (Beifuji gel formulation) and 貝復舒凝膠劑型 (Beifushu gel formulation) to be its future growth avenue.

In parallel, the Group's effort was also dedicated towards cultivating and developing the business of agricultural fertilizers through its subsidiary, Yantai Baoyuan, which is principally engaged in the research, development and production of organic and chemical formulated agricultural fertilizers, in solid and liquid forms, for the agriculture industry in China.

雙螯合有機無機複混肥料的研究與應用 (The Research and Application of Chelated Organic-inorganic Compound Fertilizer Project) of Yantai Baoyuan was granted 煙台開發區科技進步一等獎 (The first prize of Sci-Tech Process Award by Yantai Development Zone) of the PRC and was included in 2007年度國家火炬計劃項目 (China Torch Program in 2007).

雙寶牌 (The Shuangbao brand) fertilizers produced by Yantai Baoyuan have obtained 產品質量免檢證書 (Certificate for Product Exemption From Quality Surveillance Inspection) issued by the 國家質量監督檢驗檢疫總局 (General Administration of Quality Supervision, Inspection and Quarantine of the PRC).

Yantai Baoyuan was elected as one of the 煙台市農業產業百強龍頭企業 (Top 100 Leading Industrialized Agriculture Enterprises) by 煙台市人民政府 (Yantai Municipal Government).

• Certificate for Product Exemption From Quality Surveillance Inspection

Market Development

During the year under review, the Group maintained 17 DROs, which are located in major provinces in China. There are over 1,000 hospitals in major provinces in China that carry the Group's flagship biopharmaceutical products.

To cultivate further market coverage and reach for the Group's genetic products, the Group has conducted over 93 seminars and 389 market promotion activities in major cities and provinces in China for the year under review, educating more than 22,000 doctors and medical practitioners on the clinical applications of the Group's products.

• Annual Conference of Chinese Ophthalmology 2007 in Zhengzhou, August 2007
2007年鄭州全國眼科年會，二零零七年八月

• Annual Conference of Zhejiang Ophthalmology 2007, September 2007
2007年浙江省眼科年會，二零零七年九月

BUSINESS REVIEW AND PROSPECTS *(Continued)*

Market Development *(Continued)*

In respect of the Group's agricultural fertilizers business, the Group is primarily focusing on penetrating the market in Shandong province of the PRC and has expanded into Guangxi province and Hainan city of the PRC for the year under review. It adopted two pronged marketing development strategies: (i) servicing major customers directly and (ii) servicing through distributors to reach out to smaller customers. Currently, the Group's agricultural fertilizers are specially formulated for the cultivations of fruits, ground nuts, corns and leafy veggies.

Research and Development ("R&D")

R&D pipeline during the year under review included the following projects:

- 貝復適 (Beifushi) – Clinical trials are in progress. 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 are pending the approval from State Food Drug Administration of China ("SFDA") 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. rh-GDNF is a neurotrophic factor for the treatment of nervous system damages and diseases.

- 妥布霉素滴眼液 (Tobramycin Eye Drop) – The research and development on this project has been successfully completed and is pending receipt of the Good Manufacturing Practice ("GMP") certification and SFDA's approval in order to commence production. 妥布霉素滴眼液 (Tobramycin Eye Drop) is developed for the treatment and healing of bacterial contamination.

- 雙氯芬酸鈉滴眼液 (Diclofenac Sodium Eye Drop) – The research and development on this project has been successfully completed and is pending the receipt of the GMP certification and SFDA's approval in order to commence production. 雙氯芬酸鈉滴眼液 (Diclofenac Sodium Eye Drop) is developed for the treatment and healing of keratitis and inflammation after cataract surgery.

FINANCIAL REVIEW

The Group recorded HK$152.7 million in turnover for the year ended 31 December 2007, a significant increase of 84.4% over the corresponding previous year. Sales of flagship biopharmaceutical products increased by 39% to approximately HK$68.3 million as compared to approximately HK$49.2 million in last year. Sales of organic and chemical formulated agricultural fertilizers amounted to approximately HK$84.3 million in 2007 as compared to approximately HK$33.6 million in the corresponding previous year, an increase of 150.8%.

Overall gross profit for the year ended 31 December 2007 increased to approximately HK$69.8 million when compared to approximately HK$48.7 million recorded in last year. The increase was attributable to the significant increase in sale of the Group's flagship biopharmaceutical products and organic and chemical formulated agricultural fertilizers as well as the high gross profit margin of 89.7% maintained by the flagship biopharmaceutical products in the year under review.

The Group recorded a profit attributable to equity holders of the Company of approximately HK$10.6 million for the year ended 31 December 2007.

Distribution and selling expenses increased to approximately HK$47.3 million for year ended 31 December 2007 when compared to approximately HK$32.7 million recorded in last year. The increase was mainly attributable to higher expenses incurred in sales, marketing and promotional activities in the year under review.

Administrative expenses increased to approximately HK$14.5 million in the year ended 31 December 2007 when compared to approximately HK$12.9 million recorded in the corresponding previous year. The increase was in tandem with the expanded operations to support the business expansion.

FINANCIAL REVIEW *(Continued)*

The Group had cash and cash equivalents of approximately HK$38.4 million as at 31 December 2007 (31 December 2006: HK$23.1 million).

As at 31 December 2007, short-term secured bank loans and other unsecured loan amounted to approximately HK$22.5 million and HK$6.4 million respectively. The short-term secured bank loans are secured by a charge over the Group's land and properties.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares. The Group has short-term secured bank and other loans amounted to approximately HK$28.9 million as at 31 December 2007.

SIGNIFICANT INVESTMENTS

As at 31 December 2007, the Group did not have any significant investments save as those disclosed in this report.

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

On 23 May 2007, the Group has entered into an acquisition agreement with an independent third party to acquire certain land use rights in Yantai, the PRC at a consideration of RMB7,013,125.91. It constituted a disclosable transaction of the Company under Chapter 19 of the GEM Listing Rules. Details of the acquisition were stated in the announcement of the Company dated 23 May 2007 and circular issued on 15 June 2007.

Save as aforesaid, there had been no material acquisitions and disposals of subsidiaries or other investments during the year. At present, the Company and the Group have no plans for material investments or capital assets.

GEARING RATIO

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debts as total debt (which includes interest-bearing loans and borrowings and trade and other payables) less cash and cash equivalents. Adjusted capital comprises all components of equity. The net debt-to-adjusted capital ratio at 31 December 2007 is 23.71% (31 December 2006: N/A).

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cash flows, short-term bank and other borrowings.

As at 31 December 2007, the Group had cash and cash equivalents of approximately HK$38.4 million as compared to approximately HK$23.1 million as at 31 December 2006.

FOREIGN EXCHANGE EXPOSURE

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

CHARGES ON GROUP ASSETS

As at 31 December 2007, the Group pledged cash amounting to HK$5.7 million to a bank in China to secure a loan facility of HK$5.3 million for use as working capital on the fertilizer business.

In addition, as at 31 December 2007, short-term secured bank and other loans amounted to approximately HK$22.5 million and HK$6.4 million respectively. The short-term bank loans are secured by a charge over the Group's land and properties.

CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 31 December 2007.

SEGMENTAL INFORMATION

The segmental information of the Group's products is set out in the financial statements on page 36 and 37.

EMPLOYEES

As at 31 December 2007, the Group had a total of 259 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$13.7 million and approximately HK$11.4 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 scheme are disclosed in note 32 to the financial statement.

Each of the three executive Directors has entered into a Director's service agreement with the Company. Under each of the service agreements, each of them has been appointed to act as an executive Director for an initial term of three years commencing from 27 June 2001 and expiring on 26 June 2004. It was extended by two consecutive service contracts each for a fixed term of three years commencing from 27 June 2004 to 26 June 2007 and from 27 June 2007 to 26 June 2010 respectively. The annual remuneration was fixed in the respective service agreement and each of them is also entitled to a discretionary annual management bonus which shall in an aggregate amount not exceed 6% of the consolidated net profits after taxation and minority interests but before extraordinary items of the Group 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.

Other remuneration and benefits, including retirement benefits scheme, remained at appropriate level. Particulars are detailed in the relevant section of this report.

Profiles of Directors

NGIAM MIA JE PATRICK

Aged 53, Dr. Ngiam is the founder of the Group which was established in February 1999. Dr. Ngiam is an executive Director and the chairman 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 also a member of the remuneration committee and the chairman of the nomination committee of the Company. Dr. Ngiam is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited ("Zhuhai Essex"), all being subsidiaries of the Company.

FANG HAIZHOU

Aged 42, 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. Mr. Fang Haizhou is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Zhuhai Essex and Yantai Baoyuan, all being subsidiaries of the Company.

ZHONG SHENG

Aged 43, 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 joined the Group in February 1999. Mr. Zhong has more than nine years' experience in financial management and project management. Mr. Zhong is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Zhuhai Essex and Yantai Baoyuan, all being subsidiaries of the Company. Mr. Zhong is also the compliance officer and an authorized representative of the Company.

FUNG CHI YING

Aged 53, Mr. Fung was appointed as an independent non-executive Director on 13 June 2001. Mr. Fung is a practicing solicitor in Hong Kong. He is presently a partner of Adrian Yeung & Cheng, Solicitors. Mr. Fung is also the chairman of the audit committee, a member of the remuneration committee and nomination committee of the Company.

MAUFFREY BENOIT JEAN MARIE

Aged 55, Mr. Mauffrey was appointed as an 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. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Mauffrey Benoit Jean Marie has been appointed as a director of a Mesdaq listed company, Fotronic Sdn Bhd, since January 2005.

YEOW MEE MOOI

Aged 45, Madam Yeow was appointed as an 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 postgraduate 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 16 years' taxation, auditing and commercial experience in Hong Kong. Madam Yeow is now a director of a management consulting firm in Hong Kong. She is also the chairman of the remuneration committee, a member of the audit committee and nomination committee of the Company.

Report of the Directors

The directors ("Directors") of Essex Bio-Technology Limited (the "Company") present their report and the audited financial statements of the Company and of the consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 22 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 2007 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 20 to 56. The Directors do not recommend the payment of any dividend 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 57 to 58. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment 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 scheme are set out in notes 29 and 32 respectively 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 under review.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and in the consolidated statement of changes in equity on page 22, 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 2007, 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 22.6% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 5.2% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 32.5% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 15.3% of the Group's total purchases.

None of the Directors, 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 during the year and up to the date of this report were:

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

In accordance with the Company's articles of association and as recommended by the nomination committee of the Company, Mr. Mauffrey Benoit Jean Marie and Madam Yeow Mee Mooi will retire by rotation 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 term of three years commencing from 27 June 2007 and expiring on 26 June 2010 unless terminated by the Company by giving not less than six months' prior written notice to the respective Director. An executive Director shall not be entitled to terminate his appointment at any time during the term unless with the written consent of the Company deliberated by the board of Directors.

Details of the appointments of the independent non-executive Directors are set out in the Corporate Governance Report.

Save as disclosed in note 11 to the financial statements, there were no other emoluments, pension and any compensation arrangements for the Directors and past Directors as are specified on Sections 161 and 161A of the Companies Ordinance.

The Company confirms that it has received from each of its independent non-executive Directors a confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive Directors to be independent.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions as disclosed in note 38 to the financial statements, 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 under review.

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

As at 31 December 2007, 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 pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

	Number of issued ordinary shares of HK$0.10 each in the Company					
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**Approximate percentage of the Company's issued share capital**
Ngiam Mia Je Patrick	2,250,000	–	288,458,000 *(note 1)* 6,666,667 *(note 2)*	–	297,374,667	53.41
Fang Haizhou	2,000,000	–	–	–	2,000,000	0.36
Zhong Sheng	1,500,000	–	–	–	1,500,000	0.27

Notes:

1. 288,458,000 shares were held by Essex Holdings Limited ("Essex Holdings") which is owned as to 50% by Ngiam Mia Je Patrick and as to 50% by Ngiam Mia Kiat Benjamin. Therefore, Ngiam Mia Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Essex Holdings at general meetings.

2. 6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which is wholly owned by Essex 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 meetings.

Save as disclosed above, as at 31 December 2007, 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, at no time during the year under review were rights to acquire benefits by means of 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.

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

As at 31 December 2007, the following person, other than a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or, as the case may be, the registered capital of any other members of the Group, and 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	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Essex Holdings Limited	Corporate owned	288,458,000	51.81
Ngiam Mia Kiat Benjamin	Beneficially and corporate owned	295,449,667 *(note 1)*	53.07
Lauw Hui Kian	Family owned	297,374,667 *(note 2)*	53.41

Notes:

1. (a) 325,000 shares are registered directly in the name of Ngiam Mia Kiat Benjamin.

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

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

2. (a) 297,374,667 shares are held by Ngiam Mia Je Patrick, the spouse of Lauw Hui Kian.

Save as disclosed above, as at 31 December 2007, as far as is known to the Directors, there was no person (other than the Directors and chief executive of the Company whose interests are set out under 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or, as the case may be, the registered capital of any other members of the Group, and 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 38 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.

AUDITOR

On 9 October 2007, Horwath Hong Kong CPA Limited changed its name to Shu Lun Pan Horwath Hong Kong CPA Limited. The consolidated financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited who retires and a resolution for its re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 16 to 18 of this report.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick
Chairman

Hong Kong
26 March 2008

Corporate Governance Report

INTRODUCTION

The Company has complied with all the code provisions on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders during the year under review.

DIRECTORS' SECURITIES TRANSACTIONS

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. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2007.

BOARD OF DIRECTORS AND BOARD MEETING

The board of Directors, which currently comprises six Directors, is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the Profiles of Directors. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

To improve the transparency and independency of the corporate governance of the Company, the chairman and chief executive officer of the Company are segregated and are not exercised by the same individual since August 2005. Dr. Ngiam Mia Je Patrick is the chairman of the board of Directors and an executive Director and Mr. Fang Haizhou is the chief executive officer and an executive Director.

The Company appointed three independent non-executive Directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. Mr. Fung Chi Ying, Mr Mauffrey Benoit Jean Marie and Madam Yeow Mee Mooi are the independent non-executive Directors. Their respective term of appointment is for a term of two years commencing from 30 September 2006, determinable by either party serving not less than one month's written notice on other, unless both parties agree otherwise.

All Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

The Company arranged appropriate insurance cover in respect of legal actions against Directors.

The board of Directors held a full board meeting for each quarter.

Details of the attendance of the board of Directors are as follows:–

Directors	**Attendance**
Ngiam Mia Je Patrick	4/4
Fang Haizhou	4/4
Zhong Sheng	4/4
Fung Chi Ying	4/4
Mauffrey Benoit Jean Marie	4/4
Yeow Mee Mooi	4/4

Apart from the above regular board meetings of the year, the board of Directors met on other occasions when a board-level decision on a particular matter was required. The Directors received details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

REMUNERATION COMMITTEE

The remuneration committee was established in August 2005. The chairman of the committee is Madam Yeow Mee Mooi, an independent non-executive Director, and other members include Mr. Fung Chi Ying, Mr. Mauffrey Benoit Jean Marie and Dr. Ngiam Mia Je Patrick, the majority being independent non-executive Directors.

The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of Directors of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year under review, a meeting of the remuneration committee was held on 8 November 2007. Details of the attendance of the remuneration committee meeting are as follows:

Members	**Attendance**
Yeow Mee Mooi	1/1
Ngiam Mia Je Patrick	1/1
Fung Chi Ying	1/1
Mauffrey Benoit Jean Marie	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors. The remuneration committee of the Company considers that the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

NOMINATION COMMITTEE

The nomination committee was established in August 2005. The chairman of the committee is Dr. Ngiam Mia Je Patrick, the chairman of the Company, and other members include Madam Yeow Mee Mooi, Mr. Fung Chi Ying and Mr. Mauffrey Benoit Jean Marie, all are independent non-executive Directors.

The role and function of the nomination committee include recommending the appointment and removal of Directors.

The nomination committee considered the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship during the year under review.

During the year under review, a meeting of the nomination committee was held on 8 November 2007. Details of the attendance of the meeting are as follows:

Members	**Attendance**
Ngiam Mia Je Patrick	1/1
Fung Chi Ying	1/1
Mauffrey Benoit Jean Marie	1/1
Yeow Mee Mooi	1/1

During the meeting, the board of Directors considered and resolved that all the existing Directors shall be recommended to be retained by the Company. Further, in accordance with the Company's articles of association, Mr. Mauffrey Benoit Jean Marie and Madam Yeow Mee Mooi will retire, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 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, Mr. Fung Chi Ying, Mr. Mauffrey Benoit Jean Marie and Madam Yeow Mee Mooi, all of them are independent non-executive Directors. The chairman of the audit committee is Mr. Fung Chi Ying.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Fung Chi Ying	4/4
Mauffrey Benoit Jean Marie	4/4
Yeow Mee Mooi	4/4

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2007 have been reviewed by the audit committee, which 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.

AUDITOR'S REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Group has paid an aggregate of HK$448,822 to the external auditor for its audit service.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR ACCOUNTS

The Directors' responsibilities for the accounts, and the responsibilities of the external auditor to the shareholders are set out on page 19.

INTERNAL CONTROL

The Company has conducted a review of its system of internal controls periodically to ensure the effective and adequate internal controls system. The Company convened meetings periodically to discuss financial, operational and risk management controls. The Directors are of the view that the existing system of internal controls is effective and adequate.

INVESTORS RELATIONS

The Company has disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. Meetings were held with media and investors periodically. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer to their enquiries.

Shu Lun Pan Horwath Hong Kong CPA Limited
香港立信浩華會計師事務所有限公司
2001 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
horwath@horwath.com.hk
www.horwath.com.hk

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ESSEX BIO-TECHNOLOGY LIMITED
（億勝生物科技有限公司）

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Essex Bio-Technology Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 56, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Shiu Hong Ng
Practising Certificate number P03752
26 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 HK$	2006 HK$
Turnover	5	**152,674,582**	82,789,684
Cost of sales		**(82,837,766)**	(34,132,253)
Gross profit		**69,836,816**	48,657,431
Other revenue	7	**6,069,849**	2,630,079
Other gains and losses	8	**(718,562)**	(882,405)
Distribution and selling expenses		**(47,345,905)**	(32,703,045)
Administrative expenses		**(14,504,807)**	(12,894,462)
Profit from operations		**13,337,391**	4,807,598
Finance costs	9	**(1,214,357)**	(262,635)
Profit before taxation	10	**12,123,034**	4,544,963
Taxation	14(a)	**(1,121,108)**	(781,686)
Net profit for the year		**11,001,926**	3,763,277
Attributable to:			
Equity holders of the Company	16	**10,550,164**	4,559,511
Minority interests		**451,762**	(796,234)
		11,001,926	3,763,277
Earnings per share – basic	17	**HK1.89 cents**	HK0.82 cents

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 HK$	2006 HK$
Assets and liabilities			
Non-current assets			
Property, plant and equipment	18	**24,119,316**	22,923,711
Land use rights	19	**7,473,973**	–
Goodwill	20	**2,221,677**	2,039,565
Other intangible assets	21	**2,281,213**	2,507,414
		36,096,179	27,470,690
Current assets			
Inventories	24	**19,688,770**	5,721,963
Trade and other receivables	25	**42,265,910**	24,150,453
Trading securities	23	**–**	1,766,267
Pledged deposits	26	**5,703,100**	8,500,000
Cash and cash equivalents	26	**38,371,088**	23,100,583
		106,028,868	63,239,266
Current liabilities			
Trade and other payables	27	**29,137,449**	16,872,061
Short-term bank and other borrowings	28	**28,890,000**	4,980,080
Tax payable		**1,204,792**	781,686
		59,232,241	22,633,827
Net current assets		**46,796,627**	40,605,439
Net assets		**82,892,806**	68,076,129
Equity			
Capital and reserves			
Share capital	29	**55,675,000**	55,675,000
Reserves		**21,826,927**	7,820,997
Equity attributable to equity holders of the Company		**77,501,927**	63,495,997
Minority interests		**5,390,879**	4,580,132
Total equity		**82,892,806**	68,076,129

Director
Fang Haizhou

Director
Zhong Sheng

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital HK$ (note 29)	Share premium HK$	Capital reserve HK$ (note 30(i))	Statutory surplus reserve HK$ (note 30(ii))	Foreign currency translation reserve HK$ (note 30(iii))	Retained profits HK$	Attibutable to equity holders of the Company HK$	Minority interests HK$	Total HK$
Balance at 1 January 2006	55,524,400	969,871	362,442	–	479,089	103,286	57,439,088	5,203,876	62,642,964
Net income recognised directly in equity									
Exchange differences arising on translation of overseas operations	–	–	–	–	1,346,798	–	1,346,798	172,490	1,519,288
Net profit for the year	–	–	–	–	–	4,559,511	4,559,511	(796,234)	3,763,277
Total recognised income and expenses for the year	–	–	–	–	1,346,798	4,559,511	5,906,309	(623,744)	5,282,565
Ordinary shares issued on exercise of share options	150,600	–	–	–	–	–	150,600	–	150,600
Appropriation of profits	–	–	–	2,410,150	–	(2,410,150)	–	–	–
Balance at 31 December 2006	55,675,000	969,871	362,442	2,410,150	1,825,887	2,252,647	63,495,997	4,580,132	68,076,129
Net income recognised directly in equity									
Exchange differences arising on translation of overseas operations	–	–	–	–	3,455,766	–	3,455,766	358,985	3,814,751
Net profit for the year	–	–	–	–	–	10,550,164	10,550,164	451,762	11,001,926
Total recognised income and expenses for the year	–	–	–	–	3,455,766	10,550,164	14,005,930	810,747	14,816,677
Appropriation of profits	–	–	–	1,360,453	–	(1,360,453)	–	–	–
Balance at 31 December 2007	55,675,000	969,871	362,442	3,770,603	5,281,653	11,442,358	77,501,927	5,390,879	82,892,806

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 *HK$*	2006 *HK$*
Operating activities		
Profit before taxation	**12,123,034**	4,544,963
Adjustments for:		
Interest expenses	**1,078,209**	262,635
Interest income	**(697,148)**	(560,463)
Gain on disposal of trading securities	**(66,081)**	(636,045)
Impairment loss on trade and other receivables	**1,048,947**	266,109
Impairment loss on development expenditure	**–**	1,514,841
Depreciation of property, plant and equipment	**2,821,240**	2,314,576
Amortisation of other intangible assets	**361,293**	342,685
Amortisation of land use rights	**136,800**	–
(Gain)/loss on disposal of property, plant and equipment	**(15,357)**	3,609
Operating cash flows before working capital changes	**16,790,937**	8,052,910
Increase in inventories	**(13,966,807)**	(3,674,390)
Increase in trade and other receivables	**(19,008,966)**	(1,581,527)
Increase in trade and other payables	**12,265,388**	2,753,277
Decrease in amount due to a minority shareholder of a subsidiary	**–**	(883,736)
Cash (used in)/generated from operations	**(3,919,448)**	4,666,534
Interest paid	**(1,078,209)**	(262,635)
Profits tax paid	**(788,537)**	–
Net cash (outflow)/inflow from operating activities	**(5,786,194)**	4,403,899
Investing activities		
Proceeds from disposal of property, plant and equipment	**243,825**	–
Proceeds from disposal of trading securities	**1,832,348**	3,954,282
Payments to acquire land use rights	**(7,461,819)**	–
Payments to acquire property, plant and equipment	**(2,566,614)**	(13,578,440)
Interest received	**697,148**	560,463
Changes in pledged deposits	**2,796,900**	(8,500,000)
Net cash outflow from investing activities	**(4,458,212)**	(17,563,695)
Financing activities		
Repayment of loan	**(4,980,080)**	–
Proceeds from new loans	**28,890,000**	4,980,080
Proceeds from shares issued under share option scheme	**–**	150,600
Net cash inflow from financing activities	**23,909,920**	5,130,680
Net increase/(decrease) in cash and cash equivalents	**13,665,514**	(8,029,116)
Cash and cash equivalents at beginning of year	**23,100,583**	30,498,825
Effect of foreign exchange rate changes	**1,604,991**	630,874
Cash and cash equivalents at end of year	**38,371,088**	23,100,583
Analysis of the balances of cash and cash equivalents *(Note 26)*		
Cash and bank balances	**31,300,032**	17,740,730
Time deposits with original maturity of less than three months when acquired	**7,071,056**	5,359,853
	38,371,088	23,100,583

Balance Sheet

At 31 December 2007

	Note	2007 HK$	2006 HK$
Assets and liabilities			
Non-current assets			
Interests in subsidiaries	22	**32,631,943**	34,813,472
Current assets			
Trade and other receivables	25	**2,570,230**	379,450
Cash and cash equivalents	26	**7,123,787**	9,232,711
		9,694,017	9,612,161
Current liabilities			
Trade and other payables	27	**1,363,439**	1,083,649
Net current assets		**8,330,578**	8,528,512
Net assets		**40,962,521**	43,341,984
Equity			
Capital and reserves			
Share capital	29	**55,675,000**	55,675,000
Reserves	30	**(14,712,479)**	(12,333,016)
Total equity		**40,962,521**	43,341,984

Director
Fang Haizhou

Director
Zhong Sheng

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 registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. Its subsidiaries principally engage in the development, manufacture and selling of biopharmaceutical products and organic and chemical formulated agricultural fertilisers in the People's Republic of China (the "PRC").

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for the accounting period beginning on 1 January 2007. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendments: Capital Disclosures has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group and the Company were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKFRS 8	Operating segments	1 January 2009

The Group is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of their initial application.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention except that certain assets and liabilities are stated at fair value as explained in accounting policies below.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their values at the acquisition date, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised

(e) Subsidiaries

Subsidiaries are entities in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Subsidiaries *(continued)*

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

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated 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 or loss in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset.

Depreciation is charged so as to write off the cost over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Buildings and leasehold improvements	5% – 18% or the remaining lease period whichever is shorter
Plant and machinery	9% – 19%
Furniture, fixtures and office equipment	18% – 20%
Motor vehicles	18% – 19%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Other intangible assets

(i) Technical know-how

Technical know-how acquired by the Group during the course of business is capitalised on the basis of the cost incurred to acquire and bring to use the specific technical know-how. The cost is amortised on the straight line basis over its estimated useful life of three years.

(ii) 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.

(i) Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Inventories

Inventories are stated 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.

(k) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

(i) Loan and other receivables are subsequently accounted for as follows:

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(ii) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is determined and recognised as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial assets *(continued)*

(ii) Impairment of financial assets (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included in trade and other receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

(iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(l) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(iii) Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Financial liabilities and equity instrument issued by the Group *(continued)*

(iv) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

(v) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(vi) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Taxation *(continued)*

(ii) ***Deferred tax*** *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is on longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(o) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(i) ***The Group is the leasee other than operating lease of land use rights***

Payments made under operating leases (net of any incentives received from the lessor), are charged to the consolidated income statements on a straight line basis over the period of the lease.

(ii) ***The Group is the leasee under operating lease of land use rights***

The Group made upfront payments to obtain operating lease of land use rights on which the properties are developed. The upfront payments of the land use right are recorded as assets and amortised over the lease period.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(q) Translation of foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Items included in the financial statements of the Company are measured using the Hong Kong dollar, the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Hong Kong dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Hong Kong dollar using exchange rates prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances and exclude value added tax or other sales related taxes.

(i) Revenue from the sale of products is recognised when the merchandise is delivered and title has passed to the customers.

(ii) Interest income is accrued on a time apportioned basis taking into account the principal outstanding and the effective interest rate applicable.

(u) 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.

(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 profit or loss 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 profit or loss as they became payable, in accordance with the rules of the scheme. The employer's contributions vest fully once they are made.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(v) 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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Company has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

b. Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was HK$2,221,677. Further details are set out in note 20 to the financial statements.

Impairment of trade and other receivables

Impairment loss of trade and other receivables is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade receivables and other receivables and doubtful debt expenses/written back in the period in which the estimate has been changed.

5. TURNOVER

Turnover represents sales value of biopharmaceutical products and agricultural fertilisers supplied to customers less discounts, returns, value added tax and other applicable local taxes and is analysed as follows:

	2007	2006
	HK$	*HK$*
Sales of biopharmaceutic products	**68,329,435**	49,162,350
Sales of agricultural fertilisers	**84,345,147**	33,627,334
	152,674,582	82,789,684

6. 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
Agricultural fertilizers	:	Manufacture and sale of organic and chemical formulated agricultural fertilizers

6. SEGMENT REPORTING *(continued)*

(a) Business segments *(continued)*

	Biopharmaceutical products		Agricultural fertilizers		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$	*HK$*	***HK$***	*HK$*	***HK$***	*HK$*
Revenue from external customers	**68,329,435**	49,162,350	**84,345,147**	33,627,334	**152,674,582**	82,789,684
Segment result	**13,978,900**	7,523,866	**2,136,320**	(1,476,858)	**16,115,220**	6,047,008
Unallocated net loss					**(2,777,829)**	(1,239,410)
Finance costs					**(1,214,357)**	(262,635)
Taxation					**(1,121,108)**	(781,686)
Net profit for the year					**11,001,926**	3,763,277
Segment assets	**63,560,300**	43,224,983	**67,772,019**	30,310,157	**131,332,319**	73,535,140
Unallocated assets					**10,792,728**	17,174,816
Total assets					**142,125,047**	90,709,956
Segment liabilities	**15,367,855**	11,518,545	**42,478,272**	8,235,691	**57,846,127**	19,754,236
Unallocated liabilities					**1,386,114**	2,879,591
Total liabilities					**59,232,241**	22,633,827
Impairment loss on development expenditure	**–**	1,514,841	**–**	–	**–**	1,514,841
Depreciation	**1,641,061**	1,687,809	**1,180,179**	626,767	**2,821,240**	2,314,576
Amortisation of other intangible assets	**285,957**	271,229	**75,336**	71,456	**361,293**	342,685
Amortisation of land use rights	**–**	–	**136,800**	–	**136,800**	–
Capital expenditure	**231,696**	1,186,113	**9,796,737**	13,127,627	**10,028,433**	14,313,740

(b) Geographical segments

All operating assets and operations of the Group during the years ended 31 December 2007 and 2006 were located in the PRC. Accordingly, no geographical segment information is presented.

7. OTHER REVENUE

	2007	2006
	HK$	*HK$*
Value added tax refund *(Note)*	**5,060,710**	2,017,694
Interest income:		
Bank deposits	**577,148**	560,463
Loans and receivables	**120,000**	–
Total interest income on financial assets not at fair value through profit or loss	**697,148**	560,463
Others	**311,991**	51,922
	6,069,849	2,630,079

Note: A tax concession has been granted by the PRC tax authority to the PRC subsidiary of the Group which engages in the manufacture of agricultural fertilisers. Under this concession, the PRC subsidiary is entitled to a refund of value added tax ("VAT") at an effective rate of 6% subject to approval annually. The amount of VAT refund is recognised as other revenue on an accrual basis.

8. OTHER GAINS AND LOSSES

	2007 HK$	2006 HK$
Impairment loss of development expenditure	–	(1,514,841)
Impairment loss of other receivables	(800,000)	–
Gain/(loss) on disposal of property, plant and equipment	15,357	(3,609)
Gain on disposal of trading securities	66,081	636,045
	(718,562)	(882,405)

9. FINANCE COSTS

	2007 HK$	2006 HK$
Interest expense:		
Bank borrowings and other borrowings wholly repayable within five years	1,078,209	262,635
Other borrowing costs	136,148	–
Total interest expense on financial liabilities not at fair value through profit or loss	1,214,357	262,635

10. PROFIT BEFORE TAXATION

	2007 HK$	2006 HK$
Profit before taxation is stated after charging/(crediting) the following:–		
Cost of inventories recognised as an expense	82,837,766	34,132,253
Impairment loss on trade and other receivables	1,113,164	266,109
Amortisation of other intangible assets	361,293	342,685
Amortisation of land use rights	136,800	–
Depreciation of property, plant and equipment	2,821,240	2,314,576
Staff costs excluding directors' remuneration:–		
Salaries and allowances	10,734,357	9,295,245
Pension fund contributions	594,257	418,718
Exchange gain, net	(4,392)	–
Auditor's remuneration	448,822	413,986
Research and development costs	492,377	479,952

11. 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:–

	Directors' fees HK$	Salaries, allowances and benefits in kind HK$	Discre-tionary bonuses HK$	Share-based payments HK$	Pension fund con-tributions HK$	2007 Total HK$
Executive directors						
Fang Haizhou	–	400,000	180,000	–	22,481	602,481
Zhong Sheng	–	350,000	180,000	–	12,000	542,000
Ngiam Mia Je Patrick	–	500,000	240,000	–	–	740,000
Independent non-executive directors						
Fung Chi Ying	150,000	–	–	–	–	150,000
Mauffrey Benoit Jean Marie	150,000	–	–	–	–	150,000
Yeow Mee Mooi	150,000	–	–	–	–	150,000
	450,000	1,250,000	600,000	–	34,481	2,334,481

	Directors' fees HK$	Salaries, allowances and benefits in kind HK$	Discre-tionary bonuses HK$	Share-based payments HK$	Pension fund Con-tributions HK$	2006 Total HK$
Executive directors						
Fang Haizhou	–	400,000	–	–	21,797	421,797
Zhong Sheng	–	350,000	–	–	12,000	362,000
Ngiam Mia Je Patrick	–	500,000	–	–	–	500,000
Independent non-executive directors						
Fung Chi Ying	150,000	–	–	–	–	150,000
Mauffrey Benoit Jean Marie	150,000	–	–	–	–	150,000
Yeow Mee Mooi	150,000	–	–	–	–	150,000
	450,000	1,250,000	–	–	33,797	1,733,797

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

	2007 Number of directors	2006 Number of directors
HK$Nil – HK$1,000,000	6	6

11. DIRECTORS' REMUNERATION *(continued)*

No share option was granted to the directors during the years ended 31 December 2007 and 2006.

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.

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group during the year included three (2006: three) directors, whose remuneration is set out in note 11. Details of the remuneration of the remaining two (2006: two) highest paid, non-director employees during the year is as follows:–

	2007 **HK$**	2006 HK$
Salaries and other benefits	**1,024,089**	1,011,517
Retirement scheme contributions	**29,770**	24,534
	1,053,859	1,036,051

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

	2007 **Number of employee**	2006 Number of employee
HK$Nil – HK$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.

13. 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 schemes.

The Group's contribution to retirement benefits schemes for the year ended 31 December 2007 amounted to HK$628,738 (2006: HK$452,515).

14. TAXATION

(a) Taxation in the consolidated income statement represents:–

	2007 **HK$**	2006 HK$
Current tax – PRC		
– Provision for the year	**1,121,108**	781,686

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

14. TAXATION *(continued)*

(c) The Group's operating subsidiaries in Zhuhai, the PRC, are 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 engages in production, is entitled to 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. The income tax exemption period of the subsidiary expired and the income tax is calculated at 7.5% (50% reduction in enterprise income tax) (2006: 7.5%) for the year.

(d) The Group's operating subsidiary in Yantai, the PRC, is subject to enterprise income tax at a concessionary rate of 15%. No provision for enterprise income tax has been made for the year ended 31 December 2007 as tax losses brought forward from previous years exceed the estimated assessable profits for the year. The subsidiary is entitled to exemption from enterprise income tax for its first two profitable years of operations and a 50% reduction in enterprise income tax for the succeeding three years.

(e) On 16 March 2007, the National People's Congress approved the PRC Enterprise Income Tax Law, which became effective from 1 January 2008. In accordance with the new law, a unified enterprise income tax rate of 25% will be applied to both domestic-invested enterprises and foreign-invested enterprises. Enterprises established prior to 16 March 2007 eligible for preferential tax treatment in accordance with the currently prevailing tax laws and administrative regulations shall, under the regulations of the State Council, gradually be subject to the new tax rate over a five-year transitional period until 2012. Accordingly, the Group's subsidiaries in Zhuhai and Yantai can continue to enjoy the preferential tax rates during the transitional period.

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

	2007 ***HK$***	2006 *HK$*
Profit before taxation	**12,123,034**	4,544,963
Taxation calculated at Hong Kong profits tax rate of 17.5%	**2,121,530**	795,368
Tax effect of expenses not deductible for taxation purpose	**154,373**	732,125
Tax effect of non-taxable items	**(504,236)**	(250,927)
Deferred tax assets not recognised	**813,574**	749,456
Income tax exemption	**(1,152,128)**	(912,015)
Effect of different tax rate of subsidiaries operating in other jurisdiction	**(186,852)**	(130,281)
Utilisation of tax losses	**(125,153)**	(202,040)
Taxation charge for the year	**1,121,108**	781,686

15. DEFERRED TAX

As at the balance sheet date, the Group has unused tax losses of HK$11,522,206 (2006: HK$21,854,701) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$263,510 that will expire in 2011. Other loss may be carried forward indefinitely.

16. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

During the year ended 31 December 2007, the Group's profit attributable to equity holders of the Company included a loss of HK$2,379,463 (2006: loss of HK$562,974) which has been dealt with in the financial statements of the Company.

17. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the profit for the year attributable to equity holders of the Company of HK$10,550,164 (2006: HK$4,559,511), and 556,750,000 (2006: weighted average of 556,306,833) ordinary shares in issue during the year.

There was no diluted earnings per share for both years ended 31 December 2007 and 2006 since the Company had no dilutive potential shares outstanding as at 31 December 2007 and 2006.

18. PROPERTY, PLANT AND EQUIPMENT

The Group	**Buildings and leasehold improvements** *HK$*	**Plant and machinery** *HK$*	**Furniture, fixtures and office equipment** *HK$*	**Motor vehicles** *HK$*	**Total** *HK$*
Cost:					
At 1 January 2006	3,384,797	8,150,225	3,059,168	1,180,124	15,774,314
Additions	9,333,971	4,422,160	324,532	233,077	14,313,740
Disposals	–	(20,101)	(42,159)	–	(62,260)
Exchange adjustments	330,760	395,503	101,283	48,298	875,844
At 31 December 2006	13,049,528	12,947,787	3,442,824	1,461,499	30,901,638
Additions	1,231,559	740,628	202,090	392,337	2,566,614
Disposals	–	(4,078)	(146,540)	(326,504)	(477,122)
Exchange adjustments	1,020,497	992,368	224,108	111,296	2,348,269
At 31 December 2007	**15,301,584**	**14,676,705**	**3,722,482**	**1,638,628**	**35,339,399**
Accumulated depreciation:					
At 1 January 2006	–	2,784,017	2,232,441	471,533	5,487,991
Charge for the year	964,468	879,474	236,627	234,007	2,314,576
Disposals	–	(20,101)	(38,631)	–	(58,732)
Exchange adjustments	21,396	120,806	69,468	22,422	234,092
At 31 December 2006	985,864	3,764,196	2,499,905	727,962	7,977,927
Charge for the year	1,233,372	1,144,620	157,439	285,809	2,821,240
Disposals	–	(2,149)	(131,886)	(114,619)	(248,654)
Exchange adjustments	124,482	327,080	156,821	61,187	669,570
At 31 December 2007	**2,343,718**	**5,233,747**	**2,682,279**	**960,339**	**11,220,083**
Net book value:					
At 31 December 2007	**12,957,866**	**9,442,958**	**1,040,203**	**678,289**	**24,119,316**
At 31 December 2006	12,063,664	9,183,591	942,919	733,537	22,923,711

The Group has pledged buildings and leasehold improvements with a carrying value of HK$9,737,000 at 31 December 2007 (2006: nil) to secure loan facilities granted to the Group.

The Group's buildings are located in the PRC under medium leases.

19. LAND USE RIGHTS

The Group	HK$
Cost:	
Additions	7,461,819
Exchange adjustments	310,077
At 31 December 2007	**7,771,896**
Accumulated amortisation:	
Charge for the year	136,800
Exchange adjustments	5,685
At 31 December 2007	**142,485**
Net book value:	
At 31 December 2007	**7,629,411**
Portion classified as current assets (included in trade and other receivables)	**(155,438)**
Non-current assets	**7,473,973**

The Group's interest in leasehold land is held in the PRC under a medium term lease of 50 years.

The land use rights have been pledged to secure borrowings of the Group (note 28).

20. GOODWILL

The Group	HK$
Cost:	
At 1 January 2006	1,953,127
Exchange adjustments	86,438
At 31 December 2006	2,039,565
Exchange adjustments	182,112
At 31 December 2007	**2,221,677**

Impairment of goodwill
The recoverable amount of the goodwill is determined based on the cash generating unit ("CGU") of the Group's sales network of biopharmaceutical products to which the goodwill belonged on the value in use basis. The calculation is based on the most recent financial budgets approved by management. The following key assumptions have been made for the purpose of analysis:

1. Gross margin ratio of 62% (2006: 62%)
2. Pre-tax discount rate of 14.3% (2006: 14.3%) per year
3. Average growth rate of 10% (2006: 10%)

Management determined the gross margin based mainly on past performance of the CGU. The discount rate is determined based on the PRC risk free interest rate adjusted by the specific risk associated with the CGU.

The recoverable amount of the goodwill determined in the above manner suggested that there was no impairment in the value of goodwill as at 31 December 2007 and 2006.

The directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

21. OTHER INTANGIBLE ASSETS

	Technical know-how HK$	Development expenditure HK$	Total HK$
The Group			
Cost:			
At 1 January 2006	211,398	7,003,097	7,214,495
Exchange adjustments	7,726	255,927	263,653
At 31 December 2006	219,124	7,259,024	7,478,148
Exchange adjustments	16,276	539,200	555,476
At 31 December 2007	**235,400**	**7,798,224**	**8,033,624**
Accumulated amortisation and impairment:			
At 1 January 2006	70,466	2,925,647	2,996,113
Charge for the year	71,456	271,229	342,685
Impairment loss	–	1,514,841	1,514,841
Exchange adjustments	4,161	112,934	117,095
At 31 December 2006	146,083	4,824,651	4,970,734
Charge for the year	75,336	285,957	361,293
Exchange adjustments	13,981	406,403	420,384
At 31 December 2007	**235,400**	**5,517,011**	**5,752,411**
Net book value:			
At 31 December 2007	**–**	**2,281,213**	**2,281,213**
At 31 December 2006	73,041	2,434,373	2,507,414

The technical know-how acquired from 中國農業科學院土壤肥料研究所 for the manufacture of agricultural fertilizers had a three years term commencing from 21 June 2004 for a consideration of RMB220,000 (equivalent to HK$211,193).

As at 31 December 2007, the directors reviewed the carrying value of the development expenditure and identified that the future economic benefits generated from certain projects to be not be less than its carrying value. Accordingly, no impairment loss (2006: HK$1,514,841) was recognised.

In addition to development costs capitalised, the Group expensed research and development costs of HK$492,377 during the year (2006: HK$479,952).

Total amortisation charges of HK$361,293 (2006: HK$342,685) are included in administrative expenses for the year.

22. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$	2006 HK$
Unlisted shares, at cost	**100,031**	100,031
Add : Amounts due from subsidiaries	**32,531,943**	34,713,472
Less : Amount due to a subsidiary	**(31)**	(31)
	32,631,943	34,813,472

As explained in note 3(e) to the financial statements, investments in a subsidiaries are stated at cost less impairment loss.

The amounts due from subsidiaries are unsecured, non-interest bearing and in substance represent the Company's investments in the subsidiaries in the form of quasi-equity loans.

Details of the Company's subsidiaries as at 31 December 2007 were as follows:–

Name of company	Place of incorporation and operations and legal entity status	Issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Essex Bio-Investment Limited	The British Virgin Islands, limited liability company	US$5	100%	–	Investment holding
Essex Bio-Pharmacy Limited	Hong Kong, limited liability company	HK$8,000,000	–	100%	Investment holding
Zhuhai Essex Bio-Pharmaceutical Company Limited	The People's Republic of China, limited liability company	RMB20,000,000	–	100%	Manufacture and selling of biopharmaceutical products
Essex Medipharma (Zhuhai) Company Limited	The People's Republic of China, limited liability company	RMB3,000,000	–	100%	Marketing and distribution of biopharmacetical products
Baoyuan Bio-Agri Technology (Yantai) Limited	The People's Republic of China, limited liability company	RMB11,020,000	–	51%	Research, development and production of organic and chemical formulated agricultural fertilisers

23. TRADING SECURITIES

The Group	2007 HK$	2006 HK$
Listed equity securities (at market value) – outside Hong Kong	–	1,766,267

24. INVENTORIES

The Group	2007 HK$	2006 HK$
Raw materials	16,773,725	2,863,194
Work in progress	391,774	848,333
Finished goods	2,523,271	2,010,436
	19,688,770	5,721,963

The cost of inventories recognised as an expense during the year was HK$82,837,766 (2006: HK$34,132,253).

25. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007 HK$	2006 HK$	2007 HK$	2006 HK$
Trade receivables	23,687,850	17,552,334	–	–
Less: allowance for doubtful debts	(2,720,395)	(2,290,896)	–	–
Trade receivables – net	20,967,455	15,261,438	–	–
Other receivables	4,081,958	2,124,915	3,100,400	100,400
Less: allowance for doubtful debts	(986,516)	(1,095,863)	(800,000)	–
Other receivables – net	3,095,442	1,029,052	2,300,400	100,400
Deposits and prepayments	18,047,575	7,859,963	269,830	279,050
Land use rights-current portion	155,438	–	–	–
	42,265,910	24,150,453	2,570,230	379,450

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

25. TRADE AND OTHER RECEIVABLES *(Continued)*

(ii)(a) The movements in allowance for doubtful debts for trade receivables during the year are as follows:

	The Group		**The Company**	
	2007	2006	**2007**	2006
	HK$	*HK$*	***HK$***	*HK$*
At beginning of year	**2,290,896**	1,947,741	**–**	–
Impairment loss recognised	**313,164**	266,109	**–**	–
Uncollectible amounts written off	**(64,217)**	–	**–**	–
Exchange adjustments	**180,552**	77,046	**–**	–
At end of year	**2,720,395**	2,290,896	**–**	–

The provision of HK$2,720,395 (2006: HK$2,290,896) has been made for estimated irrecoverable amounts from the sale of goods. This provision has been determined by reference to past default experience.

The following is an ageing analysis of trade receivables, net of allowance for doubtful debts, as of the balance sheet date:

	The Group	
	2007	2006
	HK$	*HK$*
0-60 days	**9,693,235**	7,491,272
61-90 days	**3,298,793**	1,891,158
> 90 days	**7,975,427**	5,879,008
	20,967,455	15,261,438

(ii)(b) The movements in allowances for doubtful debts for other receivables during the year were as follows:

	The Group		**The Company**	
	2007	2006	**2007**	2006
	HK$	*HK$*	***HK$***	*HK$*
At beginning of year	**1,095,863**	1,063,817	**–**	–
Impairment loss recognised	**800,000**	–	**800,000**	–
Uncollectible amounts written off	**(912,999)**	–	**–**	–
Exchange adjustments	**3,652**	32,046	**–**	–
At end of year	**986,516**	1,095,863	**800,000**	–

The provision of HK$986,516 (2006: HK$1,095,863) has been made for estimated irrecoverable amounts. This provision has been determined by the directors based on subsequent settlement position and knowledge of the borrowers.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

(iii)(a) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$	*HK$*	***HK$***	*HK$*
Neither past due nor impaired	**12,992,028**	9,382,430	**–**	–
Less than 3 months past due	**7,347,975**	5,297,325	**–**	–
	20,340,003	14,679,755	**–**	–

Trade receivables that are neither past due nor impaired relate to a wide range of customers for whom there is no recent history of default.

Trade receivables that are past due but not impaired relate to a number of independent customers that have a good repayment track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(iii)(b) The ageing analysis of other receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$	*HK$*	***HK$***	*HK$*
Neither past due nor impaired	**895,442**	911,911	**100,400**	100,400

Other receivables that were neither past due nor impaired relate to deposits and advances to various parties for whom there was no recent history of default.

26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$	*HK$*	***HK$***	*HK$*
Cash and bank balances	**31,300,032**	17,740,730	**52,731**	482,783
Time deposits	**7,071,056**	5,359,853	**7,071,056**	249,928
	38,371,088	23,100,583	**7,123,787**	732,711
Pledged deposits	**5,703,100**	8,500,000	**–**	8,500,000
	44,074,188	31,600,583	**7,123,787**	9,232,711

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods within three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The carrying amount of the cash and cash equivalents approximate to their fair values.

26. CASH AND CASH EQUIVALENTS *(Continued)*

As at 31 December 2007, cash and bank balances denominated in RMB amounted to approximately HK$36,200,000 (2006: approximately HK$16,900,000). 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.

Bank deposits with a carrying amount of HK$5,703,100 (2006: HK$8,500,000) have been pledged to a bank to secure bank facilities granted to the Group.

27. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$	*HK$*	***HK$***	*HK$*
Trade payables	**7,270,181**	858,320	**–**	–
Other payables	**4,250,180**	3,297,894	**–**	–
Accruals	**11,246,441**	8,778,154	**1,363,439**	1,083,649
VAT payable	**3,108,099**	2,397,392	**–**	–
Deposits received	**3,262,548**	1,540,301	**–**	–
	29,137,449	16,872,061	**1,363,439**	1,083,649

Trade payables principally comprise amounts outstanding for trade purchases.

The Group's operating subsidiaries in the PRC are subject to 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.

The following is an ageing analysis of trade payables at the balance sheet date:

	The Group	
	2007	2006
	HK$	*HK$*
0-60 days	**7,124,050**	858,200
61-90 days	**71,561**	–
> 90 days	**74,570**	120
	7,270,181	858,320

28. SHORT-TERM BANK AND OTHER BORROWINGS

	2007 *HK$*	2006 *HK$*
The Group		
Bank and other loans repayable within one year:		
Secured loans	**22,470,000**	4,980,080
Unsecured loan	**6,420,000**	–
	28,890,000	4,980,080

The Group has four bank and other loans:

(i) A loan of HK$8,560,000 was advanced in April 2007 and is due for repayment in April 2008. The loan is secured by a charge over certain of the Group's land and properties (notes 18 and 19). The loan carries fixed interest at 7.029% per annum.

(ii) A loan of HK$5,350,000 was advanced in November 2007 and is due for repayment in November 2008. The loan is secured by a charge over certain of the Group's land and properties (notes 18 and 19). The loan carries fixed interest at 8.019% per annum.

(iii) A loan of HK$8,560,000 was advanced in December 2007 and is due for repayment in December 2008. The loan is secured by a charge over certain of the Group's land and properties (notes 18 and 19). The loan carries fixed interest rate at 8.019% per annum.

(iv) A loan of HK$6,420,000 was advanced in March 2007 and is repayable on demand. The loan carries fixed interest rate at 9.8% per annum.

29. SHARE CAPITAL

	Number of ordinary shares of HK$0.10 each	**Amount** *HK$*
The Company		
Authorised:		
At 31 December 2007 and 2006	1,000,000,000	100,000,000
Issued and fully paid:		
At 31 December 2007 and 2006	556,750,000	55,675,000

30. RESERVES

	Share premium *HK$*	Accumulated losses *HK$*	Total *HK$*
The Company			
At 1 January 2006	969,871	(12,739,913)	(11,770,042)
Net loss for the year	–	(562,974)	(562,974)
At 31 December 2006	969,871	(13,302,887)	(12,333,016)
Net loss for the year	–	(2,379,463)	(2,379,463)
At 31 December 2007	969,871	(15,682,350)	(14,712,479)

The nature and purpose of each reserve are set out below.

(i) Capital reserve

The reserve represented the discount on acquisition of a subsidiary arising in prior years.

(ii) Statutory surplus reserve

In accordance with the PRC Companies Law, the Company and its PRC subsidiaries were 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 (until such reserve reaches 50% of the registered capital of the respective companies). The statutory surplus reserve is non-distributable and can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital. In 2007, a PRC subsidiary transferred HK$1,360,453 (2006: HK$2,410,150) to the statutory surplus reserve which represents 10% of the PRC subsidiary's profit after tax.

(iii) Foreign currency translation reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(q).

31. MAJOR NON-CASH TRANSACTION

Deposit paid for acquisition of inventories amounted to HK$6,238,000 was settled by bills payable which was included in trade and other payables.

32. SHARE OPTION SCHEME

On 20 June 2003, a share option scheme was approved. The purpose of the share option scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option 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 this 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 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 share option 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.

As at balance sheet date, no share option was outstanding under this share option scheme.

33. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group	
	2007	2006
	HK$	*HK$*
Acquisition of property, plant and equipment:		
Contracted for	**37,450**	529,820

34. OPERATING LEASE ARRANGEMENTS

Minimum lease payments paid under operating leases recognised as an expense in the year were as follows:–

	2007 HK$	2006 HK$
Properties	937,656	1,796,836
Plant and machinery and others	231,120	229,617
	1,168,776	2,026,453

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases were payable as follows:–

	2007		2006	
	Properties HK$	Plant and machinery and others HK$	Properties HK$	Plant and machinery and others HK$
The Group				
Within 1 year	921,206	267,496	1,485,006	249,001
After 1 year but within 5 years	1,842,412	405,984	4,583,165	626,915
After 5 years	–	–	6,274,800	–
	2,763,618	673,480	12,342,971	875,916

Operating lease payments represent rentals payable by the Group on certain properties and plant and equipment. Leases are negotiated for a term of between 3 to 5 years at fixed rent.

35. CAPITAL RISK MANAGEMENT

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debts as total debt (which includes interest-bearing loans and borrowings and trade and other payables) less cash and cash equivalents. Adjusted capital comprises all components of equity.

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debts.

35. CAPITAL RISK MANAGEMENT *(Continued)*

The net debt-to-adjusted capital ratio at 31 December 2006 and 2007 was as follows:

	2007	2006
	HK$	*HK$*
Current liabilities		
Trade and other payables	**29,137,449**	16,872,061
Bank and other borrowings	**28,890,000**	4,980,080
Total debts	**58,027,449**	21,852,141
Less: Cash and cash equivalents	**(38,371,088)**	(23,100,583)
Net debts/(assets)	**19,656,361**	(1,248,442)
Adjusted capital	**82,892,806**	68,076,129
Net debt-to-adjusted capital ratio	**23.71%**	N/A

36. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group' financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers. Normally, the Group does not obtain collateral from customers.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The Group defines counterparties as have similar characteristics if they are related entities.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

36. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Liquidity risk *(Continued)*

	Carrying amount *HK$*	Total contractual undiscounted cash flow *HK$*	Within 1 year or on demand *HK$*
2007			
Trade and other payables	29,137,449	29,137,449	–
Bank and other borrowings	28,890,000	30,799,412	30,799,412
	58,027,449	59,936,861	30,799,412
2006			
Trade and other payables	16,872,061	16,872,061	–
Bank and other borrowings	4,980,080	5,160,707	5,160,707
	21,852,141	22,032,768	5,160,707

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rate and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively. The Group's interest rate profile as monitored by management is set out below.

The Group's fair value interest-rate risk mainly arises from borrowings as disclosed in note 28. Borrowings were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The following table details the interest rate profile of the Group's borrowings at the balance sheet date.

	2007		2006	
	Effective interest rate %	***HK$***	Effective interest rate %	*HK$*
Fixed rate borrowings				
Bank and other borrowings	**7.03-9.8**	**28,890,000**	7.25	4,980,080
Fixed rate borrowings as a percentage of total net borrowings		**100%**		100%

The interest rates and terms of repayment of the Group's borrowings are disclosed in note 28 to the financial statements.

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after taxation and retained profits by approximately HK$133,753 (2006: HK$12,450).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

36. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Currency risk

The Group mainly operated in the PRC with most of the transactions settled in Renminbi and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

(e) Price risk

The Group is not exposed to any equity securities risk (after the disposal of its trading securities in 2007) or commodity price risk.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007	2006
	HK$	*HK$*
Financial assets		
Fair value through profit or loss		
– Trading securities	**–**	1,766,267
Loans and receivables (including cash and bank balances)	**86,184,660**	55,751,036
Financial liabilities		
Financial liabilities measured at amortised cost	**58,027,449**	21,852,141

38. RELATED PARTY TRANSACTIONS

(a) Members of key management during the year comprised the three executive directors whose remuneration is set out in note 11 to the financial statements.

(b) The immediate holding and ultimate holding company of the Company is Essex Holdings Limited which was incorporated in Hong Kong.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2008.

Five Year Financial Summary

The following is a summary of the consolidated results and of the assets and liabilities of the Group, prepared on the basis set out in notes 1 to 3 below:

	Year ended 31 December				
	2007	2006	2005	2004	2003
RESULTS	***HK$***	*HK$*	*HK$*	*HK$*	*HK$*
TURNOVER					
Continuing operations	**152,674,582**	82,789,684	49,197,291	38,906,928	37,478,872
Discontinuing operations	**–**	–	–	–	107,388
	152,674,582	82,789,684	49,197,291	38,906,928	37,586,260
Cost of sales	**(82,837,766)**	(34,132,253)	(7,534,672)	(4,399,848)	(18,004,125)
Gross profit	**69,836,816**	48,657,431	41,662,619	34,507,080	19,582,135
Other revenue	**6,069,849**	2,630,079	1,081,416	2,008,222	868,584
Other gains and losses	**(718,562)**	(882,405)	10,091,869	4,796,541	(848,178)
Distribution and selling costs	**(47,345,905)**	(32,703,045)	(27,747,759)	(23,311,697)	(20,429,200)
Administrative expenses	**(14,504,807)**	(12,894,462)	(9,494,094)	(10,387,657)	(19,037,341)
Profit/(loss) from operations					
Continuing operations	**13,337,391**	4,807,598	15,594,051	7,612,489	(14,550,087)
Discontinuing operations	**–**	–	–	–	(5,313,913)
Finance costs	**(1,214,357)**	(262,635)	(46,298)	(7,850)	(297,822)
Profit/(loss) before taxation	**12,123,034**	4,544,963	15,547,753	7,604,639	(20,161,822)
Taxation	**(1,121,108)**	(781,686)	–	–	–
NET PROFIT/(LOSS) FOR THE YEAR	**11,001,926**	3,763,277	15,547,753	7,604,639	(20,161,822)
Attributable to:					
Equity holders of the Company	**10,550,164**	4,559,511	15,426,970	7,604,639	(18,355,091)
Minority interests	**451,762**	(796,234)	120,783	–	(1,806,731)
	11,001,926	3,763,277	15,547,753	7,604,639	(20,161,822)

ASSETS AND LIABILITIES

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Non–current assets	**36,096,179**	27,470,690	17,179,547	13,944,963	14,903,436
Current assets	**106,028,868**	63,239,266	58,699,670	37,410,985	30,252,849
Current liabilities	**(59,232,241)**	(22,633,827)	(13,236,253)	(9,808,426)	(11,086,760)
Net current assets	**46,796,627**	40,605,439	45,463,417	27,602,559	19,166,089
Non–current liabilities	**–**	–	–	–	(72,534)
Net assets	**82,892,806**	68,076,129	62,642,964	41,547,522	33,996,991

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 consolidated results of the Group for the years ended 31 December 2005, 2004 and 2003 are extracted from the published audited financial statements for these years. The consolidated results of the Group for the years ended 31 December 2007 and 2006 are as set out on page 20 of the audited financial statements.

2. The consolidated balance sheets as at 31 December 2005, 2004 and 2003 are extracted from the published audited financial statements for the years ended 31 December 2005, 2004 and 2003, prepared on the basis as if the Group had been in existence for these years. The consolidated balance sheets of the Group as at 31 December 2007 and 2006 are as set out on page 21 of the audited financial statements.