ESSEX BIO-TECHNOLOGY LIMITED

億 勝 生 物 科 技 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 1061)

ANNUAL REPORT 2012

Contents

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

Audit Committee

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

Remuneration Committee

Yeow Mee Mooi (Chairperson)
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

Nomination Committee

Yeow Mee Mooi (Chairperson)
Ngiam Mia Je Patrick
Fung Chi Ying
Mauffrey Benoit Jean Marie

Corporate Governance Committee

Yeow Mee Mooi (Chairperson)
Zhong Sheng
Fung Chi Ying
Mauffrey Benoit Jean Marie

Company Secretary

Yau Lai Man MBA, ACA, CPA (practising)

Authorised Representatives

Zhong Sheng
Yau Lai Man

Auditor

BDO Limited

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 in Hong Kong

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

Headquarters in the PRC

No.88
Keji 6th Road
Hi-Tech Zone
Zhuhai
Guangdong, China

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Share Registrar

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

Principal Bankers

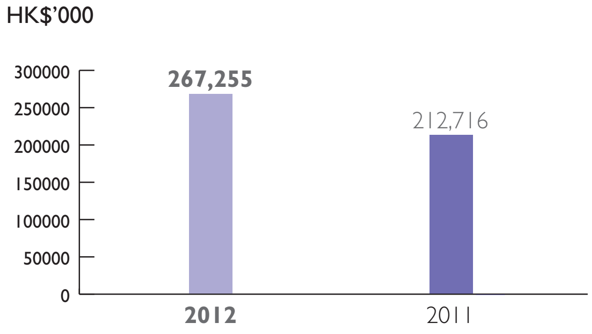
Bank of China (Hong Kong) Limited
Bank of Communications
China Merchants Bank
Industrial and Commercial Bank of China (Asia) Limited

Stock Code

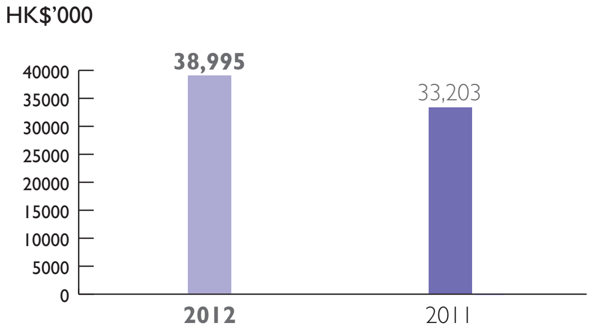
01061

	2012 HK$'000	2011 HK$'000	% Change
Turnover	**267,255**	212,716	25.6
Profit attributable to owners of the Company	**38,995**	33,203	17.4
Basic earnings per share (HK cents)	**7.00**	5.96	17.4
Cash and cash equivalents	**59,831**	36,812	62.5

Turnover



Profit attributable to owners of the Company



On behalf of the board of directors (the "Board") of Essex Bio-Technology Limited (the "Company"), I am pleased to present the results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012.

Ngiam Mia Je Patrick
Chairman

Overall Results

The Group achieved a steady operational growth for the year ended 31 December 2012 with a turnover of approximately HK$267.3 million, representing a 25.6% improvement over last year. Profit attributable to owners of the Company for the year ended 31 December 2012 has increased to approximately HK$39.0 million, representing an increase of 17.4% from approximately HK$33.2 million for the year ended 31 December 2011. We have experienced a steady and continuous growth in turnover and profit over 2012, akin to performances achieved in past years. It was attributed to wider market coverage and sustaining clinical acceptance of the Group's core biopharmaceutical products.

Construction of New Factory

The furnishings of the new factory in Zhuhai, the People's Republic of China (the "PRC") was completed in late 2012. The back office operation of the Group in China has been relocated to the new factory premises in January 2013. We are in the process of commissioning the production facilities to achieve specifications of all the original equipment manufacturers and obtaining Good Manufacturing Practice ("GMP") certification under the regulatory requirements of the State Food and Drug Administration ("SFDA") of the PRC. Such works are targeted for completion by the end of 2013. The new factory offers a total manufacturing floor area of approximately 20,000 sq.m., representing an increase of approximately 15,000 sq.m. over that of the previous factory premises. The additional space and facilities at the new factory will allow for the Group's future operational expansion, in both the research and development capability and manufacturing capacity for reaching greater competitiveness and economies of scale of the Group.

Sales and Distribution Network

The Group established both direct and indirect sales and distribution network in the PRC. Currently, the Group has a total of 28 regional sales offices ("RSOs") throughout major cities and provinces in the PRC. Sales staff is primarily seconded from or employed by our head office to RSOs to directly market our products in the relevant regions. With the RSOs, the Group is able to effectively promote its products to hospitals and various medical practitioners. In addition, it enables real-time monitoring of clinical and sales results.

Outlook and Prospects

China is set to improve healthcare availability to its populations of more than 1.3 billion, and its healthcare industry is expected to expand. With our proven products and established network of distribution in place, the Group is well poised for growth in the coming years, barring any unforeseen economic adversities and circumstances.

The Group remains committed to prudently and pragmatically channeling its resources and investments in new markets and products development that will contribute to near-term growth and harness long-term sustainability for its core business.

In addition, we will continue to seek sound investment opportunities to expand the Group's business progressively and to achieve synergistic benefits to its current operations, with a view to enhance the Group's competitiveness and shareholders value.

Appreciation

In appreciation to the shareholders' continued support, the Board has recommended a final dividend of HK$0.01 per share for the year ended 31 December 2012.

I would like to take this opportunity to thank our shareholders, business associates, our valued customers and every member of the Group for their support and contributions.

Ngiam Mia Je Patrick
Chairman

Hong Kong
22 March 2013

Profiles Of Directors And Senior Management

Ngiam Mia Je Patrick

Aged 58, Mr. Ngiam is the founder of the Group (which was established in February 1999), an executive Director and Chairman of the Company. He is a member of the remuneration committee and nomination committee of the Company, a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company. Mr. Ngiam is also a director of Essex Holdings Limited which has 51.81% interest in the share capital of the Company under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinances.

Mr. Ngiam graduated in electronics engineering and has received many accolades and awards for his achievements. Notably, in 1990, he was awarded the first KPMG Singapore High Tech Entrepreneur Award. Other awards include the DHL & Singapore Press Holdings Business Award for Businessman of the Year in 1994 and the Chevalier DE L' ORDRE NATIONAL DU MERITE conferred by Le President De La Republique Francaise in 1996.

Fang Haizhou

Aged 47, Mr. Fang is the executive Director, 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 Bio-Pharmaceutical Company Limited since its establishment in June 1996. Fang Haizhou is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited, Essex Medipharma (Zhuhai) Company Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company.

Zhong Sheng

Aged 48, 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 sixteen year experience in financial management and project management. Mr. Zhong is also a director of Essex Bio-Investment Limited, Essex Bio-Pharmacy Limited and Zhuhai Essex Bio-Pharmaceutical Company Limited, all being subsidiaries of the Company. Mr. Zhong is also a member of the corporate governance committee and an authorised representative of the Company. Mr. Zhong is a director of Essex Holdings Limited which has 51.81% interest in the share capital of the Company under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Fung Chi Ying

Aged 58, Mr. Fung was appointed as independent non-executive Director on 13 June 2001. Mr. Fung is a practising solicitor in Hong Kong. He is presently a partner of Adrian Yeung & Cheng, Solicitors. Mr. Fung is also the chairman of the audit committee and a member of the remuneration committee, nomination committee and corporate governance committee of the Company.

Mauffrey Benoit Jean Marie

Aged 60, Mr. Mauffrey was appointed as independent non-executive Director 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, nomination committee and corporate governance committee of the Company.

Yeow Mee Mooi

Aged 50, Ms. Yeow was appointed as independent non-executive Director on 30 September 2004. Ms. Yeow graduated from The University of Southwestern Louisiana, the United States of America, with a bachelor degree in business administration. Ms. Yeow further obtained her postgraduate diploma in financial management from The University of New England, Australia. Ms. Yeow is a certified practising accountant of The Hong Kong Institute of Certified Public Accountants and The Australian Society of Certified Practising Accountants. Ms. Yeow has over 21 years' taxation, auditing and commercial experience in Hong Kong. Ms. Yeow is now a director of a management consulting firm in Hong Kong. She is also the chairperson of the remuneration committee, nomination committee and corporate governance committee and a member of the audit committee of the Company.

Wang Xinzhi

Aged 49, Mr. Wang joined the Group on 10 November 2000 and was appointed as general manager of Zhuhai Essex Bio-Pharmaceutical Company Limited and Essex Medipharma (Zhuhai) Company Limited, both being subsidiaries of the Company, on 1 January 2011. Mr. Wang has a Master's degree in Genetics from 復旦大學 (Fudan University) and has extensive corporate management and marketing experience in several industries in the PRC.

The vision of the Group is to be a great corporation and be socially responsible. Strategically, the Group is in pursuit of innovations in biotechnology and pharmaceuticals to enhance the efficacy of healing and wellness of patients.

Through pragmatic reseach and development, the Group has successfully commercialised five rb-bFGF biopharmaceuticals in the PRC, which are for the treatment and healing of skin and eye wounds.

Sales and distribution network of the Group

On sales and marketing, the Group has cultivated a network of independent agents/distributors and established directly owned regional sales offices ("RSOs"). Currently, the Group has a total of 28 RSOs based throughout major cities and provinces in the PRC. With the RSOs, the Group is able to proactively direct its promotional programme for its products to hospitals and various medical practitioners in the PRC. In addition, it enables real-time monitoring of clinical and sales results.

The Group remains committed to prudently and pragmatically channeling its resources and investments in new markets and products development that will contribute to near-term growth and harness long-term sustainability for its core business. In addition, the Group will continue to seek sound investment opportunities to expand its business progressively and to achieve synergistic benefits to its current operations, with a view to enhance the Group's competitiveness and shareholders value.

The year 2012 was a very eventful year for the Group. The furnishings of the new factory in the PRC was completed in late 2012. The back office operation of the Group in China has been relocated to the new factory premises in January 2013. We are in the process of commissioning the production facilities to achieve specifications of all the original equipment manufacturers and obtaining GMP certification under the regulatory requirements of the SFDA of the PRC. Such works are targeted for completion by the end of 2013. The new factory offers a total manufacturing floor area of approximately 20,000 sq.m., representing an increase of approximately 15,000 sq.m. over that of the previous factory premises. The additional space and facilities at the new factory will allow for the Group's future operational expansion, in both the research and development capability and manufacturing capacity for reaching greater competitiveness and economies of scale of the Group.

Seminar on the clinical applications of Beifuji held on 11 February, 2012

Seminar on the clinical applications of Beifuxin in wound healing held on 18 August, 2012 in Zhejiang Province

Business Review and Prospects

During the year under review, the Group focused primarily on manufacturing and selling of biopharmaceutical products for the treatment and healing of surface wounds and eye wounds. The Group was also engaged in the research and development of bFGF products for new indications, as well as other ophthalmic pharmaceutical projects.

The Group's revenue for the year ended 31 December 2012 increased by 25.6% to approximately HK$267.3 million (2011: HK$212.7 million), primarily driven by revenue growth from our flagship biopharmaceutical products, Beifushu and Beifuji. The year-on-year revenue growth is a proof of our strong distribution network and the clinical proven efficacy of the products.

The Group's years of relentless efforts and investments in market cultivation and, in particular, the search for new clinical applications of the products, have enabled the Group to gain stronger foothold for sustainable growth prospects.

Market Development

The Group established both a direct and indirect sales and distribution network in the PRC. Currently, the Group has a total of 28 regional sales offices ("RSOs") throughout major cities and provinces in the PRC. Sales staff is primarily seconded from or employed by head office to RSOs to directly market our products in the relevant regions. With the RSOs, the Group is able to effectively promote its products to hospitals and various medical practitioners. In addition, it enables real-time monitoring of clinical and sales results.

The Group's flagship pharmaceutical products are being prescribed by around 2,000 hospitals in major cities and provinces in the PRC.

To cultivate wider market coverage for reaching out to potential patients of the Group's biopharmaceutical products, the Group has conducted and/or participated in over 210 seminars and 635 market promotion activities in major cities and provinces in the PRC during the year under review, educating and briefing more than 62,000 doctors and medical practitioners on the clinical applications of the Group's products.

Management Discussion And Analysis

Research and Development

The Group's technology platform is built upon the recombinant of DNA ("rDNA"), in particular, the basic fibroblast growth factor ("bFGF"). Proliferating new products by employing the proprietary technique on bFGF for new application and higher quality standards for maintaining the Group's leading position in the field.

The Group has been making relentless efforts and investments in creating a portfolio of eye care and treatment products, amongst others. It is the Group's aim to become a key player in the eye care and treatment arena in the PRC in years to come.

Five patents related to the use of bFGF were granted to the Group during the year under review.

Financial Review

During the year ended 31 December 2012, the Group maintained its continuous growth, with a turnover for the year ended 31 December 2012 reaching approximately HK$267.3 million, representing an increase of 25.6% as compared with approximately HK$212.7 million in the preceding year.

Overall gross profit for the year ended 31 December 2012 increased by approximately 26.6% to approximately HK$243.7 million when compared to approximately HK$192.4 million recorded in the preceding year.

Profit attributable to the owners of the Company for the year ended 31 December 2012 increased by 17.4% to approximately HK$39.0 million as compared to approximately HK$33.2 million in the preceding year.

Distribution and selling expenses increased to approximately HK$168.0 million for the year ended 31 December 2012 when compared to approximately HK$133.6 million recorded in the preceding year, including higher expenses incurred in sales, marketing and promotional activities in support of the expansion of biopharmaceutical business.

Administrative expenses rose by 34.5% to approximately HK$26.8 million in the year ended 31 December 2012 when compared to approximately HK$19.9 million recorded in the year ended 31 December 2011. The increase was in line with the continuous expansion of the operations. The addition of new products for development has resulted in the increase of research and development expenses to approximately HK$11.0 million in 2012 as compared to approximately HK$7.9 million in 2011.

The Group had cash and cash equivalents of approximately HK$59.8 million as at 31 December 2012 (2011: HK$36.8 million). As at 31 December 2011, the pledged bank deposits of RMB15.5 million (equivalent to HK$18.9 million) were pledged to a bank for the guarantees of the construction agreement in respect of the construction work of the factory in Zhuhai and acquisition of plant and machinery from overseas suppliers. It was released before the end of 2012.

The Group obtained bank loans of RMB60 million (equivalent to approximately HK$73.8 million) at prevailing interest rate. The financing from bank was mainly for the purpose of acquiring new plant and machinery as well as providing general working capital to the Group. RMB30 million of these borrowings were unsecured and repayable within one year. The remaining RMB30 million were secured by certain assets of the Group's subsidiary with carrying value of HK$107.1 million as at 31 December 2012. The total finance costs of the Group for the year ended 31 December 2012 were HK$3.0 million, from which HK$1.3 million was capitalised in construction in progress and HK$1.7 million was charged to profit or loss during the year.

Future Plans for Material Investments or Capital Assets

We are in the process of commissioning the production facilities in the new factory to achieve specifications of all the original equipment manufacturers and obtaining GMP certification under the regulatory requirements of the SFDA of the PRC. Such works are targeted for completion by end of 2013.

The source of funding for the furnishings of the new factory and acquisition of new facilities, plant and equipment will come from the Group's internal sources and bank borrowings.

Liquidity and Financial Resources

As at 31 December 2012, the Group had cash and cash equivalents of approximately HK$59.8 million as compared to approximately HK$36.8 million as at 31 December 2011.

The Group had no pledged bank deposits as at 31 December 2012. As at 31 December 2011, the pledged bank deposits of RMB15.5 million (equivalent to HK$18.9 million) were pledged to a bank for the guarantees of the construction agreement in respect of the construction work of the factory in Zhuhai and acquisition of plant and machinery from overseas suppliers. It was released before the end of 2012.

The Group monitors its capital structure on the basis of a net debts-to-adjusted capital ratio. For this purpose, the Group defines net debts as total debts (which include interest-bearing loans and borrowings and trade and other payables) less cash and cash equivalents. Adjusted capital comprises all components of equity. The net debts-to-adjusted capital ratio at 31 December 2012 was 36.6% (2011: 8.3%).

Charges on Group Assets

As at 31 December 2012, the Group's certain assets with carrying amount in aggregate of approximately HK$107.1 million were pledged to secure its bank facility.

Commitments

As at 31 December 2012, the Group had contracted capital commitments of approximately HK$16.4 million (2011: HK$20.8 million).

Contingent Liabilities

As at 31 December 2012, the Group did not have any significant contingent liabilities (2011: Nil).

Foreign Exchange Exposure

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

Treasury Policy

The Group generally financed its operations with internally generated cash flows, bank and other borrowings. The Group placed these resources into interest-bearing bank accounts opened with PRC and Hong Kong banks and earned interests in accordance with the PRC and Hong Kong banks rates. Bank deposits were mainly denominated in Renminbi and Hong Kong Dollar.

Employees

As at 31 December 2012, the Group had a total of 409 full-time employees. The aggregate remuneration of the Group's employees, including that of the Directors, for the year under review and the preceding year amounted to approximately HK$24.4 million and approximately HK$20.6 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 depending on the financial performance of the Group. Details of the share option scheme of the Company are disclosed in note 33 to the financial statements.

Each of the three executive Directors has entered into a service agreement with the Company whereby each of them had been appointed to act as an executive Director for a term of three years commencing from 27 June 2010 and expiring on 26 June 2013 unless terminated (without cause) by the Company giving not less than six months' prior written notice to the relevant Director. The executive Directors shall not be entitled to terminate their respective appointments at any time during the term unless with the written consent of the Company deliberated by the board of Directors. The annual remuneration of the executive Directors was fixed in the respective service agreements and each of the executive Directors is also entitled to a discretionary management bonus to be determined having regard to the operating results of the Group and his performance in the relevant financial year, provided that the aggregate amount of such management bonuses payable to all executive Directors in any financial year shall not exceed 6% of the consolidated net profits after taxation and non-controlling interests but before extraordinary items of the Company for such financial year and that the said consolidated net profits for such year exceeds HK$5,000,000. Such management bonuses shall be payable within three months after the issue 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.

The directors (the "Directors") of the Company are pleased to present their report and the audited financial statements of the Company and the consolidated financial statements of the Group for the year ended 31 December 2012.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 34 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 2012 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 32 to 82. The Directors have recommended the payment of a final dividend of HK$0.01 per share for the financial year ended 31 December 2012 to the shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 15 May 2013. The final dividend will be payable on 27 May 2013.

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 30 April 2013 to Friday, 3 May 2013, both days inclusive, for ascertaining shareholders' right to attend and vote at the forthcoming annual general meeting to be held on Friday, 3 May 2013. During this period, no transfer of shares will be registered. In order to be entitled to attend the annual general meeting, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 29 April 2013.

The register of members of the Company will be closed from Monday, 13 May 2013 to Wednesday, 15 May 2013 for ascertaining shareholders' entitlement to the proposed final dividend. No transfer of shares will be registered during this period. In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting to be held on Friday, 3 May 2013, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Hong Kong share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 10 May 2013.

Report Of The Directors

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 83 to 84. 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 under review 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 under review. Details of the Company's share capital and details of the Company's share option schemes are set out in notes 30 and 33 respectively to the financial statements.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient prescribed public float under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

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 under review are set out in note 31 to the financial statements and in the consolidated statement of changes in equity on page 35, respectively.

Distributable Reserves

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands as detailed in note 31 to the financial statements, amounted to HK$4,842,609. Before the date of this report, subsidiaries of the Company had declared dividends to the Company and the Company's reserves available for distribution, calculated in accordance with the relevant provisions of the Companies Law of the Cayman Islands, amounted to HK$11,842,609, of which HK$5,567,500 has been proposed as a final dividend for the year.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for approximately 35.1% of the Group's total sales for the year and sales to the largest customer included therein accounted for approximately 20.1% of the Group's total sales.

Purchases from the Group's five largest suppliers accounted for approximately 67.4% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 19.1% 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, Ngiam Mia Je Patrick and Fung Chi Ying will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting to be held on Friday, 3 May 2013.

Directors' Service Contracts

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from 27 June 2010 and expiring on 26 June 2013 unless terminated (without cause) by the Company giving not less than six months' prior written notice to the relevant Director. The executive Directors shall not be entitled to terminate their respective appointments 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 on page 21 of this 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 in Sections 161 and 161A of the Companies Ordinance (Chapter 32, Laws of Hong Kong).

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 or any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

Directors' Interests in Contracts of Significance

No contract of significance in relation to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year under review.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name	Capacity	Number of ordinary shares in the Company	Approximate percentage of interest in the Company's issued share capital as at 31 December 2012
Ngiam Mia Je Patrick	Beneficial owner and interests of controlled corporations	297,374,667 *(Notes 1, 2 and 3)*	53.41%
Fang Haizhou	Beneficial owner	4,738,300	0.85%
Zhong Sheng	Beneficial owner	2,869,150	0.52%

Notes:

1. *2,250,000 shares were registered in the name of Ngiam Mia Je Patrick.*

2. *288,458,000 shares were held by Essex Holdings Limited ("Essex Holdings") which was 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.*

3. *6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which was wholly owned by Essex Investment (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares, 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.*

Long positions in ordinary shares of the associated corporation of the Company:

Name	Capacity	Associated corporation	Number of ordinary shares in associated corporation	Approximate percentage of interest in the issued share capital of the associated corporation
Ngiam Mia Je Patrick	Beneficial owner	Essex Holdings Limited	5,000	50.00%

Save as disclosed above, as at 31 December 2012, none of the Directors and the chief executive of the Company or their respective associates had any interest and short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the Part XV of the SFO) which 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 Model Code.

Directors' Rights to Acquire Shares or Debentures

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 the acquisition of shares or underlying shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouses or minor children to acquire such rights in the Company or any other body corporate.

Substantial Shareholders and Other Persons Who Are Required to Disclose Their Interests Pursuant to Part XV of the SFO

As at 31 December 2012, the following persons or entities, other than a Director or chief executive of the Company had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in ordinary shares of the Company:

Name	Capacity	Number of ordinary shares in the Company	Approximate percentage of interest in the Company's issued share capital as at 31 December 2012
Essex Holdings Limited	Beneficial owner	288,458,000	51.81%
Ngiam Mia Kiat Benjamin	Beneficial owner and interests of controlled corporations	295,449,667 *(Note 1)*	53.07%
Lauw Hui Kian	Family interest	297,374,667 *(Note 2)*	53.41%

Notes:

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

   (b) *288,458,000 shares were held by Essex Holdings which was owned as to 50% by Ngiam Mia Je Patrick and as to 50% by Ngiam Mia Kiat Benjamin. Therefore, Ngiam Mia Kiat Benjamin 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.*

   (c) *6,666,667 shares were held by Dynatech which was wholly owned by Essex Singapore, which in turn was owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares. Therefore, Ngiam Mia Kiat Benjamin 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.*

2. *Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director). Lauw Hui Kian was deemed to be interested in the shares in which Ngiam Mia Je Patrick was interested. Ngiam Mia Je Patrick was interested in 297,374,667 shares of the Company.*

Save as disclosed above, as at 31 December 2012, no other persons or entities (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 Positions in Shares, Underlying Shares and Debentures" above) had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept under Section 336 of the SFO.

Connected and Related Party Transactions

Details of the related party transactions for the year under review are set out in note 39 to the financial statements. There were no transactions during the year to be disclosed as connected and related party transactions in accordance with the requirements of the Listing Rules and accounting principles generally accepted in Hong Kong.

Competition and Conflict of Interests

None of the Directors and substantial shareholders of the Company and 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 or has any other conflict of interests with the Group during the year under review which are required to be disclosed under the Listing Rules.

Auditor

BDO Limited will retire and a resolution for the re-appointment of auditor of the Company will be proposed at the forthcoming annual general meeting to be held on Friday, 3 May 2013.

Corporate Governance

The Company has complied with the code provisions of the Code on Corporate Governance Practices (effective up to 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 to the Listing Rules throughout the year under review. Please refer to the Corporate Governance Report on pages 21 to 29 of this report.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick
Chairman

Hong Kong
22 March 2013

Corporate Governance Practices

The Company is committed to achieving good corporate governance practices by emphasising its accountability, transparency, independence, responsibility and fairness. The Company is dedicated to exercise corporate governance through regular reviews of its adopted practices with reference to the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The Company has complied with the code provisions of the Code on Corporate Governance Practices (effective up to 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 to the Listing Rules throughout the financial year ended 31 December 2012.

Directors' Securities Transactions

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all the Directors have confirmed that they have fully complied with the required standards and provisions as set out in the Model Code throughout the financial year ended 31 December 2012.

Board of Directors

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 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, 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 and Senior Management. 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 the managing Director (who is responsible for the day-to-day management of the Company's business) of the Company are segregated and are not exercised by the same individual since August 2005. Ngiam Mia Je Patrick is the chairman of the Board and an executive Director, and Fang Haizhou is the managing Director 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. Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi are the independent non-executive Directors. Each of their term of appointment is two years commencing from 30 September 2012, determinable by either party serving not less than one month's written notice on the other.

Board of Directors *(Continued)*

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 held a full board meeting for each quarter.

The Board is responsible for the leadership and control of the Company and overseeing the Group's businesses, strategic decisions and performances. The Board is delegated with the authority and responsibility for the management of the Group. In addition, the Board has also established various Board committees, including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the corporate governance committee (the "Corporate Governance Committee") (together, the "Board Committees") and has delegated various responsibilities to them.

The Company has adopted the practice of holding regular Board meetings at least four times a year. Apart from regular board meetings, the Board will meet on other occasions when a board level decision on a particular matter is required. Each of the members of the Board has full access to relevant information at the meetings.

The executive Directors and senior management of the Company, as delegated by the Board, are responsible for implementing the determined strategies and policies and the day-to-day management of the Group's business.

The Company has received from each of the independent non-executive Directors a written confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company thus considers all the independent non-executive Directors to be independent.

Four Board meetings and one annual general meeting were held during the year ended 31 December 2012. The attendance record for the Board meetings and general meeting is as follows:

Directors	Board Meetings Attendance	General Meeting Attendance
Executive Directors		
Ngiam Mia Je Patrick	4/4	1/1
Fang Haizhou	4/4	1/1
Zhong Sheng	4/4	1/1
Independent Non-executive Directors		
Fung Chi Ying	4/4	1/1
Mauffrey Benoit Jean Marie	4/4	1/1
Yeow Mee Mooi	4/4	1/1

Board of Directors *(Continued)*

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by individual Directors in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2012 is recorded in the table below:

Directors	**Reading regulatory updates**	**Attending external seminars/ programmes**
Executive Directors		
Ngiam Mia Je Patrick	✔	✔
Fang Haizhou	✔	✔
Zhong Sheng	✔	✔
Independent Non-executive Directors		
Fung Chi Ying	✔	✔
Mauffrey Benoit Jean Marie	✔	✔
Yeow Mee Mooi	✔	✔

Remuneration Committee

The Remuneration Committee was established in August 2005. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the Chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors. The majority of the members of the Remuneration Committee are independent non-executive Directors.

New terms of reference of the Remuneration Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

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 the making of recommendations to the board 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.

Remuneration Committee *(Continued)*

The Company has adopted the model whereby the Remuneration Committee makes recommendations to the Board on the remuneration packages of individual executive Directors and senior management, which should include benefits in kind, pension rights and compensation payments, and any compensation payable for loss or termination of their office(s) or appointment(s), and to make recommendations to the Board on the remuneration of non-executive Directors.

During the year under review, one meeting of the Remuneration Committee was held. Details of the attendance of the Remuneration Committee meeting are as follows:

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

The Remuneration Committee has considered and reviewed the existing terms of employment contracts of the executive Directors and appointment letters of the independent non-executive Directors and has assessed the performance of the Directors. The Remuneration Committee 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 chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Ngiam Mia Je Patrick, the Chairman of the Board and an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

New terms of reference of the Nomination Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The role and function of the Nomination Committee include recommending the appointment and removal of Directors. The Nomination Committee considers 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. The Nomination Committee also reviews the structure, size and composition of the Board and assesses the independence of the independent non-executive Directors.

Nomination Committee *(Continued)*

During the year under review, one meeting of the Nomination Committee was held. Details of the attendance of the Nomination Committee meeting are as follows:

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

During the meeting, the Nomination Committee 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, Ngiam Mia Je Patrick and Fung Chi Ying 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 the Audit Committee in June 2001. The Audit Committee comprises three members, namely Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi, all being independent non-executive Directors. The chairman of the Audit Committee is Fung Chi Ying.

New terms of reference of the Audit Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012. Such terms of reference are available on the websites of the Stock Exchange and the Company.

The main responsibilities of the Audit Committee are to review and supervise the financial statements and the auditors' reports and monitor the integrity of the financial statements of the Group. Other responsibilities include the appointment of auditor, approval of the auditor's remuneration, discussion of audit procedures and any other matters arising from the above. The Audit Committee is also responsible for overseeing the financial reporting system and internal control system and their effectiveness.

The Audit Committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal control, risk management and financial reporting. External auditor and the Directors are invited to attend the committee meetings as and when necessary. The Audit Committee also serves as a channel of communication between the Board and the external auditor.

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 (chairman)	4/4
Mauffrey Benoit Jean Marie	4/4
Yeow Mee Mooi	4/4

Audit Committee *(Continued)*

The work performed by the Audit Committee during the year under review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2012, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2012 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly. The Group's unaudited interim results for the six months ended 30 June 2012 and the audited annual results for the year ended 31 December 2012 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 duly made.

Corporate Governance Committee

The Corporate Governance Committee was established on 23 March 2012. The chairperson of the committee is Yeow Mee Mooi, an independent non-executive Director, and other members include Zhong Sheng, an executive Director, Fung Chi Ying and Mauffrey Benoit Jean Marie, both being independent non-executive Directors.

Terms of reference of the Corporate Governance Committee have been adopted on 1 April 2012 in compliance with the amendments to the Listing Rules which became effective on 1 April 2012.

The role and function of the Corporate Governance Committee include developing and reviewing the policies and practices on corporate governance of the Group and making recommendations to the Board, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, reviewing and monitoring the code of conduct and compliance manual applicable to the Directors and employees, reviewing and monitoring the training and continuous professional development of Directors and senior management, and reviewing the Company's compliance with the Code on Corporate Governance Practices and the Corporate Governance Code (as applicable) and disclosures in the Company's corporate governance report.

Corporate Governance Committee *(Continued)*

The Corporate Governance Committee held 1 meeting during the year under review. Details of the attendance of the Corporate Governance Committee meetings are as follows:

Members	Attendance
Yeow Mee Mooi (chairperson)	1/1
Zhong Sheng	1/1
Fung Chi Ying	1/1
Mauffrey Benoit Jean Marie	1/1

During the year under review, the work performed by the Corporate Governance Committee included reviewing and monitoring appropriate training and continuous professional development of the Directors and senior management, and reviewing the Company's compliance with the Code on Corporate Governance Practices and the Corporate Governance Code (as applicable) and disclosures in the Company's corporate governance report.

Company Secretary

Yau Lai Man, the company secretary of the Company, has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules during the year ended 31 December 2012.

Auditor's Remuneration

During the year under review, the Group has paid in aggregate of HK$550,000 and HK$57,900 to the external auditor for its audit and non-audit services respectively.

Shareholders' Rights

Procedures for shareholders to convene an extraordinary general meeting

Pursuant to the Company's articles of association, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for shareholders to put forward proposals at a general meeting

Shareholders may suggest proposals relating to the Company to be discussed at a general meeting by sending written requisition to the Board or the company secretary of the Company and following the procedures set out in the paragraph headed "Procedures for shareholders to convene an extraordinary general meeting" above to convene an extraordinary general meeting for any business specified in such written requisition.

Shareholders' Rights *(Continued)*

Procedures for shareholders to propose a person for election as a director

Subject to applicable laws and regulations, including Companies Law, Cap.22 (as revised and amended) of the Cayman Islands and the Listing Rules, and the memorandum and articles of association of the Company as amended from time to time, the Company may by ordinary resolution in general meeting elect any person to be a director of the Company either to fill a casual vacancy on the board of directors or as an addition to the existing board of directors. A shareholder of the Company may propose a person for election as a director of the Company by lodging a written notice to that effect at the head office and principal place of business of the Company in Hong Kong for the attention of the Company Secretary of the Company or at the branch register of members of the Company.

In order for the Company to inform shareholders of the Company of that proposal, the written notice must state the full name of the person proposed for election as a director of the Company, include the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The minimum length of the period during which such a written notice is given shall be at least seven days and the period for lodgement of such a written notice shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may direct their queries to the Board and may at any time make a request for the Company's information to the extent such information is publicly available through the company secretary of the Company whose contact details are as follows:

Address:	Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
Fax:	(852) 2587 7363
Email:	essex@essexbio.com

Constitutional Documents

The articles of association of the Company have been amended by way of special resolutions at the AGM held on 7 May 2012 so as to bring the articles of association in line with the amendments made to the Listing Rules which have come into effect on 1 January 2012 and 1 April 2012. The effects of the amendments are summarised as follows:

(a) all resolutions at general meetings of the Company shall be decided by poll other than any resolution which relates purely to a procedural or administrative matter as the chairman of the meeting may in good faith allow it to be voted on by a show of hands; and

Constitutional Documents *(Continued)*

(b) subject to certain exceptions, a Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates has a material interest nor shall he be counted in the quorum present at the meeting, and the exception that a Director may vote on such board resolution and be counted in the quorum provided that he and/or any of his associates are not beneficially interested in 5% or more of the issued shares or voting rights in the party with which the Company proposes to enter into a contract, arrangement or proposal shall be removed.

A copy of an up-to-date consolidated version of the memorandum and articles of association of the Company has been uploaded on the websites of the Stock Exchange and the Company.

Directors' and Auditor's Responsibilities for Accounts

The Directors are responsible for the preparation of financial statements for each financial period which gives a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 December 2012, the Directors have selected appropriate accounting policies and applied them consistently, and have prepared the financial statements on a going concern basis.

Internal Control

The Board and the management of the Group maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group. The Board is also responsible for making appropriate assertions on the adequacy of internal control and procedures. The Board reviews the effectiveness of these systems on a regular basis through the Audit Committee.

Investor Relations and Communication with Shareholders

The Company has established the following communication channels with shareholders and investors: (i) dispatching printed copies of corporate communication documents to shareholders; (ii) the opportunity for shareholders to raise comments and exchange views with the Board during each annual general meeting; (iii) providing the latest and key information of the Group through the website of the Company; and (iv) the Company's share registrar serves the shareholders in respect of all share registration matters.

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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 (together the "Group") set out on pages 32 to 82, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2012 and of the Group's profit and cash flows 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.

BDO Limited
Certified Public Accountants

Li Yin Fan
Practising Certificate Number: P03113

22 March 2013

Consolidated Statement Of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
Turnover	7	**267,255,167**	212,716,340
Cost of sales		**(23,563,134)**	(20,277,655)
Gross profit		**243,692,033**	192,438,685
Other revenue, gains and (losses)	8	**2,427,379**	1,126,117
Distribution and selling expenses		**(168,012,021)**	(133,552,801)
Administrative expenses		**(26,754,610)**	(19,884,567)
Finance costs	10	**(1,701,743)**	–
Profit before income tax expense	9	**49,651,038**	40,127,434
Income tax expense	14	**(10,655,902)**	(6,924,806)
Profit for the year		**38,995,136**	33,202,628
Other comprehensive income			
Exchange differences on translating foreign operations		**697,797**	3,307,433
Total comprehensive income for the year		**39,692,933**	36,510,061
Profit attributable to owners of the Company		**38,995,136**	33,202,628
Total comprehensive income attributable to owners of the Company		**39,692,933**	36,510,061
Earnings per share – Basic and diluted	17	**HK7.00 cents**	HK5.96 cents

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$	2011 HK$
Non-current assets			
Property, plant and equipment	18	**149,126,817**	35,601,836
Land use rights	19	**7,363,056**	7,481,891
Goodwill	20	**2,506,707**	2,488,928
Other intangible assets	21	**9,714,695**	9,533,331
Deposits and prepayments	24	**–**	21,118,246
Deferred tax assets	28	**1,650,348**	2,206,173
Convertible note receivable	25	**2,700,130**	–
Total non-current assets		**173,061,753**	78,430,405
Current assets			
Inventories	22	**4,308,725**	4,262,422
Trade and other receivables	23	**93,213,617**	74,587,032
Deposits and prepayments	24	**1,328,072**	2,185,668
Convertible note receivable	25	**–**	2,700,130
Pledged bank deposits	26	**–**	18,921,233
Cash and cash equivalents	26	**59,830,972**	36,812,068
		158,681,386	139,468,553
Total assets		**331,743,139**	217,898,958
Current liabilities			
Trade and other payables	27	**55,846,628**	50,369,096
Bank borrowings	29	**73,818,898**	–
Taxation		**1,683,156**	3,188,893
		131,348,682	53,557,989
Net current assets		**27,332,704**	85,910,564
Total assets less current liabilities		**200,394,457**	164,340,969
Non-current liabilities			
Trade and other payables	27	**1,968,504**	–
Deferred tax liabilities	28	**2,153,051**	1,080,000
		4,121,555	1,080,000
Total liabilities		**135,470,237**	54,637,989
NET ASSETS		**196,272,902**	163,260,969

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	2012 HK$	2011 HK$
Capital and reserves attributable to owners of the Company			
Share capital	30	**55,675,000**	55,675,000
Reserves		**140,597,902**	107,585,969
TOTAL EQUITY		**196,272,902**	163,260,969

On behalf of the Board

Fang Haizhou **Zhong Sheng**

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2012

	Equity attributable to owners of the Company						
	Share capital	**Share premium**	**Capital reserve**	**Statutory surplus reserve**	**Foreign currency translation reserve**	**Retained profits**	**Total**
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
	Note 30		Note 31(i)	Note 31(ii)	Note 31(iii)		
At 1 January 2011	**55,675,000**	**969,871**	**362,442**	**12,894,259**	**11,271,163**	**51,145,673**	**132,318,408**
Profit or loss	–	–	–	–	–	33,202,628	33,202,628
Other comprehensive income	–	–	–	–	3,307,433	–	3,307,433
Total comprehensive income for the year	–	–	–	–	3,307,433	33,202,628	36,510,061
Dividend paid	–	–	–	–	–	(5,567,500)	(5,567,500)
Appropriation of profits	–	–	–	4,254,564	–	(4,254,564)	–
At 31 December 2011	**55,675,000**	**969,871**	**362,442**	**17,148,823**	**14,578,596**	**74,526,237**	**163,260,969**
Profit or loss	–	–	–	–	–	38,995,136	38,995,136
Other comprehensive income	–	–	–	–	697,797	–	697,797
Total comprehensive income for the year	–	–	–	–	697,797	38,995,136	39,692,933
Dividend paid	–	–	–	–	–	(6,681,000)	(6,681,000)
Appropriation of profits	–	–	–	7,159,300	–	(7,159,300)	–
At 31 December 2012	**55,675,000**	**969,871**	**362,442**	**24,308,123**	**15,276,393**	**99,681,073**	**196,272,902**

Consolidated Statement Of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
Cash flows from operating activities			
Profit before income tax expense:		**49,651,038**	40,127,434
Adjustments for:			
Interest expenses		**1,701,743**	–
Bank interest income		**(1,424,224)**	(1,005,132)
Interest income on a convertible note receivable		**–**	(450,020)
Reversal of impairment on trade and other receivables		**–**	(284,052)
Reversal of accruals and other payables		**(6,102)**	(43,418)
Impairment on deposits and prepayments		**–**	781,700
Depreciation of property, plant and equipment		**987,092**	920,809
Exchange gains and losses, net		**(1,316,301)**	(1,601,342)
Amortisation of other intangible assets		**123,077**	120,613
Amortisation of land use rights		**163,079**	159,814
Impairment on other intangible assets		**4,479,686**	3,615,378
Property, plant and equipment written off		**2,007,212**	4,138
Loss on disposal of property, plant and equipment		**6,391**	–
Operating cash flows before working capital changes		**56,372,691**	42,345,922
Increase in inventories		**(20,485)**	(460,691)
Increase in trade and other receivables		**(18,190,118)**	(21,396,114)
Decrease/(increase) in deposits and prepayments		**865,297**	(1,115,445)
Increase in trade and other payables		**9,188,745**	11,274,854
Cash generated from operations		**48,216,130**	30,648,526
Interest paid		**(2,969,489)**	–
Profits tax paid		**(9,458,124)**	(7,268,117)
Net cash generated from operating activities		**35,788,517**	23,380,409

Consolidated Statement Of Cash Flows

For the year ended 31 December 2012

	Notes	2012 HK$	2011 HK$
Cash flows from investing activities			
Proceeds from sales of property, plant and equipment		**55,385**	–
Purchase of property, plant and equipment		**(97,883,544)**	(21,097,163)
Prepayment of purchase of property, plant and equipment		**–**	(20,431,646)
Additions to other intangible assets		**(4,727,875)**	(5,437,471)
Changes in pledged bank deposits		**19,040,000**	(16,024,605)
Bank interest received		**1,424,224**	1,005,132
Government grant received		**1,967,777**	–
Net cash used in investing activities		**(80,124,033)**	(61,985,753)
Cash flows from financing activities			
Proceeds from bank borrowings		**147,692,308**	–
Repayment of bank borrowings		**(73,846,154)**	–
Dividends paid to owners of the Company		**(6,681,000)**	(5,567,500)
Net cash generated from/(used in) financing activities		**67,165,154**	(5,567,500)
Net increase/(decrease) in cash and cash equivalents		**22,829,638**	(44,172,844)
Cash and cash equivalents at beginning of year		**36,812,068**	78,906,770
Effect of exchange rate changes on cash and cash equivalents		**189,266**	2,078,142
Cash and cash equivalents at end of year, representing cash and cash balance	26	**59,830,972**	36,812,068

Statement Of Financial Position

At 31 December 2012

	Notes	2012 HK$	2011 HK$
Non-current assets			
Interests in subsidiaries	34	**62,059,118**	59,160,847
Current assets			
Deposits and prepayments	24	**239,476**	239,383
Cash and cash equivalents	26	**234,172**	1,050,416
Total current assets		**473,648**	1,289,799
Total assets		**62,532,766**	60,450,646
Current liabilities			
Other payables and accruals	27	**2,015,157**	1,986,755
Net current liabilities		**(1,541,509)**	(696,956)
Total assets less current liabilities		**60,517,609**	58,463,891
Capital and reserves attributable to owners of the Company			
Share capital	30	**55,675,000**	55,675,000
Reserves	31	**4,842,609**	2,788,891
TOTAL EQUITY		**60,517,609**	58,463,891

On behalf of the Board

Fang Haizhou **Zhong Sheng**

1. General

Essex Bio-Technology Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 31 July 2000 under Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Stock code: 1061). The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Its principal place of business is located at Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Group, comprising the Company and its subsidiaries, is principally engaged in investment holding, the development, manufacture and selling of biopharmaceutical products in the People's Republic of China ("PRC").

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs")

(a) *Adoption of new/revised HKFRSs – effective 1 January 2012*

Amendments to HKFRS 1	Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of these new/revised standards and interpretations has no significant impact on the Group's financial statements.

(b) *New/revised HKFRSs that have been issued but are not yet effective*

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 27 (2011)	Separate Financial Statements[2]

[1] Effective for annual periods beginning on or after 1 July 2012

[2] Effective for annual periods beginning on or after 1 January 2013

[3] Effective for annual periods beginning on or after 1 January 2014

[4] Effective for annual periods beginning on or after 1 January 2015

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRSs (Amendments) – Annual Improvements 2009-2011 Cycle

The improvements made amendments to four standards.

(i) HKAS 1 Presentation of Financial Statements

The amendments clarify that the requirement to present a third statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items in its financial statements is limited to circumstances where there is a material effect on the information in that statement of financial position. The date of the opening statement of financial position is the beginning of the preceding period and not, as at present, the beginning of the earliest comparative period. The amendments also clarify that, except for disclosures required by HKAS 1.41-44 and HKAS 8, the related notes to the third statement of financial position are not required to be presented. An entity may present additional voluntary comparative information as long as that information is prepared in accordance with HKFRS. This may include one or more statements and not a complete set of financial statements. Related notes are required for each additional statement presented.

(ii) HKAS 16 Property, Plant and Equipment

The amendments clarify that items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

(iii) HKAS 32 Financial Instruments: Presentation

The amendments clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. Depending on the circumstances these items of income tax might be recognised in equity, other comprehensive income or in profit or loss.

(iv) HKAS 34 Interim Financial Reporting

The amendments clarifies that in interim financial statements, a measure of total assets and liabilities for a particular reportable segment need to be disclosed when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total assets and liabilities for that segment from the amount disclosed in the last annual financial statements.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

Amendments to HKFRS 7 – Offsetting Financial Assets and Financial Liabilities

HKFRS 7 is amended to introduce disclosures for all recognised financial instruments that are set off under HKAS 32 and those that are subject to an enforceable master netting agreement or similar arrangement, irrespective of whether they are set off under HKAS 32.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

2. Adoption of Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

(b) *New/revised HKFRSs that have been issued but are not yet effective (Continued)*

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implentation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors so far concluded that the adoption of the amendments to HKAS 34 as part of the Annual Improvements 2009-2011 Cycle will have no impact on the Group's annual financial statements. In respect of the other new pronouncements, the directors anticipate that more disclosures would be made but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

3. Basis of Preparation

(a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) *Basis of measurement*

The consolidated financial statements have been prepared under the historical cost basis.

(c) *Functional and presentation currency*

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company. The functional currency of the Group's major subsidiaries operating in the PRC is Renminbi ("RMB").

4. Significant Accounting Policies

(a) *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates 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.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. Significant Accounting Policies *(Continued)*

(a) Basis of consolidation (Continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

(b) Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(c) Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

4. Significant Accounting Policies *(Continued)*

(c) *Goodwill (Continued)*

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(d) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment, other than construction in progress, are depreciated so as to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The annual rates are as follows:

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%

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

4. Significant Accounting Policies *(Continued)*

(d) Property, plant and equipment (Continued)

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(e) Land use rights

Land use rights represent payments for leasehold land held for own use under operating leases. The Group made up-front payments to obtain land use rights as operating leases on which properties are developed. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as expense.

(f) Leasing

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

Payment made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

(g) Intangible assets

i) Acquired intangible assets

Intangible assets acquired separately are inititally recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight-line basis over their useful lives as follows. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Distribution rights	10 years

4. Significant Accounting Policies *(Continued)*

(g) *Intangible assets (Continued)*

ii) *Research and development expenditure*

Expenditure on internally developed products is capitalised if it can be demonstrated that:

1. it is technically feasible to develop the product for it to be sold;
2. adequate resources are available to complete the development;
3. there is an intention to complete and sell the product;
4. the Group is able to sell the product;
5. sale of the product will generate future economic benefits; and
6. expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

iii) *Impairment*

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired (Note 4(n)).

(h) *Financial instruments*

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

4. Significant Accounting Policies *(Continued)*

(h) *Financial instruments (Continued)*

i) *Financial assets*

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Convertible note receivables

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract. Where the Group needs to separate an embedded derivative from the host contract but is unable to measure the embedded derivative separately, the combined instruments are designated as at fair value through profit or loss. The Group may conclude, however, that the equity component of the combined instrument may be sufficiently significant to preclude it from obtaining a reliable estimate of the entire instrument because the embedded derivative will be settled by an unquoted equity instrument whose fair value cannot be reliably measured. In that case, the combined instrument is measured at cost less any accumulated impairment losses.

ii) *Impairment on financial assets*

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– granting concession to a debtor because of debtors' financial difficulty; or

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

4. Significant Accounting Policies *(Continued)*

(h) *Financial instruments (Continued)*

ii) *Impairment on financial assets (Continued)*

For loan and receivables and convertible notes

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

iii) *Financial liabilities*

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred. All of the Group's financial liabilities are financial liabilities at amortised cost.

Financial liabilities at amortised cost including trade and other payables, and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

iv) *Effective interest method*

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

4. Significant Accounting Policies *(Continued)*

(h) *Financial instruments (Continued)*

v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

vi) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or it transfers the 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 asset, the Group continues to recognise the asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(i) *Inventories*

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) *Revenue recognition*

Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

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

4. Significant Accounting Policies *(Continued)*

(k) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

(l) Foreign currency

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.

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. 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.

4. Significant Accounting Policies *(Continued)*

(l) Foreign currency (Continued)

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 end of the reporting period. 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 recognised in other comprehensive income and accumulated in foreign currency translation reserve within equity. 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.

(m) Employee benefits

i) 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.

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.

ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

4. Significant Accounting Policies *(Continued)*

(n) Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- land use rights and other intangible assets; and
- investments in subsidiaries.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent 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 in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) 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.

4. Significant Accounting Policies *(Continued)*

(q) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. Significant Accounting Policies *(Continued)*

(r) *Borrowing costs*

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(s) *Government grants*

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

5. Critical Accounting Judgments 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) *Key sources of estimation uncertainty*

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year is as follows:

Impairment of trade and other receivables

Provision for impairment 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 amount of trade receivables and other receivables and doubtful debt expenses/ written back in the period in which the estimate has been changed.

6. Segment Reporting

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

(a) Reportable segments

No separate business segment information is presented as the Group has only one business segment which is the manufacture and sale of pharmaceutical products.

(b) Geographical information and major customers

In 2012 and 2011, the Group's revenue from external customers is derived solely from its operations in the PRC, where all its non-current assets are located other than the convertible note receivables and deferred tax assets.

Revenues from one customer of the Group amounted to HK$53,685,000 (2011: HK$42,569,000) which represent 20% or more of the Group's revenue.

7. Turnover

Turnover, which is also the revenue, represents sales value of biopharmaceutical products supplied to customers less discounts, returns, value added tax and other applicable local taxes.

8. Other Revenue, Gains and (Losses)

	2012 **HK$**	2011 HK$
Interest income from bank deposits	**1,424,224**	1,005,132
Interest income on a convertible note receivable	**–**	450,020
Reversal of impairment loss of trade and other receivables	**–**	284,052
Reversal of accruals and other payables	**6,102**	43,418
Impairment on deposits and prepayments	**–**	(781,700)
Government grants (Note)	**996,923**	–
Others	**130**	125,195
	2,427,379	1,126,117

Note:

The Group received an interest subsidy from the Zhuhai Finance Bureau（珠海市財政局）for a loan obtained for the purpose of new product development. The interest incurred for this loan of HK$1,701,743 has been charged to profit or loss.

9. Profit Before Income Tax Expense

Profit before income tax expense is arrived at after charging/(crediting):

	2012 HK$	2011 HK$
Cost of inventories recognised as expenses	**23,563,134**	20,277,655
Staff costs excluding directors' remuneration:–		
Salaries and other benefits	**20,060,468**	16,520,523
Pension fund contributions	**1,175,509**	918,155
Depreciation of property, plant and equipment	**987,092**	920,809
Exchange gain, net	**(413,856)**	(1,558,400)
Amortisation of other intangible assets	**123,077**	120,613
Amortisation of land use rights	**163,079**	159,814
Auditor's remuneration:–		
Current year	**532,923**	400,000
Under provision for last year	**70,000**	47,456
	602,923	447,456
Research and development costs expensed:		
As incurred	**6,516,541**	4,264,005
Impaired	**4,479,686**	3,615,378
	10,996,227	7,879,383

10. Finance Costs

	2012 HK$	2011 HK$
Interests charged on bank borrowings wholly repayable within five years	**2,969,489**	–
Less: Interests capitalised in construction in progress	**(1,267,746)**	–
	1,701,743	–

Interest capitsalised during the year are calculated by applying a capitalisation rate of 6.26% (2011:Nil) to expenditures on qualifying assets.

11. Directors' Emoluments

The emoluments paid or payable to each of the six (2011: six) directors and chief executive were as follows:

	Executive directors			Non-executive directors			
	Fang Haizhou (Note) HK$	Zhong Sheng HK$	Ngiam Mia Je Patrick HK$	Fung Chi Ying HK$	Mauffrey Benoit Jean Marie HK$	Yeow Mee Mooi HK$	Total 2012 HK$
Fee	–	–	–	180,000	165,000	165,000	510,000
Other emoluments							
Salaries and other benefits	440,142	385,000	550,000	–	–	–	1,375,142
Contributions to pension schemes	23,637	13,750	–	–	–	–	37,387
Discretionary bonuses	384,000	336,000	480,000	–	–	–	1,200,000
	847,779	734,750	1,030,000	180,000	165,000	165,000	3,122,529

	HK$	HK$	HK$	HK$	HK$	HK$	Total 2011 HK$
Fee	–	–	–	180,000	165,000	165,000	510,000
Other emoluments							
Salaries and other benefits	473,751	385,000	550,000	–	–	–	1,408,751
Contributions to pension schemes	24,131	12,000	–	–	–	–	36,131
Discretionary bonuses	384,000	336,000	480,000	–	–	–	1,200,000
	881,882	733,000	1,030,000	180,000	165,000	165,000	3,154,882

Note: Mr. Fang Haizhou also acts as the Chief Executive Officer of the Group.

No share option was granted to the directors during the years ended 31 December 2012 and 2011.

During the years ended 31 December 2012 and 2011, 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 years ended 31 December 2012 and 2011.

12. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2011: three) were directors of the Company whose emoluments are included in the disclosures in Note 11 above. The emoluments of the remaining two (2011: two) individuals who were also members of senior management of the Group were as follows:

	2012 HK$	2011 HK$
Salaries and other benefits	**1,408,262**	1,192,000
Contributions to retirement benefits schemes	**27,387**	24,000
	1,435,649	1,216,000

Their emoluments were within the following bands:

	2012 No. of employees	2011 No. of employees
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	–

During the years ended 31 December 2012 and 2011, 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 scheme.

The Group's contribution to retirement benefits schemes for the year ended 31 December 2012 amounted to HK$1,212,896 (2011: HK$954,286).

14. Income Tax Expense

The amount of taxation in the consolidated statement of comprehensive income represents:

	2012	2011
	HK$	HK$
Current tax – the PRC		
– Provision for the year	**7,932,993**	8,217,960
Deferred tax (Note 28)	**2,722,909**	(1,293,154)
	10,655,902	6,924,806

No provision for Hong Kong profits tax has been made as the Group had incurred losses for Hong Kong profits tax purpose.

In accordance with the new law on PRC Enterprise Income Tax approved on 16 March 2008, an unified enterprise income tax rate of 25% should be applied to both domestic-invested enterprises and foreign-invested enterprises. Enterprises 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 fully effective in 2012.

The Group's major operating subsidiary in Zhuhai, the PRC, was established and carries on business in the Special Economic Zones of the PRC as a high technology enterprises. This subsidiary has obtained a 高新技術企業證書 (High Technology Enterprise Certificate) and is entitled to enjoy the enterprise income tax at the concessionary rate of 15% up to 31 December 2013.

14. Income Tax Expense *(Continued)*

The income tax expense for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2012 **HK$**	2011 HK$
Profit before income tax expense	**49,651,038**	40,127,434
Tax calculated at Hong Kong profits tax rate of 16.5% (2011: 16.5%)	**8,192,421**	6,621,027
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(854,173)**	(749,681)
Tax effect of expenses not deductible for tax purposes	**96,322**	246,601
Tax effect of revenue not taxable for tax purposes	**(24,085)**	(365,506)
Tax effect of tax loss not recognised	**1,335,539**	1,575,278
Tax benefits	**(829,001)**	(713,769)
Witholding tax arising from undistributed profits of a subsidiary in PRC	**2,153,846**	–
Others	**585,033**	310,856
Income tax expense	**10,655,902**	6,924,806

15. Loss Attributable to Owners of the Company

Loss attributable to owners of the Company includes an amount of HK$3,265,282 (2011: HK$4,125,777) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2012 **HK$**	2011 HK$
Amount of loss attributable to owners of the Company dealt with in the Company's financial statements	**(3,265,282)**	(4,125,777)
Final dividends from subsidiaries attributable to the profits of the previous financial year approved and paid	**12,000,000**	12,000,000
Company's profit for the year	**8,734,718**	7,874,223

16. Dividends

	2012 **HK$**	2011 HK$
Final, proposed – HK$0.01 (2011: HK$0.012) per share	**5,567,500**	6,681,000

The directors propose a final dividend of HK$0.01 (2011: HK$0.012) per ordinary share to be paid. The amount of proposed final dividend for 2012 is based on 556,750,000 shares (2011: 556,750,000) issued as at 31 December 2012. This proposed dividend is not reflected as dividend payable as at the end of the reporting period but will be reflected as an appropriation of retained profits for the year ending 31 December 2013.

17. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings

	Group	
	2012 **HK$**	2011 HK$
Earnings for the purposes of basic and diluted earnings per share	**38,995,136**	33,202,628

The denominator used for earnings per share is the number of ordinary shares of 556,750,000 (2011: 556,750,000) in issue during the years.

There was no potential ordinary share in issue for the years ended 31 December 2012 and 2011. Accordingly, the diluted earnings per share is presented as the same basic earnings per share for both years.

18. Property, Plant and Equipment

The Group

	Buildings and leasehold improvements HK$	Construction in progress HK$	Plant and machinery HK$	Furniture, fixtures and equipment HK$	Motor vehicles HK$	Total HK$
Cost						
At 1 January 2011	4,228,773	6,417,701	10,202,446	2,904,818	1,758,888	25,512,626
Additions	–	24,055,370	120,474	174,997	–	24,350,841
Write offs	–	–	–	(41,389)	–	(41,389)
Exchange adjustment	151,830	568,774	368,004	88,037	63,151	1,239,796
At 31 December 2011	4,380,603	31,041,845	10,690,924	3,126,463	1,822,039	51,061,874
Additions	–	67,486,272	26,261,520	155,680	1,258,584	95,162,056
Transfer from deposits and prepayments	–	914,326	19,934,754	–	401,723	21,250,803
Disposal	–	–	–	–	(129,231)	(129,231)
Write offs	–	–	(8,962,654)	(1,150,011)	–	(10,112,665)
Exchange adjustment	25,870	158,072	49,393	15,721	10,196	259,252
At 31 December 2012	4,406,473	99,600,515	47,973,937	2,147,853	3,363,311	157,492,089
Accumulated depreciation and impairment						
At 1 January 2011	4,228,773	–	6,376,591	2,310,725	1,159,606	14,075,695
Charge for the year	–	–	593,414	143,856	183,539	920,809
Write offs	–	–	–	(37,251)	–	(37,251)
Exchange adjustment	151,830	–	237,292	67,448	44,215	500,785
At 31 December 2011	4,380,603	–	7,207,297	2,484,778	1,387,360	15,460,038
Charge for the year	–	–	480,047	136,342	370,703	987,092
Written back on disposals	–	–	–	–	(67,455)	(67,455)
Write offs	–	–	(7,068,977)	(1,036,476)	–	(8,105,453)
Exchange adjustment	25,870	–	44,994	12,106	8,080	91,050
At 31 December 2012	4,406,473	–	663,361	1,596,750	1,698,688	8,365,272
Carrying amount						
At 31 December 2012	–	99,600,515	47,310,576	551,103	1,664,623	149,126,817
At 31 December 2011	–	31,041,845	3,483,627	641,685	434,679	35,601,836

The Group's construction in progress are built on land in the PRC under medium-term leases. As at 31 December 2012, the construction in progress were pledged for bank borrowing as set out in Note 29.

19. Land Use Rights

The Group

	HK$
Cost:	
As at 1 January 2011	7,821,500
Exchange adjustment	280,824
At 31 December 2011	8,102,324
Exchange adjustment	47,848
At 31 December 2012	8,150,172
Accumulated amortisation:	
As at 1 January 2011	286,054
Charge for the year	159,814
Exchange adjustment	12,519
At 31 December 2011	458,387
Charge for the year	163,079
Exchange adjustment	2,647
At 31 December 2012	624,113
Carrying amount:	
At 31 December 2012	7,526,059
Portion classified as current assets (included in deposits and prepayments)	(163,003)
Non-current assets	7,363,056
At 31 December 2011	7,643,937
Portion classified as current assets (included in deposits and prepayments)	(162,046)
Non-current assets	7,481,891

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

As at 31 December 2012, the Group's land use rights were pledged for bank borrowings as set out in Note 29.

20. GOODWILL

The Group

	HK$
Cost	
As at 1 January 2011	2,384,580
Exchange adjustment	104,348
As 31 December 2011	2,488,928
Exchange adjustment	17,779
As 31 December 2012	2,506,707

Impairment Testing on 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 belong on the value in use basis. The calculation is based on the most recent five-year financial budgets approved by management. The following key assumptions have been made for the purpose of analysis:

1 Gross margin ratio of 90% (2011: 90%)
2 Pre tax discount rate of 14.3% (2011: 14.3%) per year
3 Average growth rate of 20% (2011: 20%)

Management determined the gross margin based mainly on past performance of the CGU and management's expectations for the market development. 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 2012 and 2011.

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

21. Other Intangible Assets

The Group

	Development expenditure HK$	Distribution rights HK$	Total HK$
Cost			
At 1 January 2011	13,332,956	1,180,700	14,513,656
Additions	5,437,471	–	5,437,471
Exchange adjustment	478,708	42,393	521,101
At 31 December 2011	19,249,135	1,223,093	20,472,228
Additions	4,727,875	–	4,727,875
Exchange adjustment	111,930	7,223	119,153
At 31 December 2012	24,088,940	1,230,316	25,319,256
Amortisation			
At 1 January 2011	6,745,101	157,427	6,902,528
Amortisation	–	120,613	120,613
Impairment loss	3,615,378	–	3,615,378
Exchange adjustment	293,030	7,348	300,378
At 31 December 2011	10,653,509	285,388	10,938,897
Amortisation	–	123,077	123,077
Impairment loss	4,479,686	–	4,479,686
Exchange adjustment	61,261	1,640	62,901
At 31 December 2012	15,194,456	410,105	15,604,561
Carrying amount			
At 31 December 2012	8,894,484	820,211	9,714,695
At 31 December 2011	8,595,626	937,705	9,533,331

During the year, the directors reviewed the carrying amounts of the development expenditure and the distribution rights and found that the future economic benefits of a developing product may not be recoverable due to unsatisfactory clinical testing result. Accordingly, an impairment loss of HK$4,479,686 on development expenditure was recognised in profit or loss for the year (2011: HK$3,615,378).

22. Inventories

	The Group	
	2012	2011
	HK$	HK$
Raw materials	**2,248,098**	2,220,168
Work in progress	**1,430,148**	1,119,778
Finished goods	**630,479**	922,476
	4,308,725	4,262,422

23. Trade and Other Receivables

	The Group	
	2012	2011
	HK$	HK$
Trade receivables	**91,786,207**	74,171,808
Less: provision for impairment	**–**	–
Trade receivables – net	**91,786,207**	74,171,808
Other receivables	**1,427,410**	415,224
Total	**93,213,617**	74,587,032

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

(ii) The movements in the provision for impairment on trade receivables during the year were as follows:

	The Group	
	2012	2011
	HK$	HK$
At beginning of year	**–**	278,064
Reversal of allowance	**–**	(284,052)
Exchange adjustment	**–**	5,988
At end of year	**–**	–

23. Trade and Other Receivables *(Continued)*

The directors have considered the track record of customers and age of the outstanding balances and are of the view that no provision is required as at 31 December 2012 (2011: HK$Nil).

The following is an ageing analysis of trade receivables, net of allowance for impairment of trade receivables, as at the end of the reporting period:

	The Group	
	2012	2011
	HK$	HK$
0 – 60 days	**54,100,486**	44,100,044
61 – 90 days	**16,385,468**	14,337,157
> 90 days	**21,300,253**	15,734,607
	91,786,207	74,171,808

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

	The Group	
	2012	2011
	HK$	HK$
Not past due	**70,485,954**	58,437,200
Less than 3 months past due	**21,300,253**	15,734,608
	91,786,207	74,171,808

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has 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.

24. Deposits and Prepayments

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Deposits	**574,359**	521,738	**–**	–
Prepayments	**753,713**	22,782,176	**239,476**	239,383
Total	**1,328,072**	23,303,914	**239,476**	239,383
Included in current assets	**(1,328,072)**	(2,185,668)	**(239,476)**	(239,383)
	–	21,118,246	**–**	–

Deposits and prepayments of the Group and the Company do not contain impaired assets and their carrying amounts approximate their fair values.

In 2011, prepayments of the Group mainly represented costs of construction in progress and purchase of machineries prepaid.

25. Convertible Note Receivable

	The Group	
	2012	2011
	HK$	HK$
Unlisted debt security, at cost	**4,500,220**	4,500,220
Accrued interest income	**1,079,910**	1,079,910
	5,580,130	5,580,130
Less: Impairment on convertible note	**(2,880,000)**	(2,880,000)
	2,700,130	2,700,130

In 2009, the Group entered into an agreement to subscribe for a convertible note with a principal amount of US$580,000, equivalent to HK$4,500,220 (the "Note"), from a private company in Indonesia (the "Borrower").

Pursuant to the agreement, the Borrower would repay the Group the principal amount plus a lump sum interest payment computed at 20% of the principal amount at maturity which was 30 July 2011.

The Note also confers a right to the Group to convert the principal amount into shares of the Borrower subject to a qualifying Initial Public Offering ("IPO") being achieved. The conversion price of the Note would be at 50% discount from the offer price per share should the IPO took place before 30 July 2011. Otherwise, the Group shall have an option to extend the conversion period by a further six months. In the event that the Group agrees to the extension for additional six months, the conversion ratio shall be at 65% discount from the offer price per share under IPO.

25. Convertible Note Receivable *(Continued)*

Pursuant to the extension letter dated on 21 July 2011, due to a delay in the IPO, an extension of maturity date to 15 April 2012 was agreed. A further extension to 15 April 2014 with all other terms and conditions on the agreement remain unchanged was agreed.

In the opinion of the directors, the fair value of the embedded derivative or the combined unlisted debt security cannot be reliably measured because the variability in the range of reasonable fair value estimates is significant, the Note is therefore stated at cost less any impairment losses.

The directors have assessed the impacts on the recoverable amount of the financial asset and concluded that no further impairment loss need to be made.

26. Pledged Bank Deposits and Cash and Cash Equivalents

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Cash and bank balance	**59,830,972**	30,696,608	**234,172**	1,050,416
Time deposits	**–**	6,115,460	**–**	–
Cash and cash equivalents	**59,830,972**	36,812,068	**234,172**	1,050,416
Pledged bank deposits	**–**	18,921,233	**–**	–
	59,830,972	55,733,301	**234,172**	1,050,416

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 approximates its fair value.

As at 31 December 2012, cash and bank balances (including pledged bank deposits) denominated in RMB amounted to approximately HK$52,600,000 (2011: approximately HK$52,200,000). 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.

As at 31 December 2011, bank deposits amounted to HK$18,921,233 were pledged to a bank to secure certain guarantees issued by a bank in respect of the payments for construction in progress and purchase of certain machineries.

27. Trade and Other Payables

	The Group		The Company	
	2012	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$
Non-current liabilities				
Other payables (Note i)	**1,968,504**	–	**–**	–
Current liabilities				
Trade payables	**186,661**	349,520	**–**	–
Other payables (Note ii)	**10,225,959**	12,075,297	**144**	–
Accruals (Note ii)	**40,885,850**	32,387,861	**2,015,013**	1,986,755
VAT payable (Note iii)	**4,548,158**	5,556,418	**–**	–
	55,846,628	50,369,096	**2,015,157**	1,986,755
	57,815,132	50,369,096	**2,015,157**	1,986,755

Notes:

(i) It represents a government subsidy to the research and development projects and business expansion of a subsidiary. The subsidy will be recognised in the profit or loss when the subsidiary in the PRC fulfilled the condition in 2014.

(ii) Other payables and accruals are principally consist of construction cost payable, bonus, promotion and distribution and selling expenses payables.

(iii) 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 and plant and machinery 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 end of the reporting period:

	The Group	
	2012	2011
	HK$	HK$
0 – 60 days	**182,925**	349,520
61 – 90 days	**960**	–
> 90 days	**2,776**	–
	186,661	349,520

28. Deferred Tax Liabilities

Details of the deferred tax (assets) and liabilities recognised and movements during the current and prior years:

The Group

	Other deductible temporary difference HK$	**Development expenditure** HK$	**Withholding tax** (Note) HK$	**Total** HK$
At 1 January 2011	(1,851,994)	988,178	1,080,000	216,184
Charge/(credit) to profit or loss for the year	(1,555,155)	262,001	–	(1,293,154)
Exchange differences	(88,367)	39,164	–	(49,203)
At 31 December 2011	(3,495,516)	1,289,343	1,080,000	(1,126,173)
Settled during the year	–	–	(925,184)	(925,184)
Charge to profit or loss for the year	531,835	37,228	2,153,846	2,722,909
Exchange differences	(20,840)	7,602	(155,611)	(168,849)
At 31 December 2012	(2,984,521)	1,334,173	2,153,051	502,703

Note: The liability represents withholding tax calculated at 5% on the distributable profits of a subsidiary in the PRC expected to be distributed to the holding company with its principal place of business located in Hong Kong. At the end of the reporting period, distributable profits of the subsidiary in the PRC on which deferred tax has not been provided for amounted to approximately HK$116,000,000 (equivalent to RMB95,000,000) (2011: HK$92,000,000; equivalent to RMB81,000,000).

For the purpose of presentation in statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group	
	2012 **HK$**	2011 HK$
Deferred tax assets	**(1,650,348)**	(2,206,173)
Deferred tax liabilities	**2,153,051**	1,080,000
	502,703	(1,126,173)

As at the end of the reporting period, subject to formal agreement by the tax authority, the Group had unused tax losses of HK$18,305,000 (2011: HK$15,760,000) available for offset against future profits arising in Hong Kong. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams of the Group's operation in Hong Kong. The tax loss may be carried forward indefinitely.

29. Bank Borrowings

	The Group	
	2012	2011
	HK$	HK$
Secured bank loans		
Due for repayment within one year	**12,303,150**	–
Due for more than one year and within five years	**24,606,299**	–
Due for more than five years	**–**	–
	36,909,449	–
Unsecured bank loans		
Due for repayment within one year	**36,909,449**	–
Due for more than one year and within five years	**–**	–
Due for more than five years	**–**	–
	36,909,449	–
Total bank borrowings	**73,818,898**	–
Carrying amount of bank loans due for repayment within one year and more than one year but contain a repayment on demand clause (shown under current liabilities)	**73,818,898**	–

As at 31 December 2012, the two bank borrowings were denominated in RMB, repayable within five years and bear interest at fixed rate ranging from 6% to 6.15% per annum, and the secured bank borrowings were pledged by the Group's construction in progress and land use rights with carrying amounts of HK$99,600,515 and HK$7,526,059 respectively. (Note 18 and 19).

30. Share Capital

Authorised

	2012 Number	**2012 HK$**	2011 Number	2011 HK$
Ordinary shares of HK$0.1 each	**1,000,000,000**	**100,000,000**	1,000,000,000	100,000,000

Issued and fully paid

	2012 Number	**2012 HK$**	2011 Number	2011 HK$
Ordinary shares of HK$0.1 each				
At the beginning and end of the reporting period	**556,750,000**	**55,675,000**	556,750,000	55,675,000

31. Reserves

The Company

	Share premium HK$	Retained profit/ (accumulated losses) HK$	Total HK$
Balance at 1 January 2011	969,871	(487,703)	482,168
Profit for the year	–	7,874,223	7,874,223
Dividend paid	–	(5,567,500)	(5,567,500)
Balance at 31 December 2011	969,871	1,819,020	2,788,891
Profit for the year	–	8,734,718	8,734,718
Dividend paid	–	(6,681,000)	(6,681,000)
Balance at 31 December 2012	969,871	3,872,738	4,842,609

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

(i) Capital reserve

The capital reserve represents discount on acquisition of a subsidiary arose in prior years.

(ii) Statutory surplus reserve

In accordance with the PRC Companies Law, the Company's PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to statutory surplus reserve. Such reserve may be used to reduce any loss incurred by the subsidiary or be capitalised as paid-up capital of the subsidiary. The statutory surplus reserve is non-distributable. In 2012, a PRC subsidiary transferred HK$7,159,300 (2011: HK$4,254,564) to statutory surplus reserve which represented 10% of that PRC subsidiary's profit after tax.

(iii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 4(l).

32. Operating Lease Arrangements

Operating lease payments represent rentals payable by the Group on certain properties, plant and equipment. Leases are negotiated for a term of between 2 to 5 years at fixed rent.

Minimum lease payments paid during the year under operating leases were as follows:

	The Group	
	2012	2011
	HK$	HK$
Minimum leases payments:		
– Properties	**2,115,571**	1,945,980
– Plant and machinery and others	**177,165**	176,125
	2,292,736	2,122,105

The total future minimum lease payments is due as follows:

	2012		2011	
	Properties	**Plant and machinery and others**	Properties	Plant and machinery and others
	HK$	**HK$**	HK$	HK$
Not later than one year	**2,147,831**	**–**	1,494,340	176,125
Later than one year and not later than five years	**122,588**	**–**	1,404,012	–
	2,270,419	**–**	2,898,352	176,125

33. Share Option

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.

33. Share Option *(Continued)*

Share Option Scheme (Continued)

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 are 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.

At the end of the reporting period of 2012 and 2011, no share option was issued and outstanding under this share option scheme.

34. Interests in Subsidiaries

	The Company 2012 HK$	2011 HK$
Unlisted equity investment, at cost	**100,031**	100,031
Amounts due from subsidiaries (Note)	**61,959,087**	59,060,847
Amount due to a subsidiary	**–**	(31)
	62,059,118	59,160,847

Note: The amounts due from subsidiaries are unsecured, interest-free and in substance represents the Company's investments in the subsidiaries.

Details of the subsidiaries as at the end of the reporting period were as follows:

Name of subsidiary	Form of business structure	Place of incorporation and operation	Issued and fully paid share capital/registered capital	Percentage of ownership interest directly	Percentage of ownership interest indirectly	Principal activity
Essex Bio-Investment Limited	Limited liability company	the British Virgin Islands/Hong Kong	US$5	100%	–	Investment holding
Essex Bio-Pharmacy Limited	Limited liability company	Hong Kong	HK$8,000,000	–	100%	Investment holding
Zhuhai Essex Bio-Pharmaceutical Company Limited	Limited liability company	the PRC	RMB20,000,000	–	100%	Manufacture and selling of biopharmaceutical products
Essex Medipharma (Zhuhai) Company Limited	Limited liability company	the PRC	RMB3,000,000	–	100%	Marketing and distribution of biopharmaceutical products

35. Capital Commitments

	The Group 2012 HK$	2011 HK$
On acquisition of property, plant and equipment:		
– authorised but not contracted for	**–**	–
– contracted for but not provided	**16,414,254**	20,750,272

36. Financial Risk Management

The main risks arising from the Group's 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 receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 18% (2011: 25%) and 28% (2011: 36%) of the total trade receivables was due from the Group's largest customer and the five largest customers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 23.

(b) Liquidity risk

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.

36. Financial Risk Management *(Continued)*

(b) Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Company can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

	Carrying amount HK$	**Total contractual undiscounted cash flow HK$**	**Within 1 year or on demand HK$**	**More than 1 year but less than 5 years HK$**	**More than 5 years HK$**
31 December 2012					
Non-derivatives:					
Trade and other payables	**55,846,628**	**55,846,628**	**55,846,628**	**–**	**–**
Bank loans subject to a repayment on demand clause	**73,818,898**	**82,843,258**	**82,843,258**	**–**	**–**
	129,665,526	**138,689,886**	**138,689,886**	**–**	**–**

	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 5 years HK$	More than 5 years HK$
31 December 2011					
Non-derivatives:					
Trade and other payables	50,369,096	50,369,096	50,369,096	–	–

36. Financial Risk Management *(Continued)*

(b) *Liquidity risk (Continued)*

Maturity analysis – bank loans subjects to repayment on demand clause based on scheduled repayments

	Within 1 year HK$	More than 1 year but less than 5 years HK$	More than 5 years HK$	Total HK$
At 31 December 2011	–	–	–	–
At 31 December 2012	**53,697,097**	**29,146,161**	**–**	**82,843,258**

(c) *Interest rate risk*

The Group's fair value interest rate risk mainly arises from bank borrowings as disclosed in Note 29. Bank 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.

(d) *Currency risk*

The Group's main operations are currently 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) *Fair values*

All financial instruments other than the convertible note receivable are carried at amounts not materially different from their fair values as at 31 December 2012 and 2011.

37. Capital Risk Management

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

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

The capital structure of the Group consists of debts, which includes the bank borrowings, cash and cash equivalents and total equity. The Group's management regularly reviews the capital structure. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio of the Group at the end of reporting period was as follows:

	2012 **HK$**	2011 HK$
Debts	**73,818,898**	–
Less: Cash and cash equivalents	**(59,830,972)**	(36,812,068)
Net debts	**13,987,926**	(36,812,068)
Total equity	**196,272,902**	163,260,969
Net debt to equity ratio	**7.13%**	N/A

The Group monitors capital using a gearing ratio, which is net debts divided by total equity. Net debts are calculated as the sum of bank and other borrowings less the sum of cash and cash equivalents as shown in the consolidated statement of financial position. The Group aims to maintain the gearing ratio at a reasonable level and the directors are of the opinion that the Group's gearing ratio was maintained at reasonable level at the reporting dates.

38. Summary of Financial Assets and Financial Liabilities by Category

The following table shows the carrying amount of financial assets and liabilities as defined in Note 4(h).

	2012 Carrying amount HK$	2011 Carrying amount HK$
Financial assets		
Fair value through profit or loss		
– Designated upon initial recognition	**2,700,130**	2,700,130
Loans and receivables (including cash and bank balances)	**153,044,589**	130,320,333
	155,744,719	133,020,463
Financial liabilities		
Financial liabilities measured at amortised cost	**125,117,368**	44,812,678

39. Related Party Transactions

(a) Members of key management during the year comprised the three executive directors only whose remuneration is set out in Note 11 and Note 12 to the consolidated financial statements.

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

40. Non-cash Transaction

During the year, purchase of property, plant and equipment amounted to HK$3,873,703 (2011: HK$3,253,678) were recorded in other payables and additions to property, plant and equipment of HK$21,250,803 (2011: Nil) were transferred from deposits and prepayments.

41. Approval of Consolidated Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 22 March 2013.

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 2 below:

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$	HK$	HK$	HK$	HK$
RESULTS					
Continuing operations					
TURNOVER	**267,255,167**	212,716,340	146,281,574	116,688,187	92,868,336
Cost of sales	**(23,563,134)**	(20,277,655)	(11,936,206)	(11,038,491)	(8,854,289)
Gross profit	**243,692,033**	192,438,685	134,345,368	105,649,696	84,014,047
Other revenue, gains and (losses)	**2,427,379**	1,126,117	(1,466,001)	833,569	1,393,583
Distribution and selling expenses	**(168,012,021)**	(133,552,801)	(89,748,373)	(69,618,126)	(55,061,490)
Administrative expenses	**(26,754,610)**	(19,884,567)	(11,932,228)	(15,301,513)	(11,603,748)
Finance costs	**(1,701,743)**	–	–	–	–
PROFIT BEFORE INCOME TAX EXPENSES	**49,651,038**	40,127,434	31,198,766	21,563,626	18,742,392
Income tax expense	**(10,655,902)**	(6,924,806)	(4,614,394)	(4,810,871)	(2,257,169)
PROFIT FOR THE YEAR FROM CONTINUING OPERATION	**38,995,136**	33,202,628	26,584,372	16,752,755	16,485,223
Discontinued operation					
(Loss)/profit for the year from discontinued operation	**–**	–	–	(8,594,063)	10,473,459
PROFIT FOR THE YEAR	**38,995,136**	33,202,628	26,584,372	8,158,692	26,958,682
Other comprehensive income/(expenses)	**697,797**	3,307,433	3,267,231	(846,570)	3,922,648
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**39,692,933**	36,510,061	29,851,603	7,312,122	30,881,330
Attributable to:					
Owners of the Company	**39,692,933**	36,510,061	29,851,603	10,704,319	25,395,559
Non-controlling interests	**–**	–	–	(3,392,197)	5,485,771
	39,692,933	36,510,061	29,851,603	7,312,122	30,881,330

Five Year Financial Summary

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$	HK$	HK$	HK$	HK$
ASSETS AND LIABILITIES					
Non-current assets	**173,061,753**	78,430,405	31,061,765	22,870,596	38,660,654
Current assets	**158,681,386**	139,468,553	138,129,539	107,622,731	147,313,452
Current liabilities	**(131,348,682)**	(53,557,989)	(36,656,712)	(21,379,022)	(72,199,970)
Net current assets	**27,332,704**	85,910,564	101,472,827	86,243,709	75,113,482
Non-current liabilities	**(4,121,555)**	(1,080,000)	(216,184)	(1,080,000)	–
Net assets	**196,272,902**	163,260,969	132,318,408	108,034,305	113,774,136

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 2010, 2009 and 2008 are extracted from the published audited financial statements for these years. The consolidated results of the Group for the years ended 31 December 2012 and 2011 are as set out on page 32 of the audited financial statements.

2 The consolidated statement of financial position as at 31 December 2010, 2009 and 2008 are extracted from the published audited financial statements for the years ended 31 December 2010, 2009 and 2008, prepared on the basis as if the Group had been in existence for these years. The consolidated statement of financial position of the Group as at 31 December 2012 and 2011 are as set out on pages 33 to 34 of the audited financial statements.