



ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8151)

2009 ANNUAL RESULTS ANNOUNCEMENT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

- Turnover for the year ended 31 December 2009 amounted to approximately HK\$116.7 million (2008 restated: HK\$92.9 million), representing an increase of approximately 25.6% as compared with preceding year.
- Profit attributable to owners of the Company for the year ended 31 December 2009 amounted to approximately HK\$11.6 million (2008 restated: HK\$21.8 million).
- Basic earnings per share from continuing and discontinued operations for the year ended 31 December 2009 amounted to HK2.07 cents (2008 restated: HK3.92 cents). Basic earnings per share from continuing operations for the year ended 31 December 2009 amounted to HK3.00 cents (2008 restated: HK2.96 cents).
- The directors proposed a final dividend of HK\$0.01 (2008: HK\$0.01) per ordinary share to be paid.
- There were no diluted earnings per share for both years ended 31 December 2009 and 2008 since the Company had no dilutive potential shares outstanding as at 31 December 2009 and 2008.

The board of directors (“Directors”) of Essex Bio-Technology Limited (the “Company”) announced the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<i>Notes</i>	2009 HK\$	2008 <i>HK\$</i> (Restated)
Continuing operations			
Turnover	4	116,688,187	92,868,336
Cost of sales		(11,038,491)	(8,854,289)
Gross profit		105,649,696	84,014,047
Other revenue	5	833,569	1,393,583
Distribution and selling expenses		(69,618,126)	(55,061,490)
Administrative expenses		(15,301,513)	(11,603,748)
Profit before income tax expense	6(a)	21,563,626	18,742,392
Income tax expense	7	(4,810,871)	(2,257,169)
Profit for the year from continuing operations		16,752,755	16,485,223
Discontinued operations			
(Loss)/profit for the year from discontinued operations	6(b)	(8,594,063)	10,473,459
Profit for the year		8,158,692	26,958,682
Other comprehensive income			
Exchange differences on translating foreign operations		109,805	3,922,648
Less: reclassification adjustment of exchange reserve on disposal of a subsidiary included in profit or loss		(956,375)	–
		(846,570)	3,922,648
Total comprehensive income for the year		7,312,122	30,881,330
Profit/(loss) attributable to:			
– Owners of the Company		11,550,889	21,826,710
– Minority interests		(3,392,197)	5,131,972
		8,158,692	26,958,682
Total comprehensive income attributable to:			
– Owners of the Company		10,704,319	25,395,559
– Minority interests		(3,392,197)	5,485,771
		7,312,122	30,881,330
Earnings per share from continuing and discontinued operations – Basic			
	9	HK2.07 cents	HK3.92 cents
Earnings per share from continuing operations – Basic			
	9	HK3.00 cents	HK2.96 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 HK\$	2008 HK\$
Non-current assets			
Property, plant and equipment		5,939,801	24,404,633
Land use rights		7,260,388	7,767,640
Goodwill		2,278,489	2,383,299
Convertible note receivable	10	4,500,220	–
Other intangible assets		2,891,698	2,105,082
Deposit for acquisition of land use rights		–	2,271,320
Total non-current assets		22,870,596	38,931,974
Current assets			
Inventories		2,215,067	55,446,398
Trade and other receivables	11	35,150,478	36,875,685
Deposits and prepayments		2,516,124	2,503,440
Pledged bank deposits		–	2,271,320
Cash and cash equivalents		67,741,062	49,945,289
		107,622,731	147,042,132
Total assets		130,493,327	185,974,106
Current liabilities			
Trade and other payables	12	19,845,899	36,287,957
Bank and other borrowings (secured)		–	34,637,630
Taxation		1,533,123	1,274,383
		21,379,022	72,199,970
Net current assets		86,243,709	74,842,162
Total assets less current liabilities		109,114,305	113,774,136
Non-current liabilities			
Deferred tax liabilities	13	1,080,000	–
Total liabilities		22,459,022	72,199,970
TOTAL NET ASSETS		108,034,305	113,774,136
Capital and reserves attributable to owners of the Company			
Share capital	14	55,675,000	55,675,000
Reserves		52,359,305	47,222,486
Equity attributable to owners of the Company		108,034,305	102,897,486
Minority interests		–	10,876,650
TOTAL EQUITY		108,034,305	113,774,136

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Share capital HK\$	Share premium HK\$	Capital reserve HK\$	Statutory surplus reserve HK\$	Foreign currency translation reserve HK\$	Retained profits HK\$	Attributable to owners of the Company HK\$	Minority interests HK\$	Total HK\$
At 1 January 2008	55,675,000	969,871	362,442	3,770,603	5,281,653	11,442,358	77,501,927	5,390,879	82,892,806
Total comprehensive income for the year	-	-	-	-	3,568,849	21,826,710	25,395,559	5,485,771	30,881,330
Appropriation of profits	-	-	-	2,118,803	-	(2,118,803)	-	-	-
At 31 December 2008	55,675,000	969,871	362,442	5,889,406	8,850,502	31,150,265	102,897,486	10,876,650	113,774,136
Total comprehensive income for the year	-	-	-	-	(846,570)	11,550,889	10,704,319	(3,392,197)	7,312,122
Dividend paid	-	-	-	-	-	(5,567,500)	(5,567,500)	-	(5,567,500)
Disposal of a subsidiary	-	-	-	-	-	-	-	(7,484,453)	(7,484,453)
Appropriation of profits	-	-	-	2,474,078	-	(2,474,078)	-	-	-
At 31 December 2009	<u>55,675,000</u>	<u>969,871</u>	<u>362,442</u>	<u>8,363,484</u>	<u>8,003,932</u>	<u>34,659,576</u>	<u>108,034,305</u>	<u>-</u>	<u>108,034,305</u>

Representing:

For the year ended 31 December 2008:

2008 proposed final dividend	5,567,500
Others	<u>97,329,986</u>

Attributable to owners
of the Company
as at 31 December 2008

102,897,486

For the year ended 31 December 2009:

2009 proposed final dividend	5,567,500
Others	<u>102,466,805</u>

Attributable to owners
of the Company
as at 31 December 2009

108,034,305

Notes:

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Company Ordinance. In addition, the financial statements included applicable disclosures required by the GEM Listing Rules.

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) **The Group has adopted the following new/revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for the current accounting period.**

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 relation to the amendment to paragraph 80 of HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 and HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods, except for the following changes. Comparative figures have been restated or included in these financial statements in order to achieve a consistent presentation. The statements of financial position, previously known as balance sheets, at the beginning of the year of 2008 have not been presented as there were no changes to the originally published statements.

HKAS 1 (Revised), Presentation of Financial Statements – The revised standard affects certain disclosures of financial statements. Under the revised standard, the Income Statement, the Balance Sheet and the Cash Flow Statement are renamed as the “Statement of Comprehensive Income”, the “Statement of Financial Position” and the “Statement of Cash Flows” respectively. All income and expenses arising from transaction with non-owners are presented under the “Statement of Comprehensive Income”; while the owners’ changes in equity are presented in the “Statement of Changes in Equity”.

HKFRS 8, Operating Segments – HKFRS 8 replaces HKAS 14 “Segment Reporting”, and requires operating segments to be identified on the basis of internal reports of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segments and to assess their performance. As the business segments reported by the Group in accordance with the requirements of HKAS 14 are the same as the operating segments provided to the chief operating decision-maker as required by HKFRS 8, there are no changes to the operating segments and the relevant segment information on the adoption of HKFRS 8.

In addition, the Group has early adopted the amendment to HKFRS 5 under “Improvements to HKFRSs 2009” issued in May 2009. Accordingly, disclosure requirements in HKFRSs other than HKFRS 5 do not generally apply to non-current assets classified as held for sale and discontinued operations unless otherwise specified.

(b) Potential impact arising on HKFRSs not yet effective

The following new or revised HKFRSs, potentially relevant to the Group’s operations, have been issued but are not yet effective and have not been early adopted by the Group.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009, except for amendments to HKFRS 5 ²
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions ³
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKFRS 3 (Revised)	Business Combinations ¹
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ⁴
HKAS 24 (Revised)	Related Party Disclosures ⁵
HKFRS 9	Financial Instruments ⁶

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 July 2009 and 1 January, 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2011

⁶ Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

The amendment to HKAS 17 made under "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met.

The Group is in the process of making an assessment of the potential impact of other new/revised HKFRSs and the directors so far concluded that the application of the other new/revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. 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.

The Group has two reportable segments. The segments are managed separately as each business offers different products requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

Continuing operations

Biopharmaceutical products : Manufacture and sale of biopharmaceutical products

Discontinued operations

Agricultural fertilisers : Manufacture and sale of organic and chemical
 formulated agricultural fertilisers

(a) Reportable segments

	Continuing operations		Discontinued operations		Total	
	Biopharmaceutical products		Agricultural fertilisers			
	2009	2008	2009	2008	2009	2008
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue from external customers	<u>116,688,187</u>	<u>92,868,336</u>	<u>68,247,271</u>	<u>121,202,187</u>	<u>184,935,458</u>	<u>214,070,523</u>
Reportable segment profit/(loss)	<u>26,979,545</u>	<u>22,406,262</u>	<u>(8,594,063)</u>	<u>10,473,459</u>	<u>18,385,482</u>	<u>32,879,721</u>
Interest income	203,140	355,617	55,124	885,793	258,264	1,241,410
Interest expenses	-	-	894,438	2,547,407	894,438	2,547,407
Depreciation and amortisation	2,334,764	2,107,349	875,265	1,614,841	3,210,029	3,722,190
Reversal of impairment loss	(190,819)	(312,580)	-	-	(190,819)	(312,580)
Income tax expenses	(4,810,871)	(2,257,169)	-	-	(4,810,871)	(2,257,169)
Reportable segment assets	109,168,853	90,391,374	-	89,477,950	109,168,853	179,869,324
Additions to non-current assets	986,474	3,465,470	1,447,742	1,021,311	2,434,216	4,486,781
Reportable segment liabilities	<u>(20,187,011)</u>	<u>(16,912,602)</u>	<u>-</u>	<u>(53,684,473)</u>	<u>(20,187,011)</u>	<u>(70,597,075)</u>

(b) **Reconciliation of reportable segment revenue, profit or loss, assets and liabilities**

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Revenue		
Reportable segment revenue and consolidated revenue	<u>184,935,458</u>	<u>214,070,523</u>
	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Profit before income tax expenses and discontinued operations		
Reportable segment profit	18,385,482	32,879,721
Segment loss/(profit) from discontinued operations	8,594,063	(10,473,459)
Unallocated corporate expenses	<u>(5,415,919)</u>	<u>(3,663,870)</u>
Consolidated profit before income tax expenses from continuing operations	<u>21,563,626</u>	<u>18,742,392</u>
	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Assets		
Reportable segment assets of continuing operations	109,168,853	90,391,374
Segment assets of discontinued operations	–	89,477,950
Unallocated corporate assets	<u>21,324,474</u>	<u>6,104,782</u>
Consolidated total assets	<u>130,493,327</u>	<u>185,974,106</u>
	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Liabilities		
Reportable segment liabilities of continuing operation	(20,187,011)	(16,912,602)
Segment liabilities of discontinued operation	–	(53,684,473)
Deferred tax liabilities	(1,080,000)	–
Unallocated corporate liabilities	<u>(1,192,011)</u>	<u>(1,602,895)</u>
Consolidated total liabilities	<u>(22,459,022)</u>	<u>(72,199,970)</u>

The unallocated corporate expenses mainly included directors' remuneration and salaries and allowance and the unallocated corporate assets mainly included convertible note receivable and cash at banks.

(c) **Geographical information and major customers**

The Group's revenue from external customers is derived solely from its operations in the PRC, where all its non-current assets are located. For the year of 2009 and 2008, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue.

4. TURNOVER

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

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Continuing operations		
Sales of biopharmaceutic products	116,688,187	92,868,336
Discontinued operations		
Sales of agricultural fertilisers	<u>68,247,271</u>	<u>121,202,187</u>
	<u>184,935,458</u>	<u>214,070,523</u>

5. OTHER REVENUE

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Continuing operations		
Reversal of impairment loss of trade and other receivables	190,819	312,580
Others	439,610	5,239
Interest income from bank deposits	203,140	355,617
Management fees income	<u>-</u>	<u>720,147</u>
	<u>833,569</u>	<u>1,393,583</u>

6. PROFIT BEFORE INCOME TAX EXPENSE

(a) Profit before income tax expense from continuing operations is arrived at after charging:

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Cost of inventories recognised as expenses	11,038,491	8,854,289
Staff costs excluding directors' remuneration:		
Salaries and other benefits	9,136,288	9,076,401
Pension fund contributions	519,270	501,961
Depreciation of property, plant and equipment	1,855,282	1,821,392
Amortisation of other intangible assets	354,598	285,957
Amortisation of land use rights	124,884	-
Auditor's remuneration	430,000	440,000
Research and development costs expensed immediately	<u>3,040,751</u>	<u>1,813,612</u>

(b) Discontinued operations

In June 2009, the Group disposed of Baoyuan Bio-Agri (Shandong) Limited (“Shandong Baoyuan” or “Disposed Company”) which was engaged in research, development and production of organic and chemical formulated agricultural fertilisers in the PRC. The disposal was effected to streamline the core business of the Group. The sales, results and cash flows from 1 January 2009 to the date of disposal of Baoyuan were as follows:

	From 1 January 2009 to date of disposal HK\$	12 months to 31 December 2008 HK\$
Revenue from external customers	68,247,271	121,202,187
Other revenue	2,415,129	8,756,891
	70,662,400	129,959,078
Operating costs	(76,690,810)	(116,938,212)
Operating (loss)/profit	(6,028,410)	13,020,866
Finance costs	(894,438)	(2,547,407)
(Loss)/profit before income tax expense	(6,922,848)	10,473,459
Income tax expense	—	—
(Loss)/profit after tax	(6,922,848)	10,473,459
Loss on disposal of a subsidiary	(1,671,215)	—
(Loss)/profit for the year from discontinued operations	<u>(8,594,063)</u>	<u>10,473,459</u>
Operating cash flows	13,074,501	(7,510,196)
Investing cash flows	878,702	1,024,942
Financing cash flows	(5,100,000)	5,747,630
Total cash flows	<u>8,853,203</u>	<u>(737,624)</u>

A loss of HK\$1.67 million arose on the disposal of Shandong Baoyuan, being the proceeds of disposal less the carrying amount of the subsidiary’s net assets and attributable goodwill. A capital gain tax charge of HK\$269,596 arose from the disposal which was included in the calculation of loss on disposal of a subsidiary.

For the purpose of presenting discontinued operations, the comparative consolidated statement of comprehensive income and the related notes have been re-presented as if the operations discontinued during the year had been discontinued at the beginning of the comparative period.

7. INCOME TAX EXPENSE

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

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Continuing operations		
Current tax – the PRC		
– Provision for the year	3,730,871	2,257,169
– Deferred tax	<u>1,080,000</u>	<u>–</u>
	<u>4,810,871</u>	<u>2,257,169</u>

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

The Group's operating subsidiary in Zhuhai, the PRC, was established and carrying on business in the Special Economic Zones of the PRC as a high technology enterprises. The 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% for three years from 2008 to 2010.

The Group's another operating subsidiary in Zhuhai, the PRC, was established and carrying on business in the Special Economic Zones of the PRC is subject to enterprise income tax at a concessionary rate of 20% (2008: 18%).

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

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Continuing operations		
Profit before income tax expense	<u>21,563,626</u>	<u>18,742,392</u>
Tax calculated at Hong Kong profits tax rate of 16.5% (2008: 16.5%)	3,557,998	3,092,494
Effect of different tax rates of subsidiaries operating in other jurisdictions	652,905	188,097
Tax effect of expenses not deductible for tax purposes	339,809	350,474
Tax effect of revenue not taxable for tax purposes	(783,598)	(214,031)
Tax effect of tax loss not recognised	1,501,838	811,119
Deferred tax on undistributed earnings of a subsidiary in PRC	1,080,000	–
Tax benefits	(1,615,705)	(2,292,337)
Others	<u>77,624</u>	<u>321,353</u>
Income tax expense	<u>4,810,871</u>	<u>2,257,169</u>

8. DIVIDENDS

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Final, proposed – HK\$ 0.01(2008: HK\$ 0.01) per share	<u>5,567,500</u>	<u>5,567,500</u>

The directors propose a final dividend of HK\$0.01 (2008: HK\$0.01) per ordinary share to be paid. The amount of proposed final dividend for 2009 is based on 556,750,000 shares (2008: 556,750,000) issued as at 31 December 2009. 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 2010.

9. EARNINGS PER SHARE

For continuing and discontinued operations

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

Earnings

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Earnings for the purposes of basic earnings per share	<u>11,550,889</u>	<u>21,826,710</u>

From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Profit for the year attributable to owners of the Company	11,550,889	21,826,710
Add:		
Loss/(profit) for the year from discontinued operations	<u>5,201,866</u>	<u>(5,341,487)</u>
Earnings for the purposes of basic earnings per share from continuing operations	<u>16,752,755</u>	<u>16,485,223</u>

The denominator used for both earnings per share from continuing and discontinued operations and from continuing operations is the number of ordinary shares of 556,750,000 (2008:556,750,000) in issue during the year.

From discontinued operations

Basic loss per share for the discontinued operations is HK0.93 cents per share (2008: profit of HK0.96 cents per share), based on the loss for the period/year from the discontinued operations of HK\$5.2 million (2008: profit of HK\$5.3 million) and the number of ordinary shares of 556,750,000 (2008:556,750,000) in issue during the year.

Diluted earnings per share for the years ended 31 December 2009 and 2008 are not presented since the Company did not have any dilutive potential ordinary shares outstanding during both years.

10. CONVERTIBLE NOTE RECEIVABLE

	2009	2008
	HK\$	HK\$
Unlisted debt security, at cost	<u>4,500,220</u>	<u>—</u>

During the year, the Group entered into an agreement to subscribe for a convertible note with a principal amount of HK\$4,500,220 (the “Note”) from a private company in Indonesia (the “Borrower”). Pursuant to the agreement, the Borrower will repay to the Group the principal amount plus a lump sum payment computed at 20% of the principal amount at maturity which is 30 July 2011. Subject to the terms and conditions of the agreement, if earlier termination is made by the Borrower, the lump sum payment shall be computed at 35% instead of 20%. 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 shall be at 50% discount from the offer price per share under the IPO. If the qualifying IPO is not achieved before 30 July 2011, 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 the IPO.

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 stated at cost less any impairment losses.

11. TRADE AND OTHER RECEIVABLES

	2009	2008
	<i>HK\$</i>	<i>HK\$</i>
Trade receivables	35,198,222	35,928,943
Less: provision for impairment	(306,676)	(496,638)
Trade receivables – net	34,891,546	35,432,305
Other receivables	258,932	1,443,380
Total	<u>35,150,478</u>	<u>36,875,685</u>

- (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:

	2009	2008
	<i>HK\$</i>	<i>HK\$</i>
At beginning of year	496,638	2,720,395
Uncollectible amounts written off	–	(2,067,460)
Reversal of allowance	(190,819)	(312,580)
Exchange adjustment	857	156,283
At end of year	<u>306,676</u>	<u>496,638</u>

The allowance of HK\$306,676 (2008: HK\$496,638) has been made for estimated irrecoverable amounts from sale of goods. This provision has been determined by reference to past default experience.

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

	2009	2008
	<i>HK\$</i>	<i>HK\$</i>
0 – 60 days	19,366,538	13,052,694
61 – 90 days	5,728,523	12,705,356
> 90 days	9,796,485	9,674,255
	<u>34,891,546</u>	<u>35,432,305</u>

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

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Not past due	15,428,158	25,758,050
Less than 3 months past due	5,673,973	9,522,555
Over 3 months past due	<u>382,062</u>	<u>–</u>
	<u>21,484,193</u>	<u>35,280,605</u>

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.

12. TRADE AND OTHER PAYABLES

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
Trade payables	274,852	4,198,843
Other payables	5,204,132	5,849,497
Accruals	10,891,337	12,762,375
VAT payable	3,204,829	2,821,566
Deposits received	<u>270,749</u>	<u>10,655,676</u>
	<u>19,845,899</u>	<u>36,287,957</u>

The following is an ageing analysis of trade payables as at the end of the reporting period:

	2009 <i>HK\$</i>	2008 <i>HK\$</i>
0 – 60 days	166,441	3,212,507
61 – 90 days	–	593,982
> 90 days	<u>108,411</u>	<u>392,354</u>
	<u>274,852</u>	<u>4,198,843</u>

13. DEFERRED TAX LIABILITIES

The deferred tax liabilities arose from withholding tax on distributable profits of a subsidiary in the PRC, which is calculated at 5% on the estimated profits that will be distributed to the holding company with its principal place of business in Hong Kong.

As at the end of the reporting period, the Group had unused tax losses of approximately HK\$23,170,000 (2008: HK\$17,613,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax loss may be carried forward indefinitely.

14. SHARE CAPITAL

Authorised

	2009 <i>Number</i>	2008 <i>HK\$</i>	2009 <i>Number</i>	2008 <i>HK\$</i>
Ordinary shares of HK\$0.1 each	<u>1,000,000,000</u>	<u>100,000,000</u>	<u>1,000,000,000</u>	<u>100,000,000</u>

Issued and fully paid

	2009 <i>Number</i>	2009 <i>HK\$</i>	2008 <i>Number</i>	2008 <i>HK\$</i>
Ordinary shares of HK\$0.1 each At the beginning and end of the reporting period	<u>556,750,000</u>	<u>55,675,000</u>	<u>556,750,000</u>	<u>55,675,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

During the year under review, the Group's principal activities were the manufacture and sale 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 biopharmaceutical products for the treatment of duodenal ulcers and nervous system damages and diseases, as well as other ophthalmic pharmaceutical projects.

In 2009, the Group had not just weathered through the global economic recession but had even achieved a moderate revenue growth of 25.6% in its pharmaceutical business. The continued growth was sustained through the Group's established distribution network and relentless effort and investments in marketing in the PRC. In addition, the Group's strategic promotion of its newly commercialized products, 貝復濟凝膠劑型 (Beifuji gel formulation) and 貝復舒凝膠劑型 (Beifushu gel formulation) has started to see contributions in 2009.

In pursuit of greater development in the pharmaceutical business arena, the Group entered into certain agreements to dispose of its entire investment in the agricultural fertilizers business on 30 June 2009 at a total consideration of RMB8,000,000 (approximately HK\$9,061,600), details of which were published in the Company's announcement dated 2 July 2009 and the circular dated 23 July 2009.

MARKET DEVELOPMENT

Distribution network

During the year under review, the Group established 3 more direct representative offices ("DROs") in Nanning, Liuzhou and Hainan, the PRC. The Group has now a total of 20 DROs, which are located in major provinces in the PRC. There are over 1,000 hospitals in major provinces in the PRC that carry the Group's flagship pharmaceutical products.

To cultivate further market coverage and reach for the Group's genetic products, the Group has conducted over 140 seminars and 540 market promotion activities in major cities and provinces in the PRC for the year under review, educating more than 30,000 doctors and medical practitioners on the clinical applications of the Group's products.

New Product

雙氯芬酸鈉滴眼液 (Diclofenac Sodium Eye Drop) – This product is for the treatment and healing of keratitis and inflammation at post eye surgery. Following the receipt of approval from State Food Drug Administration of the PRC ("SFDA") for commercialisation and GMP certification, the product was launched in the second quarter of 2009.

Awards

The Group's subsidiary, Zhuhai Essex Bio-Pharmaceutical Co. Ltd ("Essex Bio-Pharm"), has been conferred with two awards from Guangdong Pharmaceutical Profession Association. The two awards are:

1. "2008 Top Five Manufacturing Enterprise in Bio-Technological and Bio-Chemistry Pharmaceutical Industries in Guangzhou" and;
2. "2008 Top Sixty Enterprise in Pharmaceutical Industries in Guangdong".

The receipt of the two awards is the result of the years of relentless investments made in research and development and market cultivation program, catapulting the Group to excel new heights.

Business associates

The development status on two strategic business tie-ups with two international pharmaceutical companies entered in 2008 is outlined as follows:

- InSite USA – One of the Company's subsidiaries, Essex Bio-Pharmacy Limited, has been appointed by InSite USA to be its exclusive licensee and distributor of InSite's AzaSite®, Azithromycin ophthalmic solution (阿奇霉素滴眼液), a product that is for the treatment of bacterial conjunctivitis (pink eye). The appointment covers exclusively the mainland China, Hong Kong and Macau.

Documents to apply for the clinical trials in the PRC were submitted in the second quarter of 2009 to SFDA for approval.

- ABC Farmaceutici S.P.A – One of the Company's subsidiaries, Essex Medipharma (Zhuhai) Company Limited ("Essex Medipharma"), has signed an exclusive licensing and distribution agreement with an Italian company, ABC Farmaceutici S.P.A ("ABC"), for the distribution of the ursodeoxycholic acid (UDCA) API and UDCA capsules manufactured by ABC throughout the PRC. UDCA capsules are indicated for cholesterol gallstones, gallstones residual in the choledochus or recurrent after operation on the bile pathways as well as biliary reflux gastritis.

Import and distribution licenses of ursodeoxycholic acid (UDCA) were obtained during the year under review. License to distribute UDCA capsules will be applied in the third quarter of 2010.

In addition, Essex Medipharma has signed another distribution agreement with an Indian company, Sun Pharmaceutical Industries Ltd., for the distribution of 拉坦前列素滴眼液 (Latanoprost Ophthalmic Solution) which is indicated for the treatment of Glaucoma, which has been approved by SFDA for sales in the PRC. The product is scheduled for commercial launch in the first quarter of 2010.

Collaboration agreements

The Group entered into two ophthalmic pharmaceutical collaboration agreements (the “Collaboration Agreements”) with Jinan Bestcomm Pharmaceutical R&D Co., Ltd (“Jinan Bestcomm”) in the third quarter of 2009.

Jinan Bestcomm is a high-tech enterprise specializing in the development of new medicine products and is the first enterprise of its kind to obtain ISO-9001 Quality Management System Certification.

Details of the Collaboration Agreements and the two ophthalmology pharmaceutical products covered under the agreements are:

1) *鹽酸倍他洛爾滴眼液 (Betaxolol Hydrochloride Eye Drop)*

The Group’s subsidiary, Essex Medipharma, has obtained an exclusive distribution rights for 10 years from Jinan Bestcomm to distribute 鹽酸倍他洛爾滴眼液 (Betaxolol Hydrochloride Eye Drop) in China. 鹽酸倍他洛爾滴眼液 (Betaxolol Hydrochloride Eye Drop) is an ophthalmology pharmaceutical product for the treatment of Glaucoma. It can lower intraocular pressure effectively to avoid optic nerve damage and reduce the effect on heart and lung to minimal.

鹽酸倍他洛爾滴眼液 (Betaxolol Hydrochloride Eye Drop) is developed by Jinan Bestcomm and has been approved by SFDA for production and commercialisation. The product is scheduled for commercial launch in the first quarter of 2010.

2) *甲苯磺酸妥舒沙星滴眼液 (Tosufloxacin Tosylate Eye Drop)*

Another subsidiary, Essex Bio-Pharm, has entered into another collaboration agreement with Jinan Bestcomm for the cooperation in the research and development of another pharmaceutical product, an ophthalmic antibiotics product – 甲苯磺酸妥舒沙星滴眼液 (Tosufloxacin Tosylate Eye Drop). Essex Bio-Pharm and Jinan Bestcomm will jointly perform the pre-clinical and clinical trails of 甲苯磺酸妥舒沙星滴眼液 (Tosufloxacin Tosylate Eye Drop) and shall enjoy the future benefits equally.

The main ingredient of 甲苯磺酸妥舒沙星滴眼液 (Tosufloxacin Tosylate Eye Drop) is the 4th generation of quinolone. The 4th generation of quinolone has shown strong antibacterial activity and broad antibacterial spectrum but with minor side effect. Among the quinolone based eye drop antibiotics products, our product shall be the first to be considered medically suitable for use in children.

Pre-clinical trail of Tosufloxacin Tosylate Eye Drop was completed by Jinan Bestcomm in the first quarter of 2009 and is pending SFDA’s approval to commence the clinical trial.

RESEARCH AND DEVELOPMENT (“R&D”)

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

- 貝復舒單劑量滴眼液 (Beifushu single dose eye-drop) – The research and development on this project has been successfully completed and is pending the approval from SFDA in order to commence production. Beifushu single dose eye drop is developed for the treatment and healing of dry eye and cornea after various surgeries.
 - 貝復適 (Beifushi) – Clinical trials are in progress. 貝復適 (Beifushi) is a category I biopharmaceutical product designed for the treatment and healing of duodenal ulcers.
 - 貝復泰 (Beifutai) – Pre-clinical tests have been concluded and are pending SFDA’s approval to start clinical trials. 貝復泰 (Beifutai) is a category I biopharmaceutical product based on rh-bFGF for the treatment of nervous system diseases and damages.
 - rh-GDNF – Pre-clinical tests are in progress. rh-GDNF is a neurotrophic factor for the treatment of nervous system damages and diseases.
- Ⓢ 妥布霉素滴眼液 (Tobramycin Eye Drop) – The research and development on this project has been successfully completed and the approval for commercialisation from SFDA was obtained in July 2009. 妥布霉素滴眼液 (Tobramycin Eye Drop) is developed for the treatment and healing of bacterial contamination. The product is scheduled for commercial launch in the first quarter of 2010.

FINANCIAL REVIEW

Given the bleak economic conditions in 2009, which has negatively impacted the agricultural fertilisers industry, the business of Baoyuan Bio-Agri (Shandong) Limited (“Shandong Baoyuan”) was not spared and was incurring losses. In order to limit the Group’s financial exposure in its investment in Shandong Baoyuan, the Board took a decisive position in June 2009 to divest its entire interests in Shandong Baoyuan. The divestment allows the Group to unlock cash and management bandwidth for the Group to pursue greater development in the pharmaceutical business arena.

The Group recorded approximately HK\$116.7 million in turnover from sale of pharmaceutical products for the year ended 31 December 2009, a moderate increase of 25.6% over the corresponding figure of 2008.

Overall gross profit for the year ended 31 December 2009 increased to approximately HK\$105.6 million when compared to approximately HK\$84.0 million recorded in 2008. Gross profit ratio maintained at 90% for the year under review.

Profit before income tax from continuing operations for the year ended 31 December 2009 increased by 15.1% to approximately HK\$21.6 million as compared to approximately HK\$18.7 million in 2008.

Profit after income tax from continuing operations for the year ended 31 December 2009 slightly increased by 1.6% to HK\$16.8 million as compared to HK\$16.5 million in 2008. In 2009, it included the provision for deferred tax liabilities arose from withholding tax on distributable profits of a subsidiary in the PRC. No provision was made in 2008. Profit attributable to owners of the Company decreased from HK\$21.8 million in 2008 to HK\$11.6 million in 2009 as it included loss from discontinued operations.

Distribution and selling expenses increased to approximately HK\$69.6 million for the year ended 31 December 2009 when compared to approximately HK\$55.1 million recorded in 2008. The increase was mainly attributable to higher expenses incurred in sales, marketing and promotional activities which are in line with the expansion of pharmaceutical business in 2009.

Administrative expenses increased to approximately HK\$15.3 million in the year ended 31 December 2009 when compared to approximately HK\$11.6 million recorded in 2008. The increase is in tandem with the expanded operations to support the pharmaceutical business expansion.

The Group had cash and cash equivalents of approximately HK\$67.7 million as at 31 December 2009 (2008: HK\$49.9 million).

As at 31 December 2009, the Group has no bank and other borrowings. As at 31 December 2008, short-term secured bank loans amounted to approximately HK\$34.6 million. They were secured by a charge over the land, properties and inventories of Shandong Baoyuan. The short-term secured bank loans were removed together with the disposal of interests in Shandong Baoyuan which was completed in 2009.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and of the Group at that date are set out in the financial statements. The Directors have recommended the payment of a final dividend of HK\$0.01 per share for the financial year ended 31 December 2009 to the shareholders of the Company whose names appear on the register of members of the Company on Monday, 10 May 2010. The final dividend will be paid on Monday, 24 May 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 6 May 2010 to Monday, 10 May 2010, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting to be held on Monday, 10 May 2010, all transfer 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, Wanchai Hong Kong, for registration not later than 4:30pm on Wednesday, 5 May 2010.

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

In June 2009, Essex Bio-Investment Limited, a wholly-owned subsidiary of the Company, entered into two separate equity transfer agreements with a PRC company and a Hong Kong company (“Purchasers”). Pursuant to the agreements, Essex Bio-Investment Limited agreed to sell the entire equity interest in Shandong Baoyuan to the Purchasers at an aggregate consideration of RMB8,000,000 (approximately HK\$9,061,600). Upon completion of the disposal, Shandong Baoyuan ceased to be a subsidiary of the Company.

Details of the transactions are stated in the Company’s announcement dated 2 July 2009 and circular dated 23 July 2009.

The Group’s objective is to continue to instil prudent approach in its fiscal management and channel its resources to build a stronger foundation of the core business for a long-term sustainable growth. Therefore, the Group will seek to invest in new pharmaceutical products, particularly in the ophthalmological arena for strengthening its product pipeline for sustaining long-term growth. To cater for greater demands of the manufacturing capacity as the Group’s business expanded, the Group has started planning for the building of a new factory in Zhuhai on a land of approximately 13,398.99 sq.m. that was acquired on 30 December 2008. It is expected that the construction of the new factory will complete in 2012 and the expected source of funding will be from the Group’s internal source. Details of the new factory will be announced in due course.

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

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.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr. Fung Chi Ying, Mr. Mauffrey Benoit Jean Marie and Madam Yeow Mee Mooi. All of them are independent non-executive Directors. The chairman of the audit committee is Mr. Fung Chi Ying. The Group’s unaudited quarterly and interim results and audited annual results during the year ended 31 December 2009 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 disclosures have been duly made.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions contained in the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules by establishing formal and transparent procedures to protect the maximize the interests of shareholders during the year under review. A report on the principle corporate governance practices adopted by the Company is set out in the annual report of the Company.

ON BEHALF OF THE BOARD

Ngiam Mia Je Patrick

Chairman

Hong Kong

25 March 2010

DIRECTORS OF THE COMPANY

Executive Directors as at the date of this announcement are Mr. Ngiam Mia Je Patrick, Mr. Fang Haizhou and Mr. Zhong Sheng and the independent non-executive Directors as at the date of this announcement are Mr. Fung Chi Ying, Mr. Mauffrey Benoit Jean Marie and Madam Yeow Mee Mooi.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at www.essexbio.com.