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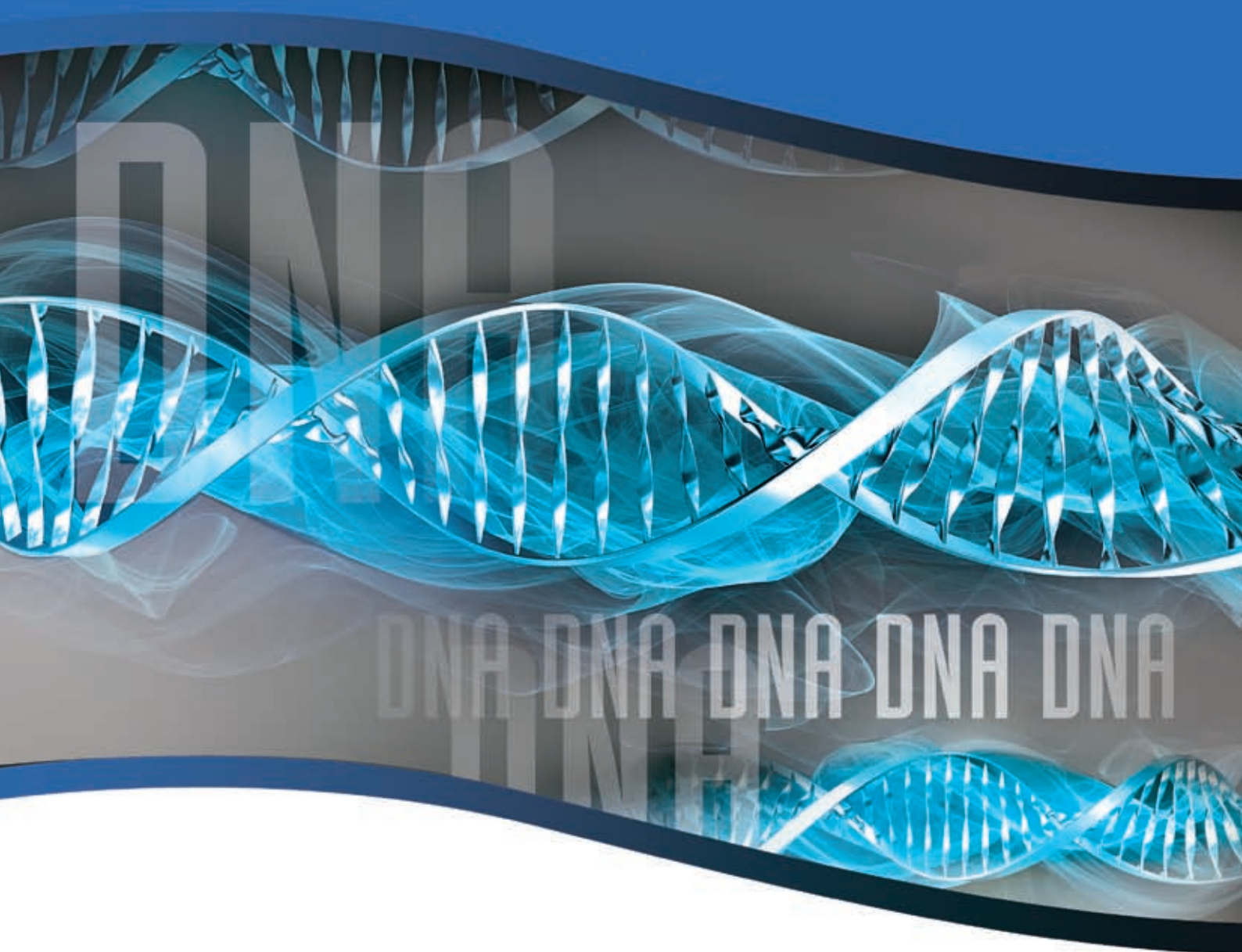
ESSEX

**ESSEX BIO-TECHNOLOGY LIMITED**

**億勝生物科技有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8151)



INTERIM REPORT **2010**

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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

## RESULTS

The board of directors of Essex Bio-Technology Limited (the “Company”) presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2010 together with the comparative figures for the corresponding periods in last financial period.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the three months ended		For the six months ended	
		30 June		30 June	
		2010	2009	2010	2009
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Continuing operations</b>					
Turnover	2	37,571	29,406	61,245	49,975
Cost of sales		(3,194)	(2,953)	(5,549)	(5,225)
Gross profit		34,377	26,453	55,696	44,750
Other revenue	2	165	26	554	66
Distribution and selling expenses		(22,586)	(16,829)	(36,478)	(28,654)
Administrative expenses		(3,646)	(3,382)	(6,315)	(6,040)
Finance costs		(4)	(7)	(13)	(13)
Profit before income tax expense	4	8,306	6,261	13,444	10,109
Income tax expense	5	(1,487)	(1,150)	(2,222)	(1,871)
Profit for the period from continuing operations		6,819	5,111	11,222	8,238
<b>Discontinued operations</b>					
Loss for the period from discontinued operations	7	–	(4,345)	–	(6,922)
<b>Profit for the period</b>		<b>6,819</b>	<b>766</b>	<b>11,222</b>	<b>1,316</b>
<b>Other comprehensive income</b>					
Exchange differences on translating foreign operations		433	7	522	9
<b>Total comprehensive income for the period</b>		<b>7,252</b>	<b>773</b>	<b>11,744</b>	<b>1,325</b>
<b>Profit/(loss) attributable to:</b>					
Owners of the company		6,819	2,897	11,222	4,709
Minority interests		–	(2,131)	–	(3,393)
		6,819	766	11,222	1,316
<b>Total comprehensive income attributable to:</b>					
Owners of the company		7,252	2,904	11,744	4,718
Minority interests		–	(2,131)	–	(3,393)
		7,252	773	11,744	1,325
<b>Earnings per share from continuing and discontinued operations-Basic</b>	8	<b>HK1.22cents</b>	HK0.52cents	<b>HK2.02cents</b>	HK0.85cents
<b>Earnings per share from continuing operations-Basic</b>	8	<b>HK1.22cents</b>	HK0.92cents	<b>HK2.02cents</b>	HK1.48cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2010 HK\$'000 (Unaudited)	At 31 December 2009 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	5,407	5,940
Land use rights	10	7,318	7,260
Goodwill		2,300	2,278
Convertible note receivable		4,913	4,501
Other intangible assets	11	5,273	2,891
		<u>25,211</u>	<u>22,870</u>
<b>CURRENT ASSETS</b>			
Inventories		3,068	2,215
Trade and other receivables	12	40,211	35,151
Deposits and prepayments		1,707	2,516
Cash and cash equivalents		68,411	67,741
		<u>113,397</u>	<u>107,623</u>
<b>TOTAL ASSETS</b>		<u>138,608</u>	<u>130,493</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	21,405	19,846
Taxation		1,913	1,533
		<u>23,318</u>	<u>21,379</u>
<b>NET CURRENT ASSETS</b>		<u>90,079</u>	<u>86,244</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>115,290</u>	<u>109,114</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		1,080	1,080
<b>TOTAL NET ASSETS</b>		<u>114,210</u>	<u>108,034</u>
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
Share capital		55,675	55,675
Reserves		58,535	52,359
Equity attributable to owners of the Company		<u>114,210</u>	<u>108,034</u>
<b>TOTAL EQUITY</b>		<u>114,210</u>	<u>108,034</u>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Foreign currency translation reserve HK\$'000	Retained earnings HK\$'000	Attributable to owners of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2009	55,675	970	362	5,889	8,851	31,150	102,897	10,877	113,774
Total comprehensive income for the period	-	-	-	-	9	4,709	4,718	(3,393)	1,325
2008 final dividend declared	-	-	-	-	-	(5,568)	(5,568)	-	(5,568)
Appropriation of profits	-	-	-	970	-	(970)	-	-	-
At 30 June 2009	<u>55,675</u>	<u>970</u>	<u>362</u>	<u>6,859</u>	<u>8,860</u>	<u>29,321</u>	<u>102,047</u>	<u>7,484</u>	<u>109,531</u>
At 1 January 2010	55,675	970	362	8,363	8,004	34,660	108,034	-	108,034
Total comprehensive income for the period	-	-	-	-	522	11,222	11,744	-	11,744
2009 final dividend declared	-	-	-	-	-	(5,568)	(5,568)	-	(5,568)
Appropriation of profits	-	-	-	1,439	-	(1,439)	-	-	-
At 30 June 2010	<u>55,675</u>	<u>970</u>	<u>362</u>	<u>9,802</u>	<u>8,526</u>	<u>38,875</u>	<u>114,210</u>	<u>-</u>	<u>114,210</u>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>2010</b> <b>HK\$'000</b>	For the six months ended 30 June 2009 HK\$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	<b>8,575</b>	13,253
NET CASH USED IN INVESTING ACTIVITIES	<b>(2,757)</b>	(3,342)
NET CASH USED IN FINANCING ACTIVITIES	<b>(5,567)</b>	(5,794)
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>251</b>	4,117
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>67,741</b>	49,945
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>419</b>	(2)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b><u>68,411</u></b>	<u>54,060</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	<b><u>68,411</u></b>	<u>54,060</u>

## NOTES:

**1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION**

The Group's unaudited condensed interim financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

The Group's unaudited condensed interim financial statements for the six months ended 30 June 2010 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed interim financial statements are consistent with those used in the 2009 audited financial statements.

**2. TURNOVER AND OTHER REVENUE**

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.

The analysis of the Group's turnover and other revenue is as follows:

	2010 HK\$'000	For the three months ended 30 June 2009 HK\$'000	2010 HK\$'000	For the six months ended 30 June 2009 HK\$'000
<b>Turnover</b>				
Continuing operation:				
Sales of biopharmaceutical products	37,571	29,406	61,245	49,975
Discontinued operations:				
Sales of agricultural fertilizers	–	21,848	–	68,247
	<u>37,571</u>	<u>51,254</u>	<u>61,245</u>	<u>118,222</u>
<b>Other revenue</b>				
Continuing operations:				
Interest income on a convertible note receivable	113	–	413	–
Others	52	26	141	66
Discontinued operations:				
Value added tax refund	–	655	–	2,047
Others	–	235	–	368
	<u>165</u>	<u>916</u>	<u>554</u>	<u>2,481</u>
	<u><u>37,736</u></u>	<u><u>52,170</u></u>	<u><u>61,799</u></u>	<u><u>120,703</u></u>

### 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 Biopharmaceutical products		Discontinued operations Agricultural fertilisers		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>For the six months ended 30 June (unaudited)</b>						
Revenue from external customers	<u>61,245</u>	<u>49,975</u>	<u>-</u>	<u>68,247</u>	<u>61,245</u>	<u>118,222</u>
Reportable segment profit/(loss)	<u>16,075</u>	<u>12,042</u>	<u>-</u>	<u>(6,028)</u>	<u>16,075</u>	<u>6,014</u>
Interest income	554	66	-	55	554	121
Interest expenses	-	-	-	894	-	894
Depreciation	930	847	-	793	930	1,640
Amortisation	262	205	-	82	262	287
Reversal of impairment loss of trade and other receivables	-	86	-	-	-	86
Income tax expenses	2,222	1,871	-	-	2,222	1,871
<b>As at 30 June 2010 (unaudited) and 31 December 2009 (audited)</b>						
Reportable segment assets	<u>126,055</u>	<u>109,169</u>	<u>-</u>	<u>-</u>	<u>126,055</u>	<u>109,169</u>
Additions to non-current assets	353	986	-	1,448	353	2,434
Reportable segment liabilities	<u>22,812</u>	<u>20,187</u>	<u>-</u>	<u>-</u>	<u>22,812</u>	<u>20,187</u>



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

	2010 HK\$'000	2009 HK\$'000
<b>For the six months ended 30 June (unaudited)</b>		
<b>Revenue</b>		
Reportable segment revenue and consolidated revenue	<u>61,245</u>	<u>118,222</u>
	2010 HK\$'000	2009 HK\$'000
<b>Profit before income tax expenses and discontinued operations</b>		
Reportable segment profit	16,075	6,014
Segment loss from discontinued operations	–	6,028
Unallocated corporate expenses	<u>(2,631)</u>	<u>(1,933)</u>
Consolidated profit before income tax expenses from continuing operations	<u>13,444</u>	<u>10,109</u>
	2010 HK\$'000	2009 HK\$'000
<b>As at 30 June 2010 (unaudited) and 31 December 2009 (audited)</b>		
<b>Assets</b>		
Reportable segment assets of continuing operation	126,055	109,169
Unallocated corporate assets	<u>12,553</u>	<u>21,324</u>
Consolidated total assets	<u>138,608</u>	<u>130,493</u>
	2010 HK\$'000	2009 HK\$'000
<b>Liabilities</b>		
Reportable segment liabilities of continuing operations	22,812	20,187
Deferred tax liabilities	1,080	1,080
Unallocated corporate liabilities	<u>506</u>	<u>1,192</u>
Consolidated total liabilities	<u>24,398</u>	<u>22,459</u>

The unallocated corporate expenses mainly included directors' remuneration, salaries and allowances. 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 six months ended 30 June 2010 and 2009, the revenue from the Group's largest customer amounted to less than 10% of the Group's total revenue.

#### 4. PROFIT BEFORE INCOME TAX EXPENSE

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

	For the three months ended 30 June 2009		For the six months ended 30 June 2009	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Cost of inventories recognised as expenses	3,194	2,953	5,549	5,225
Amortisation of other intangible assets	93	76	186	155
Amortisation of land use rights	38	25	76	49
Depreciation of property, plant and equipment	464	424	930	847
Staff costs excluding directors' remuneration:				
Salaries and allowances	2,387	2,095	4,722	4,116
Pension fund contributions	31	124	60	255
Auditors' remuneration	120	120	240	240
Research and development costs expensed immediately	293	564	293	1,106

#### 5. INCOME TAX EXPENSE

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 Enterprises 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 22% (2009: 20%).

#### 6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

**7. DISCONTINUED OPERATIONS**

In June 2009, the Group disposed of Baoyuan Bio-Agri (Shandong) Limited (“Shandong Baoyuan”) which was engaged in research, development and production of organic and chemical formulated fertilizers in the PRC. The disposal was effected to streamline the core business of the Group. The sales and results from 1 January 2009 to 30 June 2009 were as follows:

	<b>2010</b>	For the three months ended 30 June 2009	<b>2010</b>	For the six months ended 30 June 2009
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Revenue from external customers	–	21,848	–	68,247
Other revenue	–	890	–	2,415
	–	22,738	–	70,662
Operating costs	–	(26,687)	–	(76,690)
Operating loss	–	(3,949)	–	(6,028)
Finance costs	–	(396)	–	(894)
Loss before incoming tax expense	–	(4,345)	–	(6,922)
Income tax expense	–	–	–	–
Loss after income tax expense	–	(4,345)	–	(6,922)

**8. 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

	<b>2010</b>	For the three months ended 30 June 2009	<b>2010</b>	For the six months ended 30 June 2009
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Earnings for the purpose of basic earnings per share	<b>6,819</b>	2,897	<b>11,222</b>	4,709

**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:

	For the three months ended 30 June		For the six months ended 30 June	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period attributable to owners of the Company	<b>6,819</b>	2,897	<b>11,222</b>	4,709
Add: Loss for the period from discontinued operations	<u>-</u>	<u>2,214</u>	<u>-</u>	<u>3,529</u>
Earnings for the purposes of basic earnings per share from continuing operations	<u><b>6,819</b></u>	<u>5,111</u>	<u><b>11,222</b></u>	<u>8,238</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 (2009: 556,750,000) in issue during the periods.

**From discontinued operations**

Basic loss per share for the discontinued operations for the three months and six months ended 30 June 2009 is HK0.40 cents and HK\$0.63 cents per share, based on the loss from the discontinued operations of HK\$2.2 million and HK\$3.5 million and the number of ordinary shares of 556,750,000 in issue during the periods.

Diluted earnings per share for the periods ended 30 June 2010 and 2009 are not presented since the Company did not have any dilutive potential ordinary shares outstanding during both periods.

## 9. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
At 1 January 2009	16,493	16,056	4,027	2,839	39,415
Additions	502	355	239	1,338	2,434
Disposals	–	–	–	(185)	(185)
Write offs	–	(364)	(435)	–	(799)
Disposals of a subsidiary	(12,613)	(7,057)	(591)	(2,299)	(22,560)
Exchange differences	6	15	5	2	28
	<u>4,388</u>	<u>9,005</u>	<u>3,245</u>	<u>1,695</u>	<u>18,333</u>
At 31 December 2009 and 1 January 2010	4,388	9,005	3,245	1,695	18,333
Additions	10	276	67	–	353
Exchange differences	35	74	22	14	145
	<u>4,433</u>	<u>9,355</u>	<u>3,334</u>	<u>1,709</u>	<u>18,831</u>
At 30 June 2010	4,433	9,355	3,334	1,709	18,831
Accumulated depreciation:					
At 1 January 2009	3,890	6,958	2,919	1,243	15,010
Charge for the year	1,151	909	291	297	2,648
Eliminated on disposal	–	–	–	(166)	(166)
Write offs	–	(335)	(386)	–	(721)
Disposals of a subsidiary	(1,663)	(2,016)	(279)	(437)	(4,395)
Exchange differences	4	8	4	1	17
	<u>3,382</u>	<u>5,524</u>	<u>2,549</u>	<u>938</u>	<u>12,393</u>
At 31 December 2009 and 1 January 2010	3,382	5,524	2,549	938	12,393
Charge for the period	424	307	106	93	930
Exchange differences	30	46	17	8	101
	<u>3,836</u>	<u>5,877</u>	<u>2,672</u>	<u>1,039</u>	<u>13,424</u>
At 30 June 2010	3,836	5,877	2,672	1,039	13,424
Net book value:					
At 30 June 2010 (unaudited)	<u>597</u>	<u>3,478</u>	<u>662</u>	<u>670</u>	<u>5,407</u>
At 31 December 2009 (audited)	<u>1,006</u>	<u>3,481</u>	<u>696</u>	<u>757</u>	<u>5,940</u>

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

**10. LAND USE RIGHTS**

	HK\$'000
<hr/>	
Costs	
At 1 January 2009	8,249
Additions	7,536
Disposal of a subsidiary	(8,248)
Exchange differences	(1)
	<hr/>
At 31 December 2009 and 1 January 2010	7,536
Exchange differences	60
	<hr/>
At 30 June 2010	7,596
	<hr/>
Accumulated amortisation:	
At 1 January 2009	316
Charge for the year	207
Disposal of a subsidiary	(398)
	<hr/>
At 31 December 2009 and 1 January 2010	125
Charge for the period	76
	<hr/>
At 30 June 2010	201
	<hr/>
Carrying amount:	
At 30 June 2010 (unaudited)	7,395
Portion classified as current assets (included in Deposits and prepayments)	(77)
	<hr/>
Non-current assets	<u>7,318</u>
	<hr/>
At 31 December 2009 (audited)	7,411
Portion classified as current assets (included in Deposits and prepayments)	(151)
	<hr/>
Non-current assets	<u>7,260</u>
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The Group's interest in leasehold land is held in the PRC under a medium term lease of 50 years.

## 11. OTHER INTANGIBLE ASSETS

	<b>Technical Know-how</b>	<b>Development expenditure</b>	<b>Distribution rights</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:				
At 1 January 2009	250	8,277	–	8,527
Additions	–	–	1,138	1,138
Disposal of a subsidiary	(250)	–	–	(250)
Exchange differences	–	14	–	14
At 31 December 2009 and 1 January 2010	–	8,291	1,138	9,429
Additions	–	2,546	–	2,546
Exchange differences	–	66	9	75
At 30 June 2010	–	10,903	1,147	12,050
Accumulated amortisation and impairment:				
At 1 January 2009	250	6,172	–	6,422
Charge for the year	–	317	38	355
Disposal of a subsidiary	(250)	–	–	(250)
Exchange differences	–	11	–	11
At 31 December 2009 and 1 January 2010	–	6,500	38	6,538
Charge for the period	–	129	57	186
Exchange differences	–	53	–	53
At 30 June 2010	–	6,682	95	6,777
Net book value:				
At 30 June 2010 (unaudited)	–	4,221	1,052	5,273
At 31 December 2009 (audited)	–	1,791	1,100	2,891

**12. TRADE AND OTHER RECEIVABLES**

	<b>At 30 June 2010 HK\$'000 (unaudited)</b>	At 31 December 2009 HK\$'000 (audited)
Trade receivables	39,655	35,198
Less: provision for impairment	(34)	(306)
Trade receivables - net	<b>39,621</b>	34,892
Other receivables	<b>590</b>	259
Total	<b><u>40,211</u></b>	<b><u>35,151</u></b>

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

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

	<b>At 30 June 2010 HK\$'000 (unaudited)</b>	At 31 December 2009 HK\$'000 (audited)
0-60 days	27,162	19,367
61-90 days	10,244	5,729
> 90 days	2,215	9,796
	<b><u>39,621</u></b>	<b><u>34,892</u></b>

**13. TRADE AND OTHER PAYABLES**

	<b>At 30 June 2010 HK\$'000 (unaudited)</b>	At 31 December 2009 HK\$'000 (audited)
Trade payables	286	275
Other payables	1,681	1,999
Accruals	16,388	14,096
VAT payable	3,050	3,205
Deposits received	-	271
	<b><u>21,405</u></b>	<b><u>19,846</u></b>

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

	<b>At 30 June 2010 HK\$'000 (unaudited)</b>	At 31 December 2009 HK\$'000 (audited)
0-60 days	55	166
61-90 days	48	-
> 90 days	183	109
	<b><u>286</u></b>	<b><u>275</u></b>



## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Business review and prospects***

During the period under review, the Group's principal activity was in the manufacture and sale of biopharmaceutical products for the treatment and healing of surface wounds and eye wounds and diseases. 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 the first half of 2010, the Group achieved a revenue growth of 22.6% in the pharmaceutical business as compared to the same period of the previous financial year. The increase is attributed to the continued expansion of sales into the inner cities and counties of major provinces in the People's Republic of China (the "PRC").

For building a strong product pipeline to enable future growth, the Group has strategically forged a tie-up with 廣東省視覺眼科學研究所(Guangdong Ophthalmologic Science Institute) to jointly research and develop bFGF medical amniotic membrane. The product once successfully developed and approved will have a range of applications for repairing corneal and conjunctival defects caused by multiple factors as well as filtration bleb after glaucoma surgery.

### ***Market development***

#### *Distribution networks*

During the period under review, the Group established 3 more direct representative offices ("DROs") in Shanghai, Jilin and Lanzhou, bringing the total number of DROs to 23. The DROs, are located in major provinces in the PRC. There are over 1,300 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 50 seminars and 249 market promotion activities in major cities and provinces in the PRC for the period under review, educating more than 9,000 doctors and medical practitioners on the clinical applications of the Group's products.

#### *Business associates*

The development status on two strategic business tie-ups with two international pharmaceutical companies 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 for the clinical trials' application in the PRC were submitted in the second quarter of 2009 to State Food Drug Administration ("SFDA") of China and is pending for their 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 in 2009 and the first batch of 250kg UDCA are being distributed in China.

Licence to distribute UDCA capsules will be applied to SFDA 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. The commercial launch of the product is pending for SFDA's approval.

### *Collaboration agreements*

The Group entered into two ophthalmic pharmaceutical collaboration agreements with Jinan Bestcomm Pharmaceutical R&D., 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.

Under one of the collaboration agreements, the Group 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. The product has been commercially launched in the second quarter of 2010.

Another collaboration agreement with Jinan Bestcomm is for the cooperation in the research and development of an ophthalmic antibiotics product - 甲苯磺酸妥舒沙星滴眼液 (Tosufloxacin Tosylate Eye Drop). 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 trial of Tosufloxacin Tosylate Eye Drop was completed by Jinan Bestcomm in the first quarter of 2009 and is pending for SFDA's approval to commence the clinical trial.

### ***Research and development ("R&D")***

R&D pipeline during the period 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 for 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 for 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.
- bFGF 藥物羊膜 (bFGF medical amniotic membrane) – Pre-clinical tests are in progress. bFGF medical amniotic membrane is mainly used for repairing corneal and conjunctival defects caused by multiple factors as well as filtration bleb after glaucoma surgery.

### ***Financial review***

The Group recorded approximately HK\$61.2 million in turnover for the six months ended 30 June 2010, an increase of 22.6% over the corresponding previous period.

Overall gross profit for the six months ended 30 June 2010 increased to approximately HK\$55.7 million when compared to approximately HK\$44.8 million recorded in the same period of last year.

Distribution and selling expenses increased to approximately HK\$36.5 million for the six months ended 30 June 2010 when compared to approximately HK\$28.7 million recorded in the same period of last year. The increase was mainly attributable to higher expenses incurred in sales, marketing and promotional activities which are in line with the growth of pharmaceutical business in the period under review.

Administration expenses slightly increased to approximately HK\$6.3 million for the six months ended 30 June 2010 as compared to approximately HK\$6.0 million in the corresponding previous period.

The Group had cash and cash equivalents of approximately HK\$68.4 million as at 30 June 2010 (31 December 2009: HK\$67.7 million).

As at 30 June 2010 and 31 December 2009, the Group has no bank and other borrowings.

### ***Capital structure***

There has been no change in the capital structure of the Company during the period under review. The capital of the Company comprises only ordinary shares. No bank and other borrowings as at 30 June 2010.

### ***Significant investments***

As at 30 June 2010, the Group did not have any significant investments save as those disclosed in this report.

### ***Material acquisitions and disposals of subsidiaries/Future plans for material 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 instill 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 its breadth and depth. To cater for a larger manufacturing capacity as the Group's business expands, the Group has started to plan for building 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 sources. Details of the new factory will be announced in due course.

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

### ***Gearing ratio***

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debts as total debt (which includes interest-bearing loans and borrowings and trade and other payables) less pledged deposits and cash and cash equivalents. Adjusted capital comprises all components of equity. The net debts-to-adjusted capital ratio at 30 June 2010 is zero (31 December 2009: zero) as the cash and cash equivalents is more than total debt as at 30 June 2010.

### ***Liquidity and financial resources***

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

As at 30 June 2010, the Group had cash and cash equivalents of approximately HK\$68.4 million (31 December 2009: HK\$67.7 million).

### ***Foreign exchange exposure***

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

### ***Charges on Group assets***

As at 30 June 2010, the Group did not have any charges on its assets.

### ***Contingent liability***

The Group did not have any significant contingent liabilities as at 30 June 2010.

### ***Segmental information***

The segmental information of the Group's products is set out on pages 7 to 8 of this report.

### ***Employees***

As at 30 June 2010, the Group has a total of 161 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the period under review and the previous period amounted to approximately HK\$5.8 million and approximately HK\$5.3 million, respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending on the financial performance of the Group.

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 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 minority interests but before extraordinary items of the Company for such financial year and that the said consolidated net profits for such year exceeded 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.

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

As at 30 June 2010, 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 Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

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

Notes:

- 288,458,000 shares were held by Essex Holdings Limited ("Essex Holdings") which is owned as to 50% by Ngiam Mia Je Patrick and as to 50% by Ngiam Mia Kiat Benjamin. Therefore, Ngiam Mia Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Essex Holdings at general meetings.
- 6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which is wholly owned by Essex Investment (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares and therefore, Ngiam Mia Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meeting.

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

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

Save as disclosed above, as at 30 June 2010, none of the directors or chief executive of the Company or their respective associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 of the GEM Listing Rules.

#### 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 period 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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, the following persons, other than the directors 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 of interests required to be kept by the Company under Section 336 of the SFO:

Long positions in ordinary shares of the Company:

<b>Name</b>	<b>Capacity and nature of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of the Company's issued share capital</b>
Essex Holdings Limited	Beneficial owner	288,458,000	51.81
Ngiam Mia Kiat Benjamin	Beneficial owner and corporate interest	295,449,667 (note 1)	53.07
Lauw Hui Kian	Family interest	297,374,667 (note 2)	53.41
Kee Sue Hwa	Beneficial owner	32,476,000	5.83

Notes:

- 325,000 shares were registered directly in the name of Ngiam Mia Kiat Benjamin.
  - 288,458,000 shares were held by Essex Holdings; and
  - 6,666,667 shares were held by Dynatech.
- 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 interest. Ngiam Mia Je Patrick was interested in 297,374,667 shares of the company.

Save as disclosed above, as at 30 June 2010, there was no other person (other than the directors and chief executive of the Company whose interests are set out under the paragraph headed “Directors’ and chief executive’s interests and short positions in shares, underlying shares and debentures” above) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## 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 period under review.

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules throughout the period under review.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings under the GEM Listing Rules throughout the period ended 30 June 2010.

## COMPETITION AND CONFLICT OF INTERESTS

None of the directors, the management shareholders 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 conflicts of interests with the Group during the period under review which are required to be disclosed under the GEM Listing Rules.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with 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 of the Company.

The Group’s unaudited results for the six months ended 30 June 2010 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 has been made.

## DIRECTORS OF THE COMPANY

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

ON BEHALF OF THE BOARD

**Ngiam Mia Je Patrick**  
*Chairman*

Hong Kong  
11 August 2010