



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)

2010 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 2010 amounted to approximately HK\$146.3 million (2009: HK\$116.7 million), representing an increase of approximately 25.4% as compared with preceding year.
- Profit attributable to owners of the Company for the year ended 31 December 2010 amounted to approximately HK\$26.6 million (2009: HK\$11.6 million).
- Basic earnings per share from continuing and discontinued operations for the year ended 31 December 2010 amounted to HK4.77 cents (2009: HK2.07 cents). Basic earnings per share from continuing operations for the year ended 31 December 2010 amounted to HK4.77 cents (2009: HK3.00 cents).
- The directors proposed a final dividend of HK\$0.01 (2009: HK\$0.01) per ordinary share to be paid.
- There were no diluted earnings per share for both years ended 31 December 2010 and 2009 since the Company had no dilutive potential shares outstanding as at 31 December 2010 and 2009.

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 2010 together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<i>Notes</i>	2010 HK\$	2009 HK\$
Continuing operations			
Turnover	4	146,281,574	116,688,187
Cost of sales		(11,936,206)	(11,038,491)
Gross profit		134,345,368	105,649,696
Other revenue, gains and (losses)	5	(1,466,001)	833,569
Distribution and selling expenses		(89,748,373)	(69,618,126)
Administrative expenses		(11,932,228)	(15,301,513)
Profit before income tax expense	6(a)	31,198,766	21,563,626
Income tax expense	7	(4,614,394)	(4,810,871)
Profit for the year from continuing operations		26,584,372	16,752,755
Discontinued operations			
Loss for the year from discontinued operations	6(b)	–	(8,594,063)
Profit for the year		26,584,372	8,158,692
Other comprehensive income			
Exchange differences on translating foreign operations		3,267,231	109,805
Less: reclassification adjustment of exchange reserve on disposal of a subsidiary included in profit or loss		–	(956,375)
		3,267,231	(846,570)
Total comprehensive income for the year		29,851,603	7,312,122
Profit attributable to:			
– Owners of the Company		26,584,372	11,550,889
– Non-controlling interests		–	(3,392,197)
		26,584,372	8,158,692
Total comprehensive income attributable to:			
– Owners of the Company		29,851,603	10,704,319
– Non-controlling interests		–	(3,392,197)
		29,851,603	7,312,122
Earnings per share from continuing and discontinued operations – Basic			
	9	HK4.77 cents	HK2.07 cents
Earnings per share from continuing operations – Basic			
	9	HK4.77 cents	HK3.00 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	<i>Notes</i>	2010 HK\$	2009 <i>HK\$</i>
Non-current assets			
Property, plant and equipment	<i>10</i>	11,436,931	5,939,801
Land use rights		7,379,016	7,260,388
Goodwill		2,384,580	2,278,489
Other intangible assets	<i>11</i>	7,611,128	2,891,698
Convertible note receivable	<i>12</i>	2,250,110	4,500,220
		<hr/>	<hr/>
Total non-current assets		31,061,765	22,870,596
Current assets			
Inventories		3,662,225	2,215,067
Trade and other receivables	<i>13</i>	50,764,174	35,150,478
Deposits and prepayments		2,217,721	2,516,124
Pledged bank deposits		2,578,649	–
Cash and cash equivalents		78,906,770	67,741,062
		<hr/>	<hr/>
		138,129,539	107,622,731
Total assets		169,191,304	130,493,327
Current liabilities			
Trade and other payables	<i>14</i>	34,508,163	19,845,899
Taxation		2,148,549	1,533,123
		<hr/>	<hr/>
		36,656,712	21,379,022
Net current assets		101,472,827	86,243,709
Total assets less current liabilities		132,534,592	109,114,305
Non-current liabilities			
Deferred tax liabilities	<i>15</i>	216,184	1,080,000
Total liabilities		36,872,896	22,459,022
NET ASSETS		132,318,408	108,034,305
Capital and reserves attributable to owners of the Company			
Share capital	<i>16</i>	55,675,000	55,675,000
Reserves		76,643,408	52,359,305
		<hr/>	<hr/>
Equity attributable to owners of the Company		132,318,408	108,034,305
Non-controlling interests		–	–
TOTAL EQUITY		132,318,408	108,034,305

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Capital reserve <i>HK\$</i>	Statutory surplus reserve <i>HK\$</i>	Foreign currency translation reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Attributable to owners of the Company <i>HK\$</i>	Non- controlling interests <i>HK\$</i>	Total <i>HK\$</i>
At 1 January 2009	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
Profit or loss	-	-	-	-	-	11,550,889	11,550,889	(3,392,197)	8,158,692
Other comprehensive income	-	-	-	-	(846,570)	-	(846,570)	-	(846,570)
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	55,675,000	969,871	362,442	8,363,484	8,003,932	34,659,576	108,034,305	-	108,034,305
Profit or loss	-	-	-	-	-	26,584,372	26,584,372	-	26,584,372
Other comprehensive income	-	-	-	-	3,267,231	-	3,267,231	-	3,267,231
Total comprehensive income for the year	-	-	-	-	3,267,231	26,584,372	29,851,603	-	29,851,603
Dividend paid	-	-	-	-	-	(5,567,500)	(5,567,500)	-	(5,567,500)
Appropriation of profits	-	-	-	4,530,775	-	(4,530,775)	-	-	-
At 31 December 2010	55,675,000	969,871	362,442	12,894,259	11,271,163	51,145,673	132,318,408	-	132,318,408

Representing:

Notes

For the year ended 31 December 2009:

2009 proposed final dividend	8	5,567,500
Others		102,466,805
Attributable to owners of the Company as at 31 December 2009		<u>108,034,305</u>

For the year ended 31 December 2010:

2010 proposed final dividend	8	5,567,500
Others		126,750,908
Attributable to owners of the Company as at 31 December 2010		<u>132,318,408</u>

Notes:

1. BASIS OF PREPARATION

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 consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

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

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

(a) Adoption of new/revised HKFRSs – effective 1 January 2010

HKFRSs (Amendments)	Improvements to HKFRSs
Amendments to HKAS 39	Eligible Hedged Items
Amendments to HKFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners
HK Interpretation 5	Presentation of Financial Statements – Classification by Borrower of a Term Loan that Contains a Repayment on Demand Clause

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

HKAS 17 (Amendments) – Leases

As part of Improvements to HKFRSs issued in 2009, HKAS 17 has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the statement of financial position. The amendment to HKAS 17 has removed such a requirement and requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The Group concluded that the classification of such leases as operating leases continues to be appropriate.

(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)	Improvements to HKFRSs 2010 ^{1&2}
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments ¹
HKAS 24 (Revised)	Related Party Disclosures ²
Amendments to HKFRS 7	Disclosure – Transfers of Financial Assets ³
HKFRS 9	Financial Instruments ⁴

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

² Effective for annual periods beginning on or after 1 January 2011

³ Effective for annual periods beginning on or after 1 July 2011

⁴ Effective for annual periods beginning on or after 1 January 2013

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

The amendments to HKFRS 7 improve the derecognition disclosure requirements for transfer transactions of financial assets and allow users of consolidated financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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 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.

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 currently has one (2009: two) reportable segment. The following summary describes the operations of the Group's reportable segments:–

Continuing operations

Biopharmaceutical products: Manufacture and sale of biopharmaceutical products

Discontinued operations

Agricultural fertilizers: Manufacture and sale of organic and chemical formulated agricultural fertilizers
(disposed of in June 2009)

(a) Reportable segments

	Continuing operations		Discontinued operations		Total	
	Biopharmaceutical products		Agricultural fertilizers			
	2010	2009	2010	2009	2010	2009
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue from external customers	<u>146,281,574</u>	<u>116,688,187</u>	<u>–</u>	<u>68,247,271</u>	<u>146,281,574</u>	<u>184,935,458</u>
Reportable segment profit/(loss)	<u>40,112,028</u>	<u>26,979,545</u>	<u>–</u>	<u>(8,594,063)</u>	<u>40,112,028</u>	<u>18,385,482</u>
Interest income	228,128	203,140	–	55,124	228,128	258,264
Interest expenses	(36,424)	–	–	(894,438)	(36,424)	(894,438)
Depreciation and amortisation	(1,966,921)	(2,334,764)	–	(875,265)	(1,966,921)	(3,210,029)
Reversal of impairment loss	38,765	190,819	–	–	38,765	190,819
Income tax expense	(4,614,394)	(4,810,871)	–	–	(4,614,394)	(4,810,871)
Reportable segment assets	161,689,257	109,168,853	–	–	161,689,257	109,168,853
Additions to non-current assets	11,573,937	986,474	–	1,447,742	11,573,937	2,434,216
Reportable segment liabilities	<u>(34,842,791)</u>	<u>(20,187,011)</u>	<u>–</u>	<u>–</u>	<u>(34,842,791)</u>	<u>(20,187,011)</u>

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

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Revenue		
Reportable segment revenue and consolidated revenue	<u>146,281,574</u>	<u>184,935,458</u>
	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Profit before income tax expense and discontinued operations		
Reportable segment profit	40,112,028	18,385,482
Segment loss from discontinued operations	–	8,594,063
Unallocated corporate expenses	<u>(8,913,262)</u>	<u>(5,415,919)</u>
Consolidated profit before income tax expense from continuing operations	<u>31,198,766</u>	<u>21,563,626</u>
	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Assets		
Reportable segment assets	161,689,257	109,168,853
Unallocated corporate assets	<u>7,502,047</u>	<u>21,324,474</u>
Consolidated total assets	<u>169,191,304</u>	<u>130,493,327</u>
	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Liabilities		
Reportable segment liabilities	(34,842,791)	(20,187,011)
Deferred tax liabilities	(216,184)	(1,080,000)
Unallocated corporate liabilities	<u>(1,813,921)</u>	<u>(1,192,011)</u>
Consolidated total liabilities	<u>(36,872,896)</u>	<u>(22,459,022)</u>

The unallocated corporate expenses mainly include directors' remuneration and salaries and allowances of head office and the unallocated corporate assets mainly included convertible note receivable and cash at banks of head office.

(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, other than convertible note receivable, are located. For the year of 2010 and 2009, 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 fertilizers supplied to customers less discounts, returns, value added tax and other applicable local taxes and is analysed as follows:

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Continuing operations		
Sales of biopharmaceutic products	146,281,574	116,688,187
Discontinued operations		
Sales of agricultural fertilizers	—	68,247,271
	<u>146,281,574</u>	<u>184,935,458</u>

5. OTHER REVENUE, GAINS AND (LOSSES)

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Continuing operations		
Interest income on a convertible note receivable	629,890	—
Others	517,216	439,610
Interest income from bank deposits	228,128	203,140
Reversal of impairment loss of trade and other receivables	38,765	190,819
Impairment on convertible note receivable	(2,880,000)	—
	<u>(1,466,001)</u>	<u>833,569</u>

6. PROFIT BEFORE INCOME TAX EXPENSE

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

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Cost of inventories recognised as expenses	11,936,206	11,038,491
Staff costs excluding directors' remuneration:—		
Salaries and other benefits	10,690,390	9,136,288
Pension fund contributions	511,547	519,270
Depreciation of property, plant and equipment	1,699,690	1,855,282
Amortisation of other intangible assets	114,937	354,598
Amortisation of land use rights	152,294	124,884
Auditor's remuneration:—		
Current year	380,000	430,000
Under provision for last year	47,979	—
	427,979	430,000
Research and development costs expensed as incurred	<u>1,952,068</u>	<u>3,040,751</u>

(b) Discontinued operations

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

	<i>HK\$</i>
Revenue from external customers	68,247,271
Other revenue	<u>2,415,129</u>
	70,662,400
Operating costs	<u>(76,690,810)</u>
Operating loss	(6,028,410)
Finance costs	<u>(894,438)</u>
Loss before income tax expense	(6,922,848)
Income tax expense	<u>–</u>
Loss after tax	(6,922,848)
Loss on disposal of a subsidiary	<u>(1,671,215)</u>
Loss for the year from discontinued operations	<u><u>(8,594,063)</u></u>
Operating cash flows	13,074,501
Investing cash flows	878,702
Financing cash flows	<u>(5,100,000)</u>
Total cash flows	<u><u>8,853,203</u></u>

A loss of HK\$1.67 million arose on the disposal of Shangdong 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.

7. INCOME TAX EXPENSE

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

	2010	2009
	<i>HK\$</i>	<i>HK\$</i>
Continuing operations		
Current tax – the PRC		
– Provision for the year	5,455,288	3,730,871
– Deferred tax (<i>Note 15</i>)	<u>(840,894)</u>	<u>1,080,000</u>
	<u>4,614,394</u>	<u><u>4,810,871</u></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 carries 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 the three years from 2008 to 2010.

The Group's other operating subsidiary in Zhuhai, the PRC, which was established and carries on business in the Special Economic Zones of the PRC, is subject to enterprise income tax at a concessionary rate of 22% (2009: 20%).

In accordance with the new law on PRC Enterprise Income Tax approved on 16 March 2008, a unified enterprise income tax rate of 25% will 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 income tax expense for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2010	2009
	HK\$	HK\$
Continuing operations		
Profit before income tax expense	31,198,766	21,563,626
Tax calculated at Hong Kong profits tax rate of 16.5% (2009: 16.5%)	5,045,830	3,557,998
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,288,598)	652,905
Tax effect of expenses not deductible for tax purposes	4,725,808	339,809
Tax effect of revenue not taxable for tax purposes	(3,859,178)	(783,598)
Tax effect of tax loss not recognised	140,463	1,501,838
Tax effect of deductible temporary differences previously not recognised	221,773	–
Deferred tax on undistributed earnings of a subsidiary in the PRC	–	1,080,000
Tax benefits	(436,909)	(1,615,705)
Others	65,205	77,624
Income tax expense	4,614,394	4,810,871

8. DIVIDENDS

	2010	2009
	HK\$	HK\$
Final, proposed – HK\$0.01 (2009: HK\$0.01) per share	5,567,500	5,567,500

The directors propose a final dividend of HK\$0.01 (2009: HK\$0.01) per ordinary share to be paid. The amount of proposed final dividend for 2010 is based on 556,750,000 shares (2009: 556,750,000) issued as at 31 December 2010. 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 2011.

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

	2010	2009
	HK\$	HK\$
Earnings for the purposes of basic earnings per share	<u>26,584,372</u>	<u>11,550,889</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 are calculated as follows:

	2010	2009
	HK\$	HK\$
Profit for the year attributable to owners of the Company	26,584,372	11,550,889
Add:		
Loss for the year from discontinued operations	<u>—</u>	<u>5,201,866</u>
Earnings for the purposes of basic earnings per share from continuing operations	<u>26,584,372</u>	<u>16,752,755</u>

The denominator used for both earnings per share from continuing and discontinued operations and continuing operations only is the number of ordinary shares of 556,750,000 (2009: 556,750,000) in issue during the years.

From discontinued operations

Basic loss per share for the discontinued operations was HK0.93 cents, based on the loss for the year ended 31 December 2009 from the discontinued operations of HK\$5.2 million and the number of ordinary shares of 556,750,000 in issue during the year of 2009.

Diluted earnings per share for the years ended 31 December 2010 and 2009 are not presented since the Company did not have any dilutive potential ordinary shares outstanding during both years.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold improvements <i>HK\$</i>	Construction in progress <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Furniture, fixtures and equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
Cost						
At 1 January 2009	16,493,369	–	16,056,321	4,027,415	2,839,250	39,416,355
Additions	502,490	–	354,550	238,731	1,338,445	2,434,216
Disposals	–	–	–	–	(185,439)	(185,439)
Write offs	–	–	(364,284)	(434,948)	–	(799,232)
Disposal of a subsidiary	(12,613,536)	–	(7,056,415)	(591,309)	(2,299,697)	(22,560,957)
Exchange adjustment	6,147	–	15,038	5,079	2,123	28,387
At 31 December 2009	4,388,470	–	9,005,210	3,244,968	1,694,682	18,333,330
Additions	–	5,930,095	833,342	82,557	–	6,845,994
Reclassification	(314,096)	314,096	–	–	–	–
Write offs	–	–	–	(110,535)	–	(110,535)
Exchange adjustment	154,399	173,510	363,894	(312,172)	64,206	443,837
At 31 December 2010	4,228,773	6,417,701	10,202,446	2,904,818	1,758,888	25,512,626
Accumulated depreciation and impairment						
At 1 January 2009	3,890,389	–	6,958,406	2,919,084	1,243,843	15,011,722
Charge for the year	1,150,654	–	908,817	291,691	296,845	2,648,007
Eliminated on disposal	–	–	–	–	(166,895)	(166,895)
Write offs	–	–	(335,217)	(386,183)	–	(721,400)
Disposal of a subsidiary	(1,663,287)	–	(2,016,294)	(279,526)	(436,728)	(4,395,835)
Exchange adjustment	4,001	–	8,684	3,786	1,459	17,930
At 31 December 2009	3,381,757	–	5,524,396	2,548,852	938,524	12,393,529
Charge for the year	699,816	–	625,834	193,438	180,602	1,699,690
Write offs	–	–	–	(97,319)	–	(97,319)
Exchange adjustment	147,200	–	226,361	(334,246)	40,480	79,795
At 31 December 2010	4,228,773	–	6,376,591	2,310,725	1,159,606	14,075,695
Carrying amount						
At 31 December 2010	<u>–</u>	<u>6,417,701</u>	<u>3,825,855</u>	<u>594,093</u>	<u>599,282</u>	<u>11,436,931</u>
At 31 December 2009	<u>1,006,713</u>	<u>–</u>	<u>3,480,814</u>	<u>696,116</u>	<u>756,158</u>	<u>5,939,801</u>

The Group's buildings and construction in progress are built on land in the PRC under medium-term leases.

11. OTHER INTANGIBLE ASSETS

	Technical know-how <i>HK\$</i>	Development expenditure <i>HK\$</i>	Distribution rights <i>HK\$</i>	Total <i>HK\$</i>
Cost				
At 1 January 2009	249,845	8,276,759	–	8,526,604
Additions	–	–	1,137,656	1,137,656
Disposal of a subsidiary	(249,832)	–	–	(249,832)
Exchange adjustment	(13)	14,139	(56)	14,070
At 31 December 2009	–	8,290,898	1,137,600	9,428,498
Additions	–	4,727,943	–	4,727,943
Exchange adjustment	–	314,115	43,100	357,215
At 31 December 2010	–	13,332,956	1,180,700	14,513,656
Amortisation				
At 1 January 2009	249,845	6,171,677	–	6,421,522
Amortisation	–	316,676	37,922	354,598
Disposal of a subsidiary	(249,832)	–	–	(249,832)
Exchange adjustment	(13)	10,527	(2)	10,512
At 31 December 2009	–	6,498,880	37,920	6,536,800
Amortisation	–	–	114,937	114,937
Exchange adjustment	–	246,221	4,570	250,791
At 31 December 2010	–	6,745,101	157,427	6,902,528
Carrying amount				
At 31 December 2010	<u>–</u>	<u>6,587,855</u>	<u>1,023,273</u>	<u>7,611,128</u>
At 31 December 2009	<u>–</u>	<u>1,792,018</u>	<u>1,099,680</u>	<u>2,891,698</u>

During the year, the directors reviewed the carrying amounts of the development expenditure and the distribution rights and concluded that the future economic benefits they will generate will not be less than their carrying amounts. Accordingly, no impairment loss was recognised for the year (2009: Nil).

12. CONVERTIBLE NOTE RECEIVABLE

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Unlisted debt security, at cost	4,500,220	4,500,220
Accrued interest income	629,890	–
	<u>5,130,110</u>	<u>4,500,220</u>
Less: Impairment on convertible note	<u>(2,880,000)</u>	<u>–</u>
	<u><u>2,250,110</u></u>	<u><u>4,500,220</u></u>

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 will repay to the Group the principal amount plus a lump sum interest 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 interest 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 an additional six months, the conversion ratio shall be at 65% discount from the offer price per share under 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.

As the IPO process is delayed and considering the current financial position of the Borrower, the directors do not expect to realise the financial assets within twelve months after the end of reporting period and may grant further extension to the conversion period. For the purpose of impairment assessment, the directors have assessed the impacts on the recoverable amount of the financial assets and as a result an impairment loss of HK\$2,880,000 is recognised in the current year’s financial statements.

13. TRADE AND OTHER RECEIVABLES

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Trade receivables	50,737,138	35,198,222
Less: provision for impairment	<u>(278,064)</u>	<u>(306,676)</u>
Trade receivables – net	50,459,074	34,891,546
Other receivables	<u>305,100</u>	<u>258,932</u>
Total	<u><u>50,764,174</u></u>	<u><u>35,150,478</u></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:

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
At beginning of year	306,676	496,638
Reversal of allowance	(38,765)	(190,819)
Exchange adjustment	<u>10,153</u>	<u>857</u>
At end of year	<u><u>278,064</u></u>	<u><u>306,676</u></u>

The allowance of HK\$278,064 (2009: HK\$306,676) 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:

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
0 – 60 days	31,125,469	19,366,538
61 – 90 days	9,314,133	5,728,523
> 90 days	<u>10,019,472</u>	<u>9,796,485</u>
	<u><u>50,459,074</u></u>	<u><u>34,891,546</u></u>

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

	2010	2009
	<i>HK\$</i>	<i>HK\$</i>
Not past due	40,439,602	25,095,061
Less than 3 months past due	10,019,472	9,414,423
Over 3 months past due	<u>–</u>	<u>382,062</u>
	<u>50,459,074</u>	<u>34,891,546</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.

14. TRADE AND OTHER PAYABLES

	2010	2009
	<i>HK\$</i>	<i>HK\$</i>
Trade payables	210,153	274,852
Other payables	12,140,690	5,204,132
Accruals	17,680,325	10,891,337
VAT payable	4,476,995	3,204,829
Deposits received	<u>–</u>	<u>270,749</u>
	<u>34,508,163</u>	<u>19,845,899</u>

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.

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

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

	2010	2009
	HK\$	HK\$
0 – 60 days	126,150	166,441
61 – 90 days	22,856	–
> 90 days	61,147	108,411
	<u>210,153</u>	<u>274,852</u>

15. DEFERRED TAX LIABILITIES

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

	Other deductible temporary difference	Development expenditure	Withholding tax (Note)	Total
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
At 1 January 2009	–	–	–	–
Charge to profit or loss for the year	<u>–</u>	<u>–</u>	<u>1,080,000</u>	<u>1,080,000</u>
At 31 December 2009	–	–	1,080,000	1,080,000
Charge/(credit) to profit or loss for the year	(1,802,851)	961,957	–	(840,894)
Exchange differences	<u>(49,143)</u>	<u>26,221</u>	<u>–</u>	<u>(22,922)</u>
At 31 December 2010	<u><u>(1,851,994)</u></u>	<u><u>988,178</u></u>	<u><u>1,080,000</u></u>	<u><u>216,184</u></u>

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, deferred tax liability not provided for the distributable profits of the subsidiary in the PRC amounted to approximately HK\$57,856,000 (equivalent to RMB49,000,000) (2009: HK\$16,902,000; equivalent to RMB14,858,000).

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:

	2010 <i>HK\$</i>	2009 <i>HK\$</i>
Deferred tax assets	(1,851,994)	–
Deferred tax liabilities	<u>2,068,178</u>	<u>1,080,000</u>
	<u>216,184</u>	<u>1,080,000</u>

As at the end of the reporting period, the Group had unused tax losses of HK\$8,688,000 (2009: HK\$8,688,000) 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.

16. SHARE CAPITAL

Authorised

	2010 <i>Number</i>	2010 <i>HK\$</i>	2009 <i>Number</i>	2009 <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

	2010 <i>Number</i>	2010 <i>HK\$</i>	2009 <i>Number</i>	2009 <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 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.

During the year under review, the Group has been able to overcome the negative factors associated with the medical reforms in the PRC and managed to turn in quarter-to-quarter growth with record results of approximately HK\$146.3 million and HK\$26.6 million of turnover and after tax profit respectively. The positive results are attributed to the effective execution of the Group's sales and marketing strategies.

To cater for higher manufacturing capacity and capability as the Group's business expands going forward, in December 2010, the Group has started the construction of a new factory in Zhuhai, the PRC, which is targeted for completion in year 2012. Upon completion of the construction, the new factory will have a total manufacturing floor space of approximately 20,000 sq.m..

The Group will continue to instil prudent fiscal management and channel its resources into building a stronger foundation for its core business.

Guided by the aforesaid objective, the Group will seek investment in new pharmaceutical products, particularly in ophthalmology, for its product pipeline enhancement and remain committed to expand its sales and marketing coverage for reaching out to potential patients of its products.

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.

MARKET DEVELOPMENT

Distribution network

During the year under review, the Group has established 3 new direct representative offices ("DROs") in Shanghai, Jilin and Lanzhou, the PRC. With the new addition of these 3 DROs, the Group has established a total of 23 DROs, which are located in major cities and 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 for reaching out to potential patients of the Group's genetic products, the Group has conducted over 134 seminars and 621 market promotion activities in major cities and provinces in the PRC during the year under review, educating more than 35,000 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) is for the treatment and healing of keratitis and inflammation at post eye surgery. Following the receipt of approval from the State Food Drug Administration of the PRC ("SFDA") for commercialisation and Good Manufacturing Practice ("GMP") certification, the products were launched in the second quarter of 2009 in Beijing, Henan, Shandong, Jiangsu and Yunnan.

Business Associates

Major business associates of the Group included InSite USA, ABC Farmaceutici S.P.A. and Sun Pharmaceutical Industries Ltd.

One of the Company's subsidiaries, Essex Bio-Pharmacy Limited, has been appointed by InSite USA as 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.

Another subsidiary of the Company, 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. Application for license to distribute UDCA capsules in the PRC is in progress.

In addition, Essex Medipharma has signed a 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), indicated for the treatment of Glaucoma, which has been approved by SFDA for sales in the PRC. The commercial launch of the product is pending SFDA's approval.

Collaboration Agreements

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

Under one of the Collaboration Agreements, the Group has obtained an exclusive distribution right for 10 years from Jinan Bestcomm to distribute 鹽酸倍他洛爾滴眼液 (Betaxolol Hydrochloride Eye Drop) in the PRC. 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 was launched in the second quarter of 2010.

The other Collaboration Agreement was entered into by the Group with Jinan Bestcomm 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 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.
- 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\$146.3 million in turnover from sale of pharmaceutical products for the year ended 31 December 2010, a significant increase of 25.4% over the corresponding period in the previous year.

Overall gross profit for the year ended 31 December 2010 increased to approximately HK\$134.3 million when compared to the figure of approximately HK\$105.6 million recorded in the previous year.

Profit from continuing operations for the year ended 31 December 2010 increased by 58.7% to approximately HK\$26.6 million as compared to the figure of approximately HK\$16.8 million in the previous year. Profit attributable to owners of the Company increased from approximately HK\$11.6 million in the previous year to approximately HK\$26.6 million in the year under review.

Distribution and selling expenses increased to approximately HK\$89.7 million for the year ended 31 December 2010 when compared to approximately HK\$69.6 million recorded in the previous year. The increase was mainly attributed to the establishment costs incurred for the three additional DROs in the year under review. Higher expenses incurred in sales, marketing and promotional activities are in line with the expansion of pharmaceutical business in the year under review.

Administrative expenses decreased to approximately HK\$11.9 million in the year ended 31 December 2010 when compared to approximately HK\$15.3 million recorded in the previous year. The decrease was mainly caused by the decrease of research costs of approximately HK\$1 million in 2010 as some of the projects have been proven to be technically feasible, hence their development expenditures incurred in 2010 are recognised as intangible assets. Research and development cost incurred in 2009 was approximately HK\$3.0 million while such cost incurred in 2010 was approximately HK\$6.7 million, out of which approximately HK\$4.7 million was recognised as intangible assets.

Further, legal and professional cost of approximately HK\$0.5 million was incurred in 2009 for the acquisition of land in the PRC, evaluation of potential investments and improvement of internal control review in subsidiaries in the PRC. There was no such cost incurred in 2010.

The existing GMP plant and machinery was fully depreciated in 2009. Depreciation of such plant and machinery in 2009 was approximately HK\$1 million. There was no such cost recorded in 2010.

In addition, several employees were transferred from administration department to sales department and production department. The associated staff costs of approximately HK\$0.9 million incurred in 2009 were recorded as selling and distribution expenses and cost of sales in 2010.

The Group had cash and cash equivalents of approximately HK\$78.9 million as at 31 December 2010 (2009: HK\$67.7 million). As at 31 December 2010, the bank deposits of RMB2.2 million (equivalent to HK\$2.6 million) were pledged to secure certain guarantees issued by the bank in respect of construction in progression.

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 27 to 78 of the annual report. The Directors have recommended the payment of a final dividend of HK\$0.01 per share for the financial year ended 31 December 2010 to the shareholders of the Company whose names appear on the register of members of the Company on Wednesday, 4 May 2011. The final dividend will be payable on Thursday, 19 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 3 May 2011 to Wednesday, 4 May 2011, 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 Thursday, 5 May 2011, 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, Hong Kong, for registration not later than 4:30 p.m. on Friday, 29 April 2011.

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

To cater for higher manufacturing capacity and capability as the Group's business expands going forward, the Group has started the construction of a new factory in Zhuhai, the PRC on a land of approximately 13,400 sq.m., acquired on 30 December 2008. It is expected that the construction of the new factory will complete in 2012. The expected source of funding for the construction of the new factory and acquisition of new plants and machinery will come from the Group's internal sources.

There had been no material acquisitions and disposals during the year under review and save as aforesaid, the Group has 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 Ms. 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 annual audited results during the year ended 31 December 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 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 and 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
28 March 2011

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 Ms. 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.