

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other independent professional adviser.

If you have sold or transferred all your shares in **Essex Bio-Technology Limited**, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

MAJOR AND CONNECTED TRANSACTION

**DISPOSAL OF 51% EQUITY INTEREST
IN A SUBSIDIARY**

**Independent financial adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from Guangdong Securities Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 26 of this circular.

This circular will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least 7 days of its publication and on the Company's website at <http://www.essexbio.com>.

23 July 2009

CHARACTERISTICS OF GEM

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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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context indicates otherwise:

“Agreements”	the Faithful Endeavor Agreement and the Yantai Shennong Agreement
“Ample Appraisal”	Ample Appraisal Limited, independent professional property valuers
“associate(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day on which banks are open in Hong Kong and the PRC for general banking business (other than Saturdays)
“Closing”	closing of the Disposal in accordance with the Agreements
“Company”	Essex Bio-Technology Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on GEM
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the Faithful Endeavor Disposal and the Yantai Shennong Disposal
“Essex Bio-Investment”	Essex Bio-Investment Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Faithful Endeavor”	Faithful Endeavor Holdings Limited (忠力集團有限公司), a company incorporated in Hong Kong with limited liability
“Faithful Endeavor Agreement”	the equity transfer agreement dated 30 June 2009 entered into between Essex Bio-Investment, Faithful Endeavor, Mr. Liu Bao De and Mr. Ren Chun Bao in relation to the disposal of the Faithful Endeavor Sale Interest by Essex Bio-Investment to Faithful Endeavor

DEFINITIONS

“Faithful Endeavor Disposal”	the disposal of the Faithful Endeavor Sale Interest by Essex Bio-Investment to Faithful Endeavor in accordance with the Faithful Endeavor Agreement
“Faithful Endeavor Sale Interest”	the capital contribution in the amount of RMB2,755,000 to the registered capital of Shandong Baoyuan, representing 25% of the registered capital of Shandong Baoyuan
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guangdong Securities”	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the Disposal
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Fung Chi Ying, Mr. Mauffrey Benoit Jean Marie and Ms. Yeow Mee Mooi, which has been formed by the Board to advise the Independent Shareholders in respect of the Agreements and the Disposal
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the resolution(s) to be proposed at a general meeting of the Company to approve the Agreements and the Disposal under the GEM Listing Rules
“Latest Practicable Date”	20 July 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“PRC”	the People’s Republic of China

DEFINITIONS

“Remaining Group”	the Group excluding Shandong Baoyuan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Interests”	the Faithful Endeavor Sale Interest and the Yantai Shennong Sale Interest
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Baoyuan”	山東寶源生物有限公司 (Baoyuan Bio-Agri (Shandong) Limited*), a sino-foreign equity joint venture company established in the PRC which is owned by Essex Bio-Investment, Mr. Liu Bao De and Mr. Ren Chun Bao as to approximately 51.00%, 24.99% and 24.01% respectively as at the Latest Practicable Date
“Share(s)”	share(s) of par value of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yantai Shennong”	煙台神農化肥有限公司, a company established in the PRC with limited liability
“Yantai Shennong Agreement”	the equity transfer agreement dated 30 June 2009 entered into between Essex Bio-Investment, Yantai Shennong, Mr. Liu Bao De and Mr. Ren Chun Bao in relation to the disposal of the Yantai Shennong Sale Interest by Essex Bio-Investment to Yantai Shennong
“Yantai Shennong Disposal”	the disposal of the Yantai Shennong Sale Interest by Essex Bio-Investment to Yantai Shennong in accordance with the Yantai Shennong Agreement
“Yantai Shennong Sale Interest”	the capital contribution in the amount of RMB2,865,000 to the registered capital of Shandong Baoyuan, representing approximately 26% of the registered capital of Shandong Baoyuan

Note: In this circular, the figures in RMB are converted into HK\$ at the rate of RMB1: HK\$1.1327 for indication purposes only except the historical or audited figures in RMB which are converted into HK\$ at the actual historical rate.

* For identification purpose only

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Ngiam Mia Je Patrick (*Chairman*)

Mr. Fang Haizhou

Mr. Zhong Sheng

Independent non-executive Directors:

Mr. Fung Chi Ying

Mr. Mauffrey Benoit Jean Marie

Ms. Yeow Mee Mooi

Registered Office:

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Head office and principal place of
business in Hong Kong:*

Room 2818

China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

23 July 2009

To the Shareholders

Dear Sir or Madam

MAJOR AND CONNECTED TRANSACTION DISPOSAL OF 51% EQUITY INTEREST IN A SUBSIDIARY

INTRODUCTION

Reference is made to the Company's announcement dated 2 July 2009 in which the Board announced that on 30 June 2009, Essex Bio-Investment, a wholly-owned subsidiary of the Company, entered into (i) the Faithful Endeavor Agreement with Faithful Endeavor, Mr. Liu Bao De and Mr. Ren Chun Bao pursuant to which Essex Bio-Investment agreed to sell the Faithful Endeavor Sale Interest to Faithful Endeavor; and (ii) the Yantai Shennong Agreement with Yantai Shennong, Mr. Liu Bao De and Mr. Ren Chun Bao pursuant to which Essex Bio-Investment agreed to sell the Yantai Shennong Sale Interest to Yantai Shennong. The aggregate consideration for the Sale Interests is RMB8,000,000 (approximately HK\$9,061,600). By entering into the Agreements, Mr. Liu Bao De and Mr. Ren Chun Bao, being the other equity owners of Shandong Baoyuan, consented to the Disposal and agreed to waive their respective rights of first refusal in respect of the Sale Interests.

LETTER FROM THE BOARD

As at the Latest Practicable Date, Shandong Baoyuan was owned by Essex Bio-Investment, Mr. Liu Bao De and Mr. Ren Chun Bao as to approximately 51.00%, 24.99% and 24.01% respectively. Subject to and upon Closing, Essex Bio-Investment will cease to own any equity interest in Shandong Baoyuan, and Shandong Baoyuan will be owned by Faithful Endeavor, Yantai Shennong, Mr. Liu Bao De and Mr. Ren Chun Bao as to approximately 25.00%, 26.00%, 24.99% and 24.01% respectively.

The purpose of this circular are, among other things, to provide you with (i) further information in respect of the Agreements and the Disposal; (ii) a letter of advice from Guangdong Securities to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the Disposal; and (iii) the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Agreements and the Disposal.

THE AGREEMENTS

The Faithful Endeavor Agreement

Date

30 June 2009

Parties

- (1) Essex Bio-Investment (as vendor)
- (2) Faithful Endeavor (as purchaser)
- (3) Mr. Liu Bao De (as consenting party)
- (4) Mr. Ren Chun Bao (as consenting party)

The Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, Faithful Endeavor and its ultimate beneficial owner, namely Tang Huanxin, are third parties independent of the Company and its connected persons.

Subject to be disposed

Essex Bio-Investment agreed to sell and Faithful Endeavor agreed to purchase the Faithful Endeavor Sale Interest, representing 25% of the registered capital of Shandong Baoyuan, subject to the terms and conditions of the Faithful Endeavor Agreement.

LETTER FROM THE BOARD

Consideration

The total consideration for the Faithful Endeavor Sale Interest is RMB3,921,600 (approximately HK\$4,441,996), payable in two instalments by Faithful Endeavor in the following manner:

- (a) 50% of the consideration i.e. RMB1,960,800 (approximately HK\$2,220,998) shall be payable within five Business Days from the date of execution of the Faithful Endeavor Agreement;
- (b) the remaining 50% of the consideration i.e. RMB1,960,800 (approximately HK\$2,220,998) shall be payable within five Business Days from the date on which the Faithful Endeavor Agreement, the transactions contemplated thereunder and any other relevant documents shall have been approved by the relevant PRC government authorities; and
- (c) the amounts specified in (a) and (b) above shall be paid in Hong Kong dollars to be calculated based on the exchange rate quoted by the Bank of China on the relevant date of payment.

Such consideration was determined after taking into account the unaudited net asset value attributable to the Faithful Endeavor Sale Interest as at 31 May 2009, being approximately RMB3,500,000 (approximately HK\$3,964,450), and the valuation surplus of the land and properties owned by Shandong Baoyuan attributable to the Faithful Endeavor Sale Interest as at 26 June 2009 of approximately RMB692,500 (approximately HK\$784,394) (which is not reflected in the unaudited net asset value attributable to the Faithful Endeavor Sale Interest as at 31 May 2009), and arm's length negotiations between the Group and Faithful Endeavor on normal commercial terms.

Conditions precedent

Closing of the Faithful Endeavor Disposal is conditional upon:

- (a) if required, the passing of a resolution by such shareholders of the Company as required under the GEM Listing Rules at a general meeting of the Company approving the transactions and matters contemplated under the Faithful Endeavor Agreement in accordance with the GEM Listing Rules, or the obtaining of approval from such shareholders of the Company as required under the GEM Listing Rules of the said transactions and matters as otherwise permitted under the GEM Listing Rules or the Stock Exchange, as well as the compliance of the relevant provisions of the GEM Listing Rules;
- (b) the obtaining of the requisite approval from the relevant PRC government authorities of the Faithful Endeavor Agreement, the transactions contemplated thereunder and any other relevant documents as required under the relevant PRC laws and regulations governing the transfer of equity interest in sino-foreign joint venture enterprises;

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- (c) the satisfaction of all the conditions precedent to the closing of the Yantai Shennong Disposal under the Yantai Shennong Agreement;
- (d) the receipt by Essex Bio-Investment of the entire amount of consideration for the Faithful Endeavor Sale Interest; and
- (e) the repayment within one month from the date of the Faithful Endeavor Agreement of the entire amount of indebtedness owing by Shandong Baoyuan to the Group as at the date of repayment.

Closing of the Faithful Endeavor Disposal shall take place on the date on which all the conditions precedent set out in the Faithful Endeavor Agreement shall have been fulfilled.

In the event of failure to obtain the approval of the Faithful Endeavor Disposal or the Yantai Shennong Disposal from such shareholders of the Company as required under the GEM Listing Rules, or the requisite approval from the relevant PRC authorities of the Faithful Endeavor Disposal or the Yantai Shennong Disposal, then the Faithful Endeavor Agreement shall terminate and cease to have any effect (save for the breach of the confidentiality provisions therein) and Essex Bio-Investment shall return the amount of consideration for the Faithful Endeavor Sale Interest actually received (without interests) to Faithful Endeavor.

As at the Latest Practicable Date, the conditions mentioned in (a) and (d) had been fulfilled.

Undertakings

Faithful Endeavor undertook to Essex Bio-Investment that, among other things, (i) during the period between the execution of the Faithful Endeavor Agreement and the closing of the Faithful Endeavor Disposal, Faithful Endeavor shall not be entitled to alter or terminate the Faithful Endeavor Agreement due to any changes in the operation status of Shandong Baoyuan or any profit or loss pertaining to the Faithful Endeavor Sale Interest; and (ii) from the date of execution of the Faithful Endeavor Agreement, Faithful Endeavor shall not alter or terminate the Faithful Endeavor Agreement or seek any compensation from Essex Bio-Investment on the ground of its lack of understanding of the actual operation status of Shandong Baoyuan or the actual profit or loss pertaining to the Faithful Endeavor Sale Interest.

The Yantai Shennong Agreement

Date

30 June 2009

LETTER FROM THE BOARD

Parties

- (1) Essex Bio-Investment (as vendor)
- (2) Yantai Shennong (as purchaser)
- (3) Mr. Liu Bao De (as consenting party)
- (4) Mr. Ren Chun Bao (as consenting party)

The Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, Yantai Shennong and its ultimate beneficial owners, namely Yu Yongbo and Yu Yongmei, are third parties independent of the Company and its connected persons.

Subject to be disposed

Essex Bio-Investment agreed to sell and Yantai Shennong agreed to purchase the Yantai Shennong Sale Interest, representing approximately 26% of the registered capital of Shandong Baoyuan, subject to the terms and conditions of the Yantai Shennong Agreement.

Consideration

The total consideration for the Yantai Shennong Sale Interest is RMB4,078,400 (approximately HK\$4,619,604), payable in two instalments by Yantai Shennong in the following manner:

- (a) 50% of the consideration i.e. RMB2,039,200 (approximately HK\$2,309,802) shall be payable within five Business Days from the date of execution of the Yantai Shennong Agreement; and
- (b) the remaining 50% of the consideration i.e. RMB2,039,200 (approximately HK\$2,309,802) shall be payable within five Business Days from the date on which the Yantai Shennong Agreement, the transactions contemplated thereunder and any other relevant documents shall have been approved by the relevant PRC government authorities.

Such consideration was determined after taking into account the unaudited net asset value attributable to the Yantai Shennong Sale Interest as at 31 May 2009, being approximately RMB3,640,000 (approximately HK\$4,123,028), and the valuation surplus of the land and properties owned by Shandong Baoyuan attributable to the Yantai Shennong Sale Interest as at 26 June 2009 of approximately RMB720,200 (approximately HK\$815,770) (which is not reflected in the unaudited net asset value attributable to the Yantai Shennong Sale Interest as at 31 May 2009), and arm's length negotiations between the Group and Yantai Shennong on normal commercial terms.

LETTER FROM THE BOARD

Conditions precedent

Closing of the Yantai Shennong Disposal is conditional upon:

- (a) if required, the passing of a resolution by such shareholders of the Company as required under the GEM Listing Rules at a general meeting of the Company approving the transactions and matters contemplated under the Yantai Shennong Agreement in accordance with the GEM Listing Rules, or the obtaining of approval from such shareholders of the Company as required under the GEM Listing Rules of the said transactions and matters as otherwise permitted under the GEM Listing Rules or the Stock Exchange, as well as the compliance of the relevant provisions of the GEM Listing Rules;
- (b) the obtaining of the requisite approval from the relevant PRC government authorities of the Yantai Shennong Agreement, the transactions contemplated thereunder and any other relevant documents as required under the relevant PRC laws and regulations governing the transfer of equity interest in sino-foreign joint venture enterprises;
- (c) the satisfaction of all the conditions precedent to the closing of the Faithful Endeavor Disposal under the Faithful Endeavor Agreement;
- (d) the receipt by Essex Bio-Investment of the entire amount of consideration for the Yantai Shennong Sale Interest; and
- (e) the repayment within one month from the date of the Yantai Shennong Agreement of the entire amount of indebtedness owing by Shandong Baoyuan to the Group as at the date of repayment.

Closing of the Yantai Shennong Disposal shall take place on the date on which all the conditions precedent set out in the Yantai Shennong Agreement shall have been fulfilled.

In the event of failure to obtain the approval of the Yantai Shennong Disposal or the Faithful Endeavor Disposal from such shareholders of the Company as required under the GEM Listing Rules, or the requisite approval from the relevant PRC authorities of the Yantai Shennong Disposal or the Faithful Endeavor Disposal, then the Yantai Shennong Agreement shall terminate and cease to have any effect (save for the breach of the confidentiality provisions therein) and Essex Bio-Investment shall return the amount of consideration for the Yantai Shennong Sale Interest actually received (without interests) to Yantai Shennong.

As at the Latest Practicable Date, the conditions mentioned in (a) and (d) had been fulfilled.

Undertakings

Yantai Shennong undertook to Essex Bio-Investment that (i) during the period between the execution of the Yantai Shennong Agreement and the closing of the Yantai Shennong Disposal, Yantai Shennong shall not be entitled to alter or terminate the Yantai Shennong Agreement due to any changes in the operation status of Shandong Baoyuan or any profit or loss pertaining to the Yantai Shennong Sale Interest; and (ii) from the date of

LETTER FROM THE BOARD

execution of the Yantai Shennong Agreement, Yantai Shennong shall not alter or terminate the Yantai Shennong Agreement or seek any compensation from Essex Bio-Investment on the ground of its lack of understanding of the actual operation status of Shandong Baoyuan or the actual profit or loss pertaining to the Yantai Shennong Sale Interest.

INFORMATION ON SHANDONG BAOYUAN

Shandong Baoyuan, an indirect non-wholly owned subsidiary of the Company, is principally engaged in research, development and production of organic and chemical formulated agricultural fertilisers, in solid and liquid forms, for the agriculture industry in the PRC.

As at the Latest Practicable Date, Shandong Baoyuan was owned by Essex Bio-Investment, Mr. Liu Bao De and Mr. Ren Chun Bao as to approximately 51.00%, 24.99% and 24.01% respectively. Save for their respective interests and directorships in Shandong Baoyuan, both Mr. Liu Bao De and Mr. Ren Chun Bao do not have any other interests in the Group.

Subject to and upon Closing, Shandong Baoyuan will cease to be a subsidiary of the Company and will be owned by Faithful Endeavor, Yantai Shennong, Mr. Liu Bao De and Mr. Ren Chun Bao as to approximately 25.00%, 26.00%, 24.99% and 24.01% respectively.

The net asset value of Shandong Baoyuan as shown in its audited accounts for the financial year ended 31 December 2008 is RMB19,545,680 (approximately HK\$22,197,246).

The land and properties owned by Shandong Baoyuan consist of a parcel of land and certain workshops, godown and ancillary buildings situated at Yantai Development Zone in the PRC which were used by Shandong Baoyuan for production of certain agricultural fertilisers. According to the valuation report dated 23 July 2009 prepared by Ample Appraisal, the land and properties were valued at RMB18,520,000 (approximately HK\$21,007,000) as at 26 June 2009.

For the financial year ended 31 December 2007, the audited profit (before and after taxation and extraordinary items) of Shandong Baoyuan is RMB897,454 (approximately HK\$921,964). For the financial year ended 31 December 2008, the audited profit (before and after taxation and extraordinary items) of Shandong Baoyuan is RMB9,263,629 (approximately HK\$10,473,459).

As mentioned in the Company's announcement dated 23 May 2007 and the Company's circular dated 15 June 2007, Shandong Baoyuan entered into an agreement for the acquisition of the land use rights of the Site (as defined in the said announcement and circular) in May 2007 for the purpose of unifying the Group's ownership of the Site and the workshops situated thereon for long-term production and development. After the acquisition of the land use rights of the Site in mid-2007, new workshops were constructed on the Site to increase the production capacity of Shandong Baoyuan. Shandong Baoyuan began to operate in enhanced production capacity in 2008 after completion of the construction of the new workshops. This is one of the reasons for the increase in profit of Shandong Baoyuan for the year ended 31 December 2008.

LETTER FROM THE BOARD

Due to the recent global economic downturn, Shandong Baoyuan incurred an unaudited net loss of RMB2,267,700 (approximately HK\$2,576,000) for the first quarter of 2009 and its unaudited net asset value was decreased to RMB17,278,000 (approximately HK\$19,619,000) as at 31 March 2009.

USE OF PROCEEDS

The Group intends to apply the sale proceeds from the Disposal as the working capital of the Group.

FINANCIAL EFFECT OF THE DISPOSAL

Subject to and upon Closing, Shandong Baoyuan will cease to be a subsidiary of the Company and accordingly the financial results of Shandong Baoyuan will not be consolidated in the accounts of the Group. Based on the carrying value of Shandong Baoyuan in the accounts of the Group, the Group is expected to record an unaudited loss of HK\$509,721 upon the Disposal before deduction of all necessary charges (which were expected to be HK\$555,000) for the year ending 31 December 2009. The Directors consider that such loss is insignificant to the Group.

It is expected that the earnings of the Group would be enhanced as a result of the de-consolidation of the results of Shandong Baoyuan, which is a loss-making entity since the first quarter of 2009.

The Disposal would result in a decrease in the total assets of the Group of approximately HK\$74,680,000. The total liabilities of the Group, excluding minority interests, will decrease by approximately HK\$38,829,000, whereas the minority interests will decrease by approximately HK\$7,917,000.

The loss arising from the Disposal is expected to be approximately HK\$500,000, which represents the difference between (i) the total consideration for the Sale Interests and (ii) the sum of the valuation surplus of the land and properties owned by Shandong Baoyuan and the unaudited net asset value attributable to the Sale Interests as at 31 May 2009.

INFORMATION ON THE GROUP

The Company is an investment holding company for a group of companies principally engaged in research, development, production and selling of biopharmaceutical products and biological fertilizer products in the PRC.

Essex Bio-Investment, a wholly-owned subsidiary of the Company, acts as an investment holding company.

INFORMATION ON FAITHFUL ENDEAVOR

Faithful Endeavor is principally engaged in investments in companies, securities and projects which have growth potential and development value.

LETTER FROM THE BOARD

INFORMATION ON YANTAI SHENNONG

Yantai Shennong is principally engaged in the production and sale of organic and chemical formulated agricultural fertilisers.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The business of Shandong Baoyuan has been adversely affected by the global economic downturn in early 2009, and the profit margin of the agricultural fertilisers business conducted by Shandong Baoyuan is relatively thin as compared to the biopharmaceutical products business. The Directors expect that the existing loss making situation of Shandong Baoyuan is likely to persist in the foreseeable future. Accordingly, the Directors (including independent non-executive Directors) consider the Disposal to be timely which will unlock the cash and management bandwidth for the Group to pursue greater development in the pharmaceutical business arena, and that the Disposal is on normal commercial terms and the terms of the Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In the first quarter of 2009, the Group's pharmaceutical business was resilient and able to maintain its organic growth from its core biopharmaceutical products. Such continued growth was made possible through the Group's established distribution network and marketing effort and investments in the PRC.

GEM LISTING RULES IMPLICATIONS

Each of the assets ratio, profits ratio and revenue ratio in respect of the Disposal calculated pursuant to Rule 19.07 of the GEM Listing Rules is greater than 25% and less than 75%. The Disposal therefore constitutes a major transaction for the Company under Chapter 19 of the GEM Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the GEM Listing Rules.

The Disposal involves the Group's disposal of interest in Shandong Baoyuan where Mr. Liu Bao De and Mr. Ren Chun Bao, being holders of 24.99% and 24.01% equity interests in Shandong Baoyuan respectively, are controllers (as defined in the GEM Listing Rules). Accordingly, the Disposal also constitutes a connected transaction for the Company under Rule 20.13(1)(b)(i) of the GEM Listing Rules. As all the percentage ratios in respect of the Disposal calculated pursuant to Rule 19.07 of the GEM Listing Rules is greater than 2.5%, the Disposal is subject to the reporting, announcement and Independent Shareholders' approval requirements under the GEM Listing Rules.

As no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approving the Agreements and the Disposal, and as the Company has obtained a written approval of the Agreements and the Disposal from Essex Holdings Limited (which held 288,458,000 shares in the Company as at the Latest Practicable Date, representing approximately 51.81% of the issued share capital of the Company), there is no need for the Company to convene a general meeting for approving the Agreements and the Disposal pursuant to Rule 19.44 and Rule 20.43 of the GEM Listing Rules.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Agreements and the Disposal. Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 14 of this circular and (ii) the letter from Guangdong Securities set out on pages 15 to 26 of this circular.

The Independent Board Committee, after taking into account the advice of Guangdong Securities, considers that each of the Agreements was entered into upon normal commercial terms following arm's length negotiation between the relevant parties to the Agreements respectively and that the terms of each of the Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. If a general meeting of the Company were convened for passing the resolution to approve the Agreements and the transactions contemplated thereunder, the Independent Board would recommend the Shareholders to vote in favour of such resolution after taking into account the recommendation of Guangdong Securities.

Taking into consideration of the reasons set out in the paragraph headed "Reasons for and benefits of the Disposal" above and the recommendations of the Independent Board Committee and Guangdong Securities, the Directors (including independent non-executive Directors) consider that each of the Agreements and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Therefore, if a general meeting of the Company were convened for passing the resolution to approve the Agreements and the transactions contemplated thereunder, the Directors would recommend the Shareholders to vote in favour of such resolution after taking into account the recommendations of the Independent Board Committee and Guangdong Securities.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Essex Bio-Technology Limited
Ngiam Mia Je Patrick
Chairman



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)

23 July 2009

To the Independent Shareholders

Dear Sir or Madam

**MAJOR AND CONNECTED TRANSACTION
DISPOSAL OF 51% EQUITY INTEREST IN A SUBSIDIARY**

We refer to the circular of the Company dated 23 July 2009 ("Circular"), of which this letter forms part. Terms used herein shall have the same meaning as ascribed thereto in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider each of the Agreements and the transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the same, and to recommend how the Independent Shareholders should vote if a general meeting were convened to approve the Agreements and the transactions contemplated thereunder. Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board as set out on pages 4 to 13 of the Circular, and the letter from Guangdong Securities which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions contemplated thereunder as set out on pages 15 to 26 of the Circular.

Having taking into account the advice of Guangdong Securities, we consider that each of the Agreements was entered into upon normal commercial terms following arm's length negotiation between the relevant parties to the Agreements respectively and that the terms of each of the Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Agreements is in the interests of the Company and the Shareholders as a whole. If a general meeting of the Company were convened for passing the resolution to approve the Agreements and the transactions contemplated thereunder, Shareholders are advised to vote in favour of such resolution after taking into account the recommendation of Guangdong Securities.

Fung Chi Ying
*Independent non-executive
Director*

Yours faithfully
Independent Board Committee
Mauffrey Benoit Jean Marie
*Independent non-executive
Director*

Yeow Mee Mooi
*Independent non-executive
Director*

LETTER FROM GUANGDONG SECURITIES

Set out below is the text of a letter received from Guangdong Securities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal for the purpose of inclusion in this circular.



Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

23 July 2009

To: *The independent board committee and the independent shareholders
of Essex Bio-Technology Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION DISPOSAL OF 51% EQUITY INTEREST IN A SUBSIDIARY

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 23 July 2009 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 30 June 2009, Essex Bio-Investment, a wholly-owned subsidiary of the Company, entered into the Faithful Endeavor Agreement with Faithful Endeavor, Mr. Liu Bao De and Mr. Ren Chun Bao, pursuant to which Faithful Endeavor (as purchaser) has conditionally agreed to acquire for the Faithful Endeavor Sale Interest, being 25% of the registered capital of Shandong Baoyuan, from Essex Bio-Investment (as vendor) at a total consideration of RMB3,921,600 (equivalent to approximately HK\$4,441,996).

On even date, Essex Bio-Investment also entered into the Yantai Shennong Agreement with Yantai Shennong, Mr. Liu Bao De and Mr. Ren Chun Bao, pursuant to which Yantai Shennong (as purchaser) has conditionally agreed to acquire for the Yantai Shennong Sale Interest, being 26% of the registered capital of Shandong Baoyuan, from Essex Bio-Investment (as vendor) at a total consideration of RMB4,078,400 (equivalent to approximately HK\$4,619,604).

By entering into the Agreements, Mr. Liu Bao De and Mr. Ren Chun Bao, holding approximately 24.99% and 24.01% of the registered capital in Shandong Baoyuan respectively, consented to the Disposal and agreed to waive their respective rights of first refusal in respect of the Sale Interests.

Upon completion of the Disposal, Shandong Baoyuan will cease to be a subsidiary of the Company.

LETTER FROM GUANGDONG SECURITIES

Since the applicable percentage ratios in respect of the Disposal exceed 25% but are less than 75%, the Disposal constitutes a major transaction for the Company under the GEM Listing Rules. Given that the Disposal involves the Group's disposal of interest in Shandong Baoyuan where Mr. Liu Bao De and Mr. Ren Chun Bao, being holders of approximately 24.99% and 24.01% of the registered capital in Shandong Baoyuan respectively, are the controllers (as defined in the GEM Listing Rules), the Disposal also constitutes a connected transaction for the Company under Rule 20.13(1)(b)(i) of the GEM Listing Rules. The Agreements and the transactions contemplated thereunder are therefore subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

As stated in the Board Letter, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approving the Agreements and the Disposal, and as the Company has obtained a written approval for the Agreements and the Disposal from Essex Holdings Limited (a Shareholder which was interested in more than 50% of the equity interest in the Company), the Company is not required to convene a general meeting for approving the Agreements and the Disposal pursuant to Rule 19.44 and Rule 20.43 of the GEM Listing Rules.

The Independent Board Committee comprising Mr. Fung Chi Ying, Mr. Mauffrey Benoit Jean Marie and Ms. Yeow Mee Mooi (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Disposal is in the interests of the Company and the Shareholders as a whole. We, Guangdong Securities Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true, complete and accurate in all material respects at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiries and careful considerations. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our recommendation in compliance with Rule 17.92 of the GEM Listing Rules.

LETTER FROM GUANGDONG SECURITIES

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided sufficient information to reach an informed view and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Yantai Shennong, Faithful Endeavor, Essex Bio-Investment, Mr. Liu Bao De and Mr. Ren Chun Bao or their respective subsidiaries (if applicable) or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Disposal. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Disposal, we have taken into consideration the following principal factors and reasons:

(1) Background of the Disposal

The Faithful Endeavor Agreement

On 30 June 2009, Essex Bio-Investment, a wholly-owned subsidiary of the Company, entered into the Faithful Endeavor Agreement with Faithful Endeavor, Mr. Liu Bao De and Mr. Ren Chun Bao, pursuant to which Faithful Endeavor (as purchaser) has conditionally agreed to acquire for the Faithful Endeavor Sale Interest, being 25% of the registered capital of Shandong Baoyuan, from Essex Bio-Investment (as vendor) at a total consideration of RMB3,921,600 (equivalent to approximately HK\$4,441,996).

Completion of the Faithful Endeavor Agreement is conditional upon the fulfilment of certain conditions precedent (details of which are contained in the Board Letter).

As advised by the Directors, the terms of the Faithful Endeavor Agreement were negotiated and entered into on arm's length basis among the parties thereto and the Directors are of the view that the terms and conditions of the Faithful Endeavor Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM GUANGDONG SECURITIES

The Yantai Shennong Agreement

On 30 June 2009, Essex Bio-Investment also entered into the Yantai Shennong Agreement with Yantai Shennong, Mr. Liu Bao De and Mr. Ren Chun Bao, pursuant to which Yantai Shennong (as purchaser) has conditionally agreed to acquire for the Yantai Shennong Sale Interest, being 26% of the registered capital of Shandong Baoyuan, from Essex Bio-Investment (as vendor) at a total consideration of RMB4,078,400 (equivalent to approximately HK\$4,619,604).

Completion of the Yantai Shennong Agreement is conditional upon the fulfilment of certain conditions precedent (details of which are contained in the Board Letter).

As advised by the Directors, the terms of the Yantai Shennong Agreement were negotiated and entered into on arm's length basis among the parties thereto and the Directors are of the view that the terms and conditions of the Yantai Shennong Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Information on the Group

The Group is principally engaged in research, development, production, and selling of biopharmaceutical products and agricultural fertilisers products in the PRC, and the Group's agricultural fertilisers business is entirely operated through Shandong Baoyuan.

Tabularised below is a summary of the audited consolidated financial information on the Group for the two years ended 31 December 2008 as extracted from the annual report of the Company for the year ended 31 December 2008 (the "2008 Annual Report"):

Consolidated income statement	For the year ended 31 December 2008 HK\$	For the year ended 31 December 2007 HK\$	Year on year change %
Turnover	214,070,523	152,674,582	40.21
Gross profit	102,593,705	69,836,816	46.90
Profit for the year	26,958,682	11,001,926	145.04

LETTER FROM GUANGDONG SECURITIES

Consolidated balance sheet	As at 31 December 2008 HK\$	As at 31 December 2007 HK\$	Year on year change %
Cash and cash equivalents	49,945,289	38,371,088	30.16
Net assets value (“NAV”)	113,774,136	82,892,806	37.25

Tabularised below is the business segment information of the Group as extracted from the 2008 Annual Report:

	For the year ended 31 December 2008 % of total turnover of HK\$ the Group		For the year ended 31 December 2007 % of the total turnover of HK\$ the Group		Year on year change %
Turnover					
- Biopharmaceutical products	92,868,336	43.38	68,329,435	44.75	35.91
- Agricultural fertilisers	121,202,187	56.62	84,345,147	55.25	43.70
		<i>HK\$</i>		<i>HK\$</i>	<i>%</i>
Segment result					
- Biopharmaceutical products	22,406,261		13,978,900		60.29
<i>Margin (%)</i>		24.13		20.46	
- Agricultural fertilisers	13,020,866		2,136,320		509.50
<i>Margin (%)</i>		10.74		2.53	

As depicted by the first table above, the Group recorded an audited total turnover of approximately HK\$214.07 million for the year ended 31 December 2008, representing an increase of approximately 40.21% as compared to the prior year. Based on the 2008 Annual Report, the said increase was mainly contributed by (i) the increase in sales of the Company’s flagship biopharmaceutical products from approximately HK\$68.33 million to approximately HK\$92.87 million during the year ended 31 December 2008; and (ii) the increase in sales of Shandong Baoyuan (the agricultural fertilisers products) from approximately HK\$84.35 million to approximately HK\$121.20 million during the year ended 31 December 2008. In addition, the Group’s total profit expanded substantially by approximately 145.04% to HK\$26.96 million for the year ended 31 December 2008. With reference to the business segment information above, the agricultural fertilisers business, being entirely operated through Shandong Baoyuan, contributed over 50% of the Group’s total turnover in both 2007 and 2008. In addition, the segment result which was attributed to the agricultural fertilisers business also jumped

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considerably by more than five times to approximately HK\$13.02 million during the year ended 31 December 2008. Nevertheless, as being set forth under the section headed "Information on Shandong Baoyuan" of this letter, such favourable financial performance of the agricultural fertilisers business no longer sustained in the first five months ended 31 May 2009 and would even turn to the opposite in the coming future as represented by the Directors.

The Group also derived its turnover from the biopharmaceutical products business. As demonstrated by the second table above, the biopharmaceutical products business of the Group recorded an increase in revenue of approximately 35.91% from approximately HK\$68.33 million for the year ended 31 December 2007 to approximately HK\$92.87 million for the year ended 31 December 2008. As being detailed under the section headed "Financial and trading prospects" in the Board Letter, the Directors are of the view that the future growth of the Group's biopharmaceutical products business shall be harnessed through the organic growth of its current flag-ship Beifushu and Beifuji series of products by expanding its coverage, in depth and breadth, for new clinical applications and markets. In addition, from the Board Letter, we further noted that in relation to the future advancement of the biopharmaceutical products business, it is the Group's intention to leverage on its well established network of distribution in the PRC by securing distribution rights or licensing of complementary products from third-party manufacturers for generating incremental benefits in both revenue and profit terms.

As at 31 December 2008, the Group's audited consolidated NAV was approximately HK\$113.77 million, and the Group had cash and bank balances of approximately HK\$49.95 million. Furthermore, the gearing ratio of the Group, which is calculated as net debts divided by total equity, was approximately 0.16 times as at 31 December 2008.

Information on Shandong Baoyuan

As extracted from the Board Letter, Shandong Baoyuan is a 51% indirect non wholly-owned subsidiary of the Company and is principally engaged in research, development and production of organic and chemical formulated agricultural fertilisers, in solid and liquid forms, for the agriculture industry in the PRC.

As also extracted from the Board Letter, Shandong Baoyuan is owned by Essex Bio-Investment, Mr. Liu Bao De and Mr. Ren Chu Bao as to approximately 51%, 24.99% and 24.01% respectively. Upon completion of the Disposal, Shandong Baoyuan will cease to be a subsidiary of the Company.

Tabularised below is a summary of the audited financial information on Shandong Baoyuan for the two years ended 31 December 2008 and the unaudited financial information on Shandong Baoyuan for the five months ended 31 May 2009 as extracted from the audited financial statements of

LETTER FROM GUANGDONG SECURITIES

Shandong Baoyuan and the latest management accounts of Shandong Baoyuan provided to us by the Company (the “**Shandong Baoyuan Financial Accounts**”):

	For the year ended 31 December 2007 RMB	For the year ended 31 December 2008 RMB	For the five months ended 31 May 2009 RMB
Income statement			
Turnover	82,102,916	107,201,651	50,243,474
Gross profit/(loss)	8,322,156	16,433,449	(100,007)
Gross profit margin	10.14%	15.33%	N/A
Net profit/(loss) after taxation	897,454	9,263,629	(5,330,076)
Net profit margin	1.09%	8.64%	N/A
	As at 31 December 2007 RMB	As at 31 December 2008 RMB	As at 31 May 2009 RMB
Balance sheet			
NAV	10,282,050	19,545,679	14,215,603

We noted from the above table that there had been significant increase in turnover and net profit of Shandong Baoyuan during the year ended 31 December 2008. As confirmed by the Directors, this was mainly due to the expansion in production capacity of Shandong Baoyuan in 2008 after completion of several new workshops. Despite such significant increase, the Directors advised us that the business of Shandong Baoyuan has been adversely affected by the global economic downturn in early 2009. The Directors further advised us that the selling price of the agricultural fertilisers products has declined since September 2008. As the revenue from the agricultural fertilisers products is lower than its costs of sales as a result of the declining trend of its selling price, Shandong Baoyuan suffered from an unaudited net loss of approximately RMB5.33 million for the five months ended 31 May 2009. In this relation, during our discussion with the Directors, we understand that the profit margin of the agricultural fertilisers business is relatively thinner as compared to the biopharmaceutical products business (for details, please refer to the table which tabularises the business segment information of the Group under the section headed “Information on the Group” of this letter). Taking into account the generally relatively thin profit margin of the agricultural fertilisers products coupled with the significant declining trend of its selling price since September 2008, the Directors expected that the existing loss making situation of Shandong Baoyuan is likely to persist in the coming foreseeable future.

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Furthermore, the Directors explained to us that the Group's liquidity position has been tightened due to the fact that (i) the operation of the agricultural fertilisers business requires extensive capital for financing raw materials and investment for CAPEX; and (ii) the Group usually needs to spare for additional working capital to allow Shandong Baoyuan to accumulate raw materials for the agricultural fertilisers products at off-peak seasons to take advantage of lower prices on raw materials.

An announcement of the Company dated 10 July 2009 also stated that the Directors expected that the Group's operating results for the six months ended 30 June 2009 may experience a material decline as compared to the corresponding period in 2008. According to the said announcement, such decline was mainly attributable to the volatility of prices of raw materials for agricultural fertilisers which had a negative impact on the Group's agricultural fertilisers business, whilst the biopharmaceutical products business of the Group was still contributing positively.

(2) Reasons for the Disposal

With reference to the Board Letter, the Directors considered that (i) the Disposal would unlock the cash and management bandwidth for the Group to pursue greater development in the biopharmaceutical business arena; and (ii) the Disposal would provide additional cash and allow the Group to redeploy its resources to other investment opportunities. As aforementioned, the business of Shandong Baoyuan had been adversely affected by the global economic downturn in early 2009. Hence, the Directors are of the view that the future prospect of Shandong Baoyuan will become highly uncertain and the existing loss making situation of Shandong Baoyuan is likely to persist in the coming foreseeable future given the generally thin profit margin of the agricultural fertilisers products coupled with the significant declining trend of its selling price since September 2008. In light of also that the nature of the agricultural fertilisers business requires extensive capital to continue and it had not been generating any profits to the Group for the five months ended 31 May 2009, whilst the biopharmaceutical products business of the Group was still contributing positively, the Directors consider that the Disposal can provide an exit opportunity for the Company to dispose of its equity interests in Shandong Baoyuan and better concentrate its resources on the remaining business (i.e. the biopharmaceutical products business). However, Independent Shareholders should be reminded that the future profitability of the Group upon completion of the Disposal would heavily depend on the future business performance of the biopharmaceutical products business of the Group. For the six months ended 30 June 2009, it was still contributing positively according to the aforesaid announcement of the Company dated 10 July 2009.

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Taking into account that (i) Shandong Baoyuan recorded an unaudited net loss of approximately RMB5.33 million for the five months ended 31 May 2009; (ii) as represented by the Directors, the future prospect of Shandong Baoyuan will become highly uncertain and the existing loss making situation of Shandong Baoyuan is likely to persist in the coming foreseeable future; (iii) the agricultural fertilisers business requires extensive capital which has tightened the liquidity position of the Group; (iv) the Disposal would allow the Group to better concentrate its resources on the biopharmaceutical products business which have been persistently profitable and demonstrated a steady business growth for the three years ended 31 December 2008 (according to the relevant annual reports of the Company) and is therefore more likely than not to be in the interest of the Group even though the Group would heavily depend on the future business performance of the biopharmaceutical business; and (v) the Disposal is in line with the Group's future strategy as set forth under the section headed "Information on the Group" (details of which are contained in the Board Letter) of this letter, we consider that the rationale of the Disposal is justifiable. Although the Disposal is not conducted in the ordinary and usual course of business of the Company, we are of the opinion that the Disposal is in the interests of the Company and the Shareholders as a whole.

(3) Principal terms of the Agreements

The Faithful Endeavor Agreement

Pursuant to the Faithful Endeavor Agreement, the consideration for the Faithful Endeavor Sale Interest of RMB3,921,600 (equivalent to approximately HK\$4,441,996) shall be paid in the following manner:

- (i) RMB1,960,800 shall be payable within five Business Days from the date of execution of the Faithful Endeavor Agreement; and
- (ii) RMB1,960,800 shall be payable within five Business Days from the date on which the Faithful Endeavor Agreement, the transactions contemplated thereunder and any other relevant documents shall have been approved by the relevant PRC government authorities.

The Yantai Shennong Agreement

Pursuant to in the Yantai Shennong Agreement, the consideration for the Yantai Shennong Sale Interest of RMB4,078,400 (equivalent to approximately HK\$4,619,604) shall be paid in the following manner:

- (i) RMB2,039,200 shall be payable within five Business Days from the date of execution of the Yantai Shennong Agreement; and
- (ii) RMB2,039,200 shall be payable within five Business Days from the date on which the Yantai Shennong Agreement, the transactions contemplated thereunder and any other relevant documents shall have been approved by the relevant PRC government authorities.

LETTER FROM GUANGDONG SECURITIES

Basis of the Considerations

As confirmed by the Directors, the considerations for the Faithful Endeavor Sale Interest and the Yantai Shennong Sale Interest (the “**Considerations**”) were arrived at after arm’s length negotiations among Essex Bio-Investment, Faithful Endeavor and Yantai Shennong (as the case may be) with reference to the sum of (i) the 51% interest in the unaudited consolidated net asset value of Shandong Baoyuan as at 31 May 2009 of RMB14,215,603; and (ii) the 51% interest in the valuation surplus of the land and properties owned by Shandong Baoyuan as at 26 June 2009 of RMB2,532,513, which was not reflected in the unaudited net asset value of Shandong Baoyuan as at 31 May 2009 (altogether the “**51% of the Latest Book Value**”).

Analysis of the Considerations

The Considerations are proportional to the respective interests in Shandong Baoyuan to be acquired by Faithful Endeavor and Yantai Shennong and represent a discount of approximately 6.34% to the 51% of the Latest Book Value.

To assess the fairness and reasonableness of the Consideration, we have researched for companies which are listed on the Stock Exchange and are in similar lines of business as Shandong Baoyuan (i.e. the fertilisers business). We have also excluded companies which recorded both losses and net liabilities during their latest financial years as per the relevant published financial information. To the best of our knowledge and as far as we are aware of, there are three comparable companies which met our selection criteria (the “**Comparable Companies**”).

We understand that commons means of the price comparable analyses include the price to earnings ratio (“**PER**”) and the price to book ratio (“**PBR**”). However, given the PER of the Disposal was based on the profitability of Shandong Baoyuan and Shandong Baoyuan recorded losses for the five months ended 31 May 2009 and the Directors also expected that the existing loss making situation of Shangdong Baoyuan is likely to persist in the coming foreseeable future, we consider the PER analysis to be inapplicable. On the other hand, given that the Consideration was based on the 51% of the Latest Book Value, for the purpose of presenting a more meaningful comparison, the PBR analysis using the 51% of the Latest Book Value is adopted. The following table sets out the PBR of the Comparable Companies

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based on (i) their closing prices on the Last Trading Day; and (ii) the publicly available financial information for their latest financial years:

Company name (Stock code)	Year end date	PBR as at the Last Trading Day (times)
Century Sunshine Group Holdings Limited (509)	31 December	0.57
China Agrotech Holdings Limited (1073)	30 June	0.50
Ko Yo Ecological Agrotech (Group) Limited (827)	31 December	1.27
The Disposal		0.94 (Note 1)

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. Based on the Consideration and the 51% of the Latest Book Value.
2. Exchange rate of HK\$1.14: RMB1 was used for the calculation (if applicable).

As depicted by the above table, the implied PBRs of the Comparable Companies as at the Last Trading Day ranged from approximately 0.57 times to 1.27 times; while the implied PBR of the Disposal is approximately 0.94 times. We noted that the implied PBR of the Disposal falls within the range of the Comparable Companies.

As mentioned under the section headed “Reasons for the Disposal” of this letter, the Directors considered that the future prospect of Shandong Baoyuan will become highly uncertain and the existing loss making situation of Shandong Baoyuan is likely to persist in the coming foreseeable future. Consequently, the Considerations were determined based on the 51% of the Latest Book Value and they represent a discount of approximately 6.34% to the said value. Besides that, the implied PBR of the Disposal falls within the range of the Comparable Companies. The Directors considered the Considerations to be fair and reasonable so far as the Independent Shareholders are concerned. In view of (i) the reasons for the Disposal together with the deteriorating financial performance and the uncertain future prospect of Shandong Baoyuan as represented by the Directors; and (ii) the implied PBR of the Disposal falls within the range of the Comparable Companies, we concur with the Directors that the Considerations are acceptable even though they represent a slight discount to the 51% of the Latest Book Value.

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We have also reviewed the other major terms of the Agreements and are not aware of any terms which are unusual. Based on the above, we are of the view that the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(4) Possible financial effects of the Disposal

Upon completion of the Disposal, Shandong Baoyuan will cease to be a subsidiary of the Company. As referred to in the Board Letter, based on the carrying value of Shandong Baoyuan as at 31 May 2009, the Group is expected to record an unaudited loss of approximately HK\$509,721 upon completion of the Disposal, before the deduction of all necessary charges for the year ending 31 December 2009. After balancing the Directors' representation of the possible continual losses which Shandong Baoyuan may bring to the Group in the future in the event that the Disposal is not conducted, we are of the opinion that such one-off loss is acceptable to the Group.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon completion of the Disposal.

RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Disposal is in the interests of the Company and the Shareholders as a whole. If a general meeting of the Independent Shareholders were to be held for the purpose of considering and, if thought fit, approving the Agreements and the transactions contemplated thereunder, we would advise the Independent Board Committee to recommend the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. STATEMENT OF INDEBTEDNESS

As at 31 May 2009, being the latest practical date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding bank borrowings of approximately HK\$28,788,000, of which an amount of HK\$23,801,000 was secured by a charge of the land and buildings owned by Shandong Baoyuan and an amount of HK\$4,987,000 was guaranteed by Mr. Liu Bao De and a third party. Upon closing of the Disposal, Shandong Baoyuan will cease to be a subsidiary of the Company and the said loan of HK\$28,788,000 will cease to be the Group's bank borrowings and the said charge and guarantee will not constitute security provided by the Group.

Save as disclosed in this section and apart from intra-group liabilities, the Group did not have outstanding, as at 31 May 2009, any mortgages, charges, debentures or loan capital issued and outstanding or agreed to be issued, bank loans, and overdrafts or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchases or finance lease commitments, guarantees or material contingent liabilities.

Save as disclosed in this section, the Directors are not aware of any material adverse change in the Group's indebtedness and contingent liabilities since 31 May 2009.

2. FINANCIAL AND TRADING PROSPECTS

Following the divestiture of the Group's investment in Shandong Baoyuan, the Group will consolidate its management and financial resources to stay focused on further cultivating its biopharmaceutical business in the PRC going forward.

The future growth of the Group's biopharmaceutical business shall be harnessed through the organic growth of its current flag-ship Beifushu and Beifuji series of products by expanding its coverage, in depth and breadth, for new clinical applications and markets. In addition, the Group will leverage on its well established network of distribution in the PRC by securing distribution rights or licensing of complementary products from third-party manufacturers for generating incremental benefits both in revenue and profit.

The divestment will result in the Group virtually operating with zero borrowing and unlock cash, which will enable the Group to continue to seek sound investment opportunities to expand the Group's business progressively and achieving synergistic benefits to its current operations for enhancing its competitiveness and shareholders value.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account the financial resources available to the Remaining Group including internally generated funds and the available banking facilities, the Remaining Group will have sufficient working capital to meet its present requirements for at least the next 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Company issued a profit warning announcement dated 10 July 2009 in respect of the estimated material decline of the Group's operating results for the six months ended 30 June 2009 as compared to the corresponding period in 2008.

Save as disclosed in this section, the Directors are not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2008, the date to which the latest published audited financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he was taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

Long positions in ordinary shares of the Company:

Name of Director	Personal interest	Number of issued ordinary shares of HK\$0.10 each in the Company			Total	Approximate percentage of the Company's issued share capital
		Family interests	Corporate interests	Other interests		
Mr. Ngiam Mia Je Patrick	2,250,000	-	288,458,000 (note 1) 6,666,667 (note 2)	-	297,374,667	53.41
Mr. Fang Haizhou	2,000,000	-	-	-	2,000,000	0.36
Mr. 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 Mr. Ngiam Mia Je Patrick and as to 50% by Mr. Ngiam Mia Kiat Benjamin. Therefore Mr. 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 Mr. Ngiam Mia Je Patrick and Mr. Ngiam Mia Kiat Benjamin in equal shares and therefore, Mr. Ngiam Mia Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meetings.

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

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

- (b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company has any interest in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS’ INTERESTS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS IN THE COMPANY

(a) Substantial shareholders

As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Long positions in ordinary shares of the Company:

Name	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital
Essex Holdings Limited (note 1)	Beneficial owner	288,458,000	51.81
Mr. Ngiam Mia Kiat Benjamin	Beneficial owner and corporate interest	295,449,667 (note 2)	53.07
Ms. Lauw Hui Kian	Family interest	297,374,667 (note 3)	53.41
Ms. Kee Sue Hwa	Beneficial owner	32,476,000	5.83

Notes:

1. The directors of Essex Holdings are Mr. Ngiam Mia Je Patrick (an executive Director), Mr. Zhong Sheng (an executive Director) and Mr. Ngiam Mia Kiat Benjamin.
 2. (a) 325,000 shares were registered directly in the name of Mr. Ngiam Mia Kiat Benjamin.
(b) 288,458,000 shares were held by Essex Holdings; and
(c) 6,666,667 shares were held by Dynatech.
 3. (a) Ms. Lauw Hui Kian is the spouse of Mr. Ngiam Mia Je Patrick (an executive Director), Ms. Lauw Hui Kian was deemed to be interested in the shares in which Mr. Ngiam Mia Je Patrick was interested. Mr. Ngiam Mia Je Patrick was interested in 297,374,667 shares of the Company.
- (b) Save as disclosed in this circular, as at the Latest Practicable Date, so far as is known to the Directors, there is no other person who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors:

- (a) had any direct or indirect interests in any assets which have since 31 December 2008 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group; and
- (b) was materially interested in any contracts or arrangements entered into by any members of the Group subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

5. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from 27 June 2007 and expiring on 26 June 2010 unless terminated (without cause) by the Company giving not less than six months' prior written notice to the relevant Director. The executive Directors shall not be entitled to terminate their respective appointments at any time during the term unless with the written consent of the Company deliberated by the Board. The term of appointment of each independent non-executive Director is two years commencing from 30 September 2008, determinable by either the relevant independent non-executive Director or the Company serving not less than one month's written notice on the other, unless both parties agree otherwise.

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

6. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interests in any business which competes or may compete with the business in which the Group is engaged or had any other conflict of interest with the Group.

7. MATERIAL ADVERSE CHANGE

The Company issued a profit warning announcement dated 10 July 2009 in respect of the estimated material decline of the Group's operating results for the six months ended 30 June 2009 as compared to the corresponding period in 2008.

Save as disclosed herein, as at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, being the date to which the latest published audited financial statements of the Group were made up.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

9. QUALIFICATIONS OF THE EXPERT

The following are the qualifications of the expert who has been named in this circular or has given opinions or advice which are contained in this circular:

Name	Qualification
Guangdong Securities	A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
Ample Appraisal	Professional property valuers

Each of Guangdong Securities and Ample Appraisal has given and has not withdrawn its written consent to the issue of the circular with the inclusion herein of its letter or references to its name in the form and context in which they appear.

As at the Latest Practicable Date, each of Guangdong Securities and Ample Appraisal did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Guangdong Securities and Ample Appraisal did not have any direct or indirect interests in any assets which have since 31 December 2008 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or which were proposed to be acquired or disposed of by or leased to any members of the Group.

10. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Company or its subsidiaries within the two years preceding the date of this circular and are or may be material:

- (a) the Faithful Endeavor Agreement;
- (b) the Yantai Shennong Agreement;
- (c) the contract for acquisition of the land use rights dated 30 December 2008 in relation to the acquisition of a piece of land with total gross area of approximately 13,398.99 square metres located at East of Chuangxinba Road, Hi-tech Industrial Development Zone, Zhuhai, the PRC (中國珠海高新區科技創新海岸創新八路東側) at a consideration of RMB6,431,515 (equivalent to approximately HK\$7,267,612), entered into between the Land and Resources Bureau of Zhuhai (珠海市國土資源局) and 珠海億勝生物製藥有限公司 (Zhuhai Essex Bio-Pharmaceutical Company Limited*) (“Zhuhai Essex”), a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company; and
- (d) the loan agreement dated 1 January 2008 entered into between Zhuhai Essex and Shandong Baoyuan in relation to the provision of an interest free loan of RMB3,000,000 by Zhuhai Essex to Shandong Baoyuan.

11. MISCELLANEOUS

- (a) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Room 2818, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Hong Kong Registrars Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (d) The compliance officer of the Company is Mr. Zhong Sheng. The company secretary and qualified accountant of the Company is Ms. Yau Lai Man.

Mr. Zhong Sheng is an executive Director. He holds a master degree in Industrial Economics from 廣東省社會科學院 (Guangdong Academy of Social Sciences) and has more than ten years of experience in financial management and project management.

* For identification purpose only

Ms. Yau Lai Man is a member holding Practising Certificate of the Hong Kong Institute of Certified Public Accountants. Ms. Yau is also a member of the Institute of Chartered Accountants in England & Wales.

- (e) The Company has 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 the Company's annual reports and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the Directors. The audit committee comprises three independent non-executive Directors, namely Mr. Fung Chi Ying, Mr. Mauffrey Benoit Jean Marie and Ms. Yeow Mee Mooi, whose brief biographical details are set out below:

Mr. Fung Chi Ying, aged 54, is an independent non-executive Director of the Company. He is a practising solicitor in Hong Kong and presently a partner of Adrian Yeung & Cheng, Solicitors. He has been an independent non-executive Director of the Company since 13 June 2001.

Mr. Mauffrey Benoit Jean Marie, aged 56, is an independent non-executive Director of the Company. He is experienced in business development and sales and marketing in several industries in the Asia Pacific region. Mr. Mauffrey Benoit Jean Marie has been appointed as a director of a Mesdaq listed company, Fotronic Sdn Bhd, since January 2005. He has been an independent non-executive Director of the Company since 13 June 2001.

Ms. Yeow Mee Mooi, aged 46, is an independent non-executive Director of the Company. She graduated from The University of Southwestern Louisiana, the United States of America, with a bachelor degree in business administration. Madam Yeow further obtained her post-graduate diploma in financial management from The University of New England, Australia. Madam Yeow is a certified practising accountant of The Hong Kong Institute of Certified Public Accountants and The Australian Society of Certified Practising Accountants. She has over 17 years' taxation, auditing and commercial experience in Hong Kong. Madam Yeow is now a director of a management consulting firm in Hong Kong. She has been an independent non-executive Director of the Company since 30 September 2004.

- (f) Mr. Ngiam Mia Je Patrick and Mr. Zhong Sheng, who are executive Directors, are also directors of Essex Holdings Limited (a substantial shareholder of the Company). Save as disclosed, no Director is a director or employee of a company which has an interest or short position in the Shares which would fall to be disclosed under divisions 2 and 3 of Part XV of the SFO.
- (g) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at 5th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong up to and including 7 August 2009:

- (a) the Faithful Endeavor Agreement;
- (b) the Yantai Shennong Agreement;
- (c) the letter dated 23 July 2009 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 14 of this circular;
- (d) the letter dated 23 July 2009 from Guangdong Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 26 of this circular;
- (e) the full valuation report prepared by Ample Appraisal in respect of the land and properties owned by Shandong Baoyuan;
- (f) the written consent of each of Guangdong Securities and Ample Appraisal referred to in the section headed "Qualifications of the Expert" in this Appendix;
- (g) the material contracts referred to in the section headed "Material Contracts" in this Appendix;
- (h) the service contracts referred to in the section headed "Directors' Service Contracts" in this Appendix;
- (i) the memorandum and articles of association of the Company;
- (j) the annual reports of the Company for the financial year ended 31 December 2007 and the financial year ended 31 December 2008 respectively; and
- (k) a copy of each circular issued by the Company pursuant to the requirements under Chapters 19 and/or 20 of the GEM Listing Rules which has been issued since the date of the latest published audited accounts of the Company.