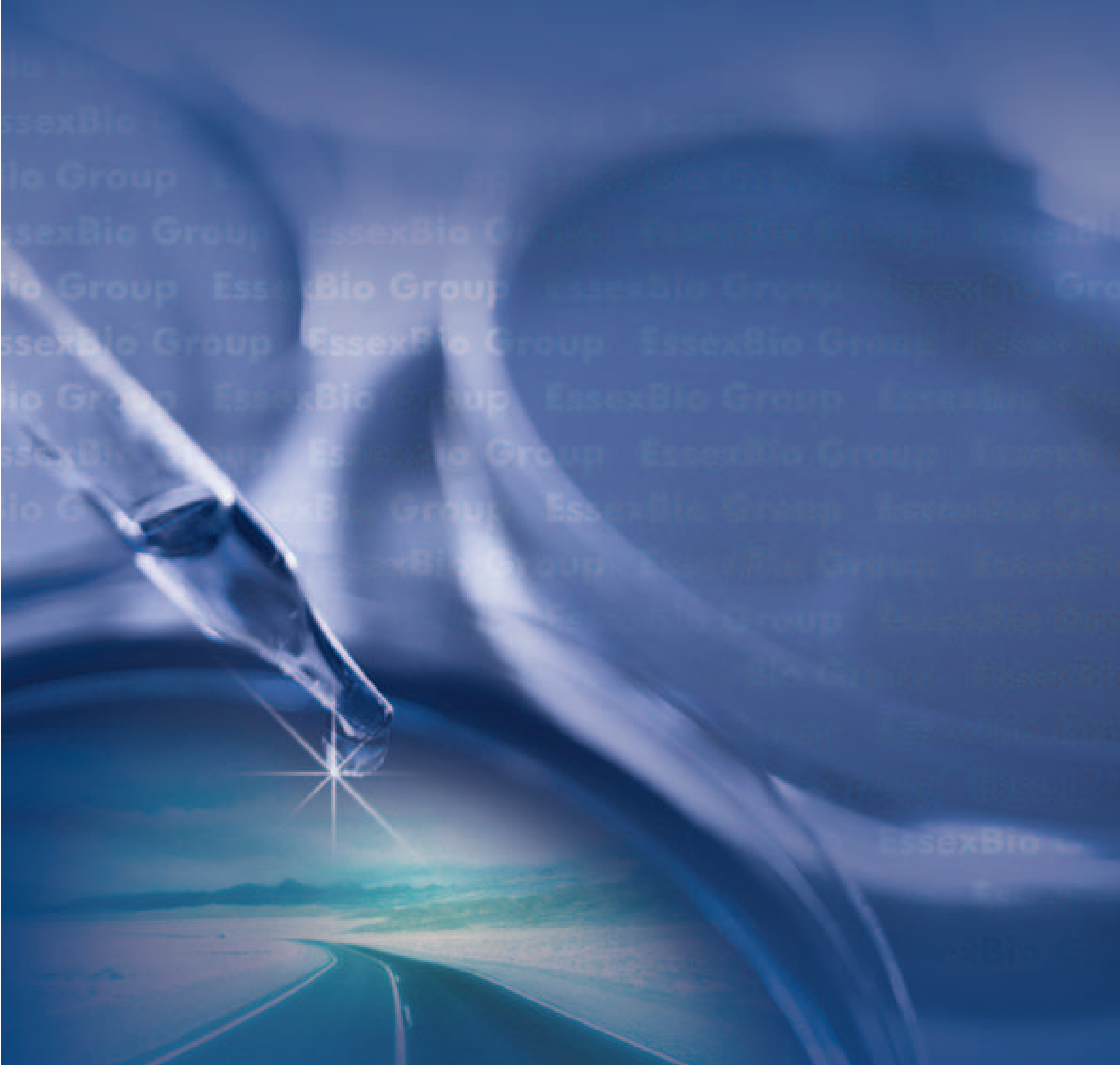
ESSEX

ESSEX BIO-TECHNOLOGY LIMITED
億勝生物科技有限公司

(incorporated in the Cayman Islands with limited liability)



Third Quarterly Report 2002

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The board of directors of Essex Bio-Technology Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") as follows:

UNAUDITED CONSOLIDATED RESULTS

		For the three months ended 30 September		For the nine months ended 30 September	
		2002	2001	**2002**	2001
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	2	**7,600**	6,741	**20,119**	19,453
Cost of sales		**(1,106)**	(1,020)	**(3,188)**	(2,949)
Gross profit		**6,494**	5,721	**16,931**	16,504
Other revenue		**293**	247	**1,108**	849
Selling and distribution expenses		**(5,883)**	(3,908)	**(13,806)**	(11,492)
General and administrative expenses		**(2,175)**	(1,685)	**(5,673)**	(4,227)
(Loss)/profit from operating activities		**(1,271)**	375	**(1,440)**	1,634
Finance costs		**—**	—	**(6)**	(41)
(Loss)/profit before tax		**(1,271)**	375	**(1,446)**	1,593
Tax	3	**—**	—	**—**	—
(Loss)/profit before minority interests		**(1,271)**	375	**(1,446)**	1,593
Minority interests		**292**	(48)	**687**	(241)
(Loss)/profit attributable to shareholders		**(979)**	327	**(759)**	1,352
Dividend	4	**—**	—	**—**	—
(Loss)/earnings per share	5				
— basic		**(0.18) cent**	0.06 cent	**(0.14) cent**	0.31 cent
— diluted		**N/A**	0.06 cent	**N/A**	0.30 cent

Notes:

1. **Basis of preparation and principal accounting policies**

The basis of preparation and accounting policies adopted for the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2001.

2. **Turnover**

Turnover comprises total invoiced value of biopharmaceutical products and pharmaceutical research and development projects sold after allowances for returns and discounts.

3 **Tax**

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong for the three months and nine months ended 30 September 2002 and the corresponding periods in 2001.

The Group's operating subsidiaries in the People's Republic of China (the "PRC") are all established and carrying on business in the Special Economic Zones of the PRC as foreign investment enterprises. They are subject to the enterprise income tax at a concessionary rate of 15%. One of the Group's subsidiaries, which is engaged in production, is entitled to seek exemption from the enterprise income tax for two years starting from the first year of profitable operations after offsetting accumulated losses brought forward, followed by a 50% reduction in enterprise income tax for the next three years. No provision for the PRC enterprise income tax has been made as there was no net assessable income for the three months and nine months ended 30 September 2002 and the corresponding periods in 2001 after off-setting accumulated losses brought forward.

No recognition of the potential deferred taxation asset relating to tax losses has been made as the recoverability of this potential deferred taxation asset is uncertain.

4 **Dividend**

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (2001: Nil).

5 **(Loss)/earnings per share**

The calculation of the basic loss per share for the three months and nine months ended 30 September 2002 is based on the respective unaudited loss attributable to shareholders of the Company of approximately HK$979,000 and approximately HK$759,000 (2001: profit of approximately HK$327,000 and approximately HK$1,352,000 respectively).

The basic loss per share for the three months and nine months ended 30 September 2002 is based on the weighted average number of 531,759,863 shares and 525,491,675 shares respectively (2001: 512,820,000 and 431,667,667 respectively) in issue during the period. The 384,610,666 ordinary shares outstanding as a result of the Group's reorganization prior to the placing of its shares to the public in June 2001 are included in the calculation of the weighted average number of shares as if those shares had been in issue since 1 January 2001.

The calculation of the diluted earnings per share for the three months and nine months ended 30 September 2001 are based on the unaudited profit attributable to shareholders of the Company for the three months and nine months ended 30 September 2001 and 537,981,140 shares and 450,617,362 shares respectively.

The diluted loss per share for the three months and nine months ended 30 September 2002 has not been presented as the outstanding options had an anti-diluted effect on the basic loss per share for the period.

6 Reserves

	Share premium HK$'000	Capital reserve and contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2001	—	8,613	74	(2,783)	5,904
Ordinary shares issued on placing and conversion of convertible bonds	47,770	—	—	—	47,770
Eliminated on capitalization	(38,361)	—	—	—	(38,361)
Share issue expenses	(8,439)	(7,900)	—	—	(16,339)
Translation difference on consolidation	—	—	(57)	—	(57)
Profit for the period	—	—	—	1,025	1,025
At 30 June 2001	970	713	17	(1,758)	(58)
Profit for the period	—	—	—	327	327
At 30 September 2001	970	713	17	(1,431)	269
At 1 January 2002	970	362	17	(779)	570
Profit for the period	—	—	—	220	220
At 30 June 2002	970	362	17	(559)	790
Loss for the period	—	—	—	(979)	(979)
At 30 September 2002	970	362	17	(1,538)	(189)

Capital reserve of the Group at 1 January 2001 represented negative goodwill of HK$713,010 which arose on the acquisition of one of the Group's subsidiaries in the PRC.

Contributed surplus of the Group at 1 January 2001 represented the difference of HK$7,900,000 between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital of the subsidiaries acquired through an exchange of shares pursuant to the Reorganization (as defined in the prospectus of the Company dated 19 June 2001).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the Group was principally engaged in the manufacture and sale of biopharmaceutical products for the treatment and healing of surface wounds and organ wounds. The Group also engaged in the research and development of biopharmaceutical products for the treatment of stomach ulcers, osteoporosis and nervous system damages and diseases, traditional Chinese medicine and chemical pharmaceutical projects.

For the nine months ended 30 September 2002, manufacture and sale of biopharmaceutical products continued to be the Group's core revenue generator. Turnover for the nine months ended 30 September 2002 for the sale of biopharmaceutical products increased by 3.4% to approximately HK$20.1 million as compared to the corresponding period in last year. Gross profit for the period under review increased by 2.6% to approximately HK$16.9 million in comparison to the corresponding period in last year.

Operation Review

Streamlined operation

The Group's operations in Shenzhen and Zhuhai were streamlined during the period under review for better operational efficiency and management. The sales and marketing operation of Zhuhai Essex Bio-Pharmaceutical Company Limited ("Zhuhai Essex") was relocated from Shenzhen to Zhuhai on 1 July 2002, to stay within the same premises of Zhuhai Essex. The vacated space in Shenzhen is used by the Group's another subsidiary, Essex Pharmaceutical Research Centre Company Limited ("Essex Research") for its traditional Chinese medicine and chemical pharmaceutical research and development facility expansion.

Research and development pipeline

Currently the Group has 21 projects in the research and development pipeline. The therapeutic focus of these projects are in surface wounds, organ wounds, nervous system disorders, cardiovascular, anti-virus, geriatric and gynaecology.

Upgrading of production facilities

The upgrading of production facilities of Zhuhai Essex to include the manufacturing of biopharmaceutical products in gel formulation was successfully carried out in July 2002. Zhuhai Essex is now capable of producing biopharmaceutical products in the formulations of powder, liquid, eye drop and gel. 貝復濟 (Beifuji) and 貝復舒 (Beifushu) in gel formulation, are expected to go into commercial production in the third quarter of 2003.

Wholly owned Zhuhai Essex

Following the completion of the acquisition of 15.31% equity stake in Zhuhai Essex on 24 June 2002, Zhuhai Essex became a wholly owned subsidiary of the Company. Details of the acquisition were set out in the Company's announcements dated 16 May 2002 and 21 May 2002 and the circular issued by the Company dated 4 June 2002.

Strengthening and expansion of the distribution network

In the third quarter of 2002, the Group adopted and implemented the strategy of establishing Direct Representative Offices ("DRO"). The effect of the DRO is to enable the Group to more pragmatically and effectively promote and drive penetration of the biopharmaceutical products to hospitals and end markets.

The DRO will also provide the Group with an extensive distribution platform to represent complementary third party pharmaceutical products. This is immediately evident with the agreement engaged in carrying of a well-established biopharmaceutical product in the Group's distribution network in the fourth quarter of 2002.

3 DRO were established in Beijing, Shanghai and Nanjing during the third quarter of 2002. The Group intends to establish a total of 10 DRO in the PRC by the end of 2003. The investment costs to complete the DRO program from the third quarter of 2002 to the end of 2003 is estimated at approximately HK$4 million. Set up costs of the DRO will be absorbed as incurred and the Group expects contributions from the DRO starting mid-2003. The DRO network will drive sustainable growth and profitability.

Financial Review

The Group's turnover for the nine months ended 30 September 2002 rose 3.4% to approximately HK$20.1 million compared to approximately HK$19.5 million for the corresponding period in the previous year.

The overall gross profit margin maintained over 84% for the period under review from 84.8% for the same period in last year. The overall gross profit increased by 2.6% to approximately HK$16.9 million compared to last year.

However, the Group suffered a loss of approximately HK$0.8 million for the nine months ended 30 September 2002 due to the increase of selling and distribution expenses and general and administrative expenses.

Selling and distribution expenses increased to approximately HK$13.8 million for the nine months ended 30 September 2002 from approximately HK$11.5 million for the corresponding period in last year. The increased was mainly a result of the investment in 3 DRO, increase of marketing and promotional activities and increase of commission during the period under review.

General and administrative expenses increased during the period under review to approximately HK$5.7 million from approximately HK$4.2 million in the corresponding period in last year. The increased mainly attributable to the expansion of the research and development centre in Shenzhen which is responsible to carry out research and development of traditional Chinese medicine and chemical pharmaceutical projects. 13 projects were carried out during the corresponding period in last year compared to 21 projects in the period under review, corresponding general and administrative expenses therefore increased accordingly.

In terms of establishing the DRO to sustain growth and drive profitability, it disrupted near term revenue performance of the Group but the positive market impact of the DRO will be seen in the near future.

The Group continues to be in a strong financial position. The Group's net tangible assets as at 30 September 2002 was approximately HK$55.3 million (2001: HK$55.5 million).

Cash and bank balances as at 30 September 2002 was approximately HK$17 million (2001: HK$48 million).

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong Dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

The Group also has a fully secured banking facility of HK$10 million that has not been utilised as at 30 September 2002. There were no bank borrowings as at 30 September 2002 (2001: Nil).

Outlook

Barring unforeseen circumstances, the Group is confident of a better performance in the fourth quarter following the implementation of the strategy to strengthen and expand the distribution network.

OTHER INFORMATION

Directors' Interest in Shares

As at 30 September 2002, the interests of the directors and their associates (as defined in the GEM Listing Rules) in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance"), are set out below:

	Number of issued ordinary shares of HK$0.10 each in the Company				
Name	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**
Ngiam Mia Je Patrick	2,250,000	—	288,458,000 *(note 1)* 6,666,667 *(note 2)*	—	297,374,667
Fang Haizhou	2,000,000	—	—	—	2,000,000
Zhong Sheng	1,500,000	—	—	—	1,500,000
Wong Kui Ming	325,000	—	—	—	325,000

Notes:

1. 288,458,000 shares were held by Essex Holdings Limited ("Essex Holdings") which is owned as to 50% by Ngiam Mia Je Patrick and as to 50% by Ngiam Mia Kiat Benjamin. Therefore, Ngiam Mia Je Patrick is deemed to be interested in these shares as he is entitled to exercise or control the exercise of more than one-third of the voting power of Essex Holdings at general meetings.

2. 6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which is owned as to 60% by Essex (Singapore) Pte Ltd ("Essex Singapore") and as to 40% by EDB Ventures Pte Ltd, an independent third party. Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares and therefore, Ngiam Mia Je Patrick is deemed to be interested in these shares as he is entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meeting.

Save as disclosed above as at 30 September 2002, none of the directors or their associates (as defined in the GEM Listing Rules) had any personal, family, corporate or other interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Substantial Shareholders

As at 30 September 2002, the following parties had registered an interest of 10% or more in the issued share capital of the Company that were required to be recorded in the register of interests to Section 16(1) of the SDI Ordinance.

Name	**Number of shares held**	**Approximate percentage of shareholding**
Essex Holdings Limited	288,458,000	51.97%
Ngiam Mia Je Patrick	297,374,667 *(note 1)*	53.57%
Ngiam Mia Kiat Benjamin	295,449,667 *(note 2)*	53.23%
Lauw Hui Kian	297,374,667 *(note 3)*	53.57%

Notes:

1. (a) 2,250,000 shares are registered directly in the name of Ngiam Mia Je Patrick.
   (b) 288,458,000 shares are held by Essex Holdings; and
   (c) 6,666,667 shares are held by Dynatech.
2. (a) 325,000 shares are registered directly in the name of Ngiam Mia Kiat Benjamin;
   (b) 288,458,000 shares are held by Essex Holdings; and
   (c) 6,666,667 shares are held by Dynatech.
3. (a) 297,374,667 shares are held by Ngiam Mia Je Patrick, the spouse of Lauw Hui Kian.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Share Option Schemes

1. *Pre-IPO Share Option Scheme*

Pursuant to the Company's pre-IPO share option scheme adopted and approved by its shareholders on 13 June 2001 (the "Pre-IPO Share Option Scheme"), the Company granted options to the following 4 directors of the Company and 145 other employees or directors of subsidiaries of the Company which entitle the holders to subscribe for ordinary shares of the Company.

Details of the share options granted to the directors of the Company outstanding at 30 September 2002 are as follows:

		Number of options			
Name of director	**Date of grant**	**granted**	**exercised/ lapsed**	**outstanding**	**Exercise price** *HK$*
Ngiam Mia Je Patrick	13 June 2001	4,500,000	2,250,000	2,250,000	0.10
Fang Haizhou	13 June 2001	4,000,000	2,000,000	2,000,000	0.10
Zhong Sheng	13 June 2001	3,000,000	1,500,000	1,500,000	0.10
Wong Kui Ming	13 June 2001	650,000	325,000	325,000	0.10
145 other employees or directors of subsidiaries of the Company	13 June 2001	27,575,000	4,755,000	22,820,000	0.10 to 0.35
		39,725,000	10,830,000	28,895,000	

Subject to the terms of the Pre-IPO Share Option Scheme, such options are exercisable within five years from the date of grant.

2. *Share Option Scheme*

As at 30 September 2002, the following share options granted by the Company to the employee of the Group to acquire shares under the Share Option Scheme adopted and approved by its shareholders on 13 June 2001 were outstanding:

Number of employee	Number of share options	Date of grant	Exercise price per share *HK$*	Exercise period *(Note)*
1	1,500,000	26 September 2002	0.16	4 July 2003 to 3 July 2006

Note:

No options may be exercised within 12 months after the completion of 12 months' full-time services with the Group

No options have been exercised, cancelled or lapsed during the period from the date of grant to 30 September 2002.

Directors' Rights to Acquire Shares

Save as disclosed above, at no time during the period under review was the Company, its holding company or any of its a party to any arrangements to enable the directors or chief executives (including their spouses or children under 18 years of age) of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interest in Contracts

No director had a significant beneficial interest, either directly or indirectly, in any contract of significance to which the Company, its holding companies or any of its subsidiaries was a party during the period under review.

Sponsor's Interests

At the date of this report, Dao Heng Securities Limited ("DHS"), its directors, employees and associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

Pursuant to a sponsor agreement entered into between DHS and the Company, DHS is retained as sponsor of the Company for the period of two years commencing from 1 January 2002. The Company agreed to pay an agreed fee to DHS for its provision of such services.

Compliance with Rules 5.28 to 5.39 of the GEM Listing Rules

The Company has complied with the board practices and procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 27 June 2001.

Purchase, Redemption or Sale of Listed Securities

The Company's shares were listed on GEM on 27 June 2001. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since that date.

Competition and Conflict of Interests

None of the directors or the substantial shareholders has any interest in any business that directly or indirectly competes with the business of the Group.

Audit Committee

The Company established an audit committee on 13 June 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 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, Zhong Sheng, an executive director of the Company, Fung Chi Ying and Benoit Jean Marie Mauffrey, who are the independent non-executive directors of the Company. The Group's unaudited results for the nine months ended 30 September 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

On behalf of the Board

Ngiam Mia Je Patrick
Chairman and Executive Director

Hong Kong, 6 November 2002