



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

2003

## **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.

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 liquid market in the securities traded on GEM.

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”) presents the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months ended 30 September 2003 as follows:

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	6,967	7,600	31,579	20,119
Cost of sales		(1,678)	(1,106)	(16,568)	(3,188)
Gross profit		5,289	6,494	15,011	16,931
Other revenue		—	293	866	1,108
Selling and distribution costs		(5,252)	(5,883)	(14,664)	(13,806)
General and administrative expenses		(2,757)	(2,175)	(8,491)	(5,673)
Loss from operating activities		(2,720)	(1,271)	(7,278)	(1,440)
Finance costs		(1)	—	(297)	(6)
Loss before tax		(2,721)	(1,271)	(7,575)	(1,446)
Tax	3	—	—	—	—
Loss before minority interests		(2,721)	(1,271)	(7,575)	(1,446)
Minority interests		235	292	788	687
Loss attributable to shareholders		(2,486)	(979)	(6,787)	(759)
Dividend	4	—	—	—	—
Loss per share	5				
— basic		(0.45) cent	(0.18) cent	(1.22) cent	(0.14) 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 2002.

**2. Turnover**

Turnover represents sales value of biopharmaceutical products supplied to customers, and revenue from sale of pharmaceutical research and development projects.

**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 2003 and the corresponding periods in 2002.

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 2003 and the corresponding periods in 2002.

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 2003 (2002: Nil).

**5. Loss per share**

The basic loss per share for the three months and nine months ended 30 September 2003 are calculated based on the consolidated loss attributable to shareholders of the Company for the three months and nine months ended 30 September 2003 of approximately HK\$2,486,000 and HK\$6,787,000 respectively (2002: approximately HK\$979,000 and HK\$759,000) and 555,240,000 shares and 555,240,000 shares respectively (2002: 531,759,863 shares and 525,491,675 shares respectively).

No diluted loss per share is presented because the share options outstanding had an anti-dilutive effect on the basic loss per share.

## 6. Reserves

	Share premium <i>HK\$'000</i>	Capital reserve and contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002					
As previously stated	970	362	17	(779)	570
Zhuhai Essex	—	—	—	(30)	(30)
As restated	970	362	17	(809)	540
Net profit for the period	—	—	—	220	220
At 30 June 2002	970	362	17	(589)	760
Net loss for the period	—	—	—	(979)	(979)
At 30 September 2002	970	362	17	(1,568)	(219)
At 1 January 2003	970	362	14	(4,573)	(3,227)
Net loss for the period	—	—	—	(4,301)	(4,301)
At 30 June 2003	970	362	14	(8,874)	(7,528)
Net loss for the period	—	—	—	(2,486)	(2,486)
At 30 September 2003	970	362	14	(11,360)	(10,014)

The Group carried out a restructure and increased its equity interest in Zhuhai Essex Bio-Pharmaceutical Company Limited ("Zhuhai Essex") from 84.69% to 100% by acquiring the remaining 15.31% equity interest from the minority shareholder of Zhuhai Essex. The consideration for the acquisition was satisfied by the issuance of 34,000,000 new ordinary shares of HK\$0.1 each of the Company to the minority shareholder on 24 June 2002. The Group accounted for the acquisition of this minority interest using the merger method of accounting. Accordingly Zhuhai Essex is treated as if it had always been a wholly owned subsidiary of the Group. Opening equity at 1 January 2002 has been restated to reflect the restructure of the Group by the acquisition of all the minority interest of Zhuhai Essex.

## 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 duodenal ulcers, osteoporosis and nervous system damages and diseases, as well as pharmaceutical projects for traditional Chinese medicine (“TCM”) and chemical drug.

In the period under review, manufacture and sale of biopharmaceutical products continued to be the Group’s core revenue generator. It represented approximately HK\$31.5 million, or 99.7% of the Group’s total turnover. Another revenue source was the sale of pharmaceutical research and development projects. These included TCM and chemical drug. Revenue generated from the sale of pharmaceutical research and development projects was immaterial during the period under review.

### Accreditation

During the period under review, a subsidiary of the Company, Essex Pharmaceutical Research Centre Company Limited (“Essex Research”), was conferred a prestigious grant by The National High Technology Research and Development Program of China (863 Program) (國家高技術研究發展計劃 (863 計劃)) (the “863 Program”).

The Grant was awarded based on Essex Research’s pharmaceutical project technological excellence in innovation and marketable potential in the research and development of a new drug project. The new chemical drug project focuses on the treatment of Hepatitis B.

The 863 Program was established to identify, assist and fund outstanding high-technology projects to promote and nurture China’s high-technology industry development to international standards, as well as improve the standard of living through high technology advancement.

Essex Research’s core competencies as an independent and state-of-the-art pharmaceutical research centre focused on accelerating the incubation and commercialisation of innovative and market-oriented new drugs has been previously acknowledged by a prestigious inaugural grant conferred by the Shenzhen Science and Technology Bureau in the fourth quarter of 2002. The grant was for the Group’s pharmaceutical project in TCM for oral cavity ulcer treatment.

### Product development

The category I biopharmaceutical pipeline product Beifushi (貝復適) was given approval by The State Drug Administration of the PRC (“SDA”) to commence clinical trials in the treatment and healing of duodenal ulcers in December 2002.

Clinical trials of Beifushi(貝復適) are in progress and scheduled for completion in 2004 and commercial availability is expected in 2005.

Studies reveal that Beifushi (貝復適) increases concomitantly the rate of cure and enhances the quality of healing through an effective regeneration-triggering mechanism which translates to a significant curb in duodenal ulcer relapse when compared with the conventional mechanism of suppressing ulcer-causing secretions prevailing in existing drug market.

The total market size for duodenal and gastric ulcers in the PRC is estimated to exceed RMB7.5 billion in 2001, according to the China Health Yearbook. Patients suffering from duodenal and gastric ulcer experienced an approximate ratio of 3:1, which infers market value of above RMB5 billion for the duodenal ulcer market alone.

In the second quarter of 2003, two TCM projects, namely Gong Huan Zhi Xie Pian (宮環止血片) and Dang Long Xin Nao Pian (丹龍醒腦片) were given approval by the State Food Drug Administration of China ("SFDA") (formerly known as SDA) to begin clinical trials.

These two TCM projects are designated as Category VI traditional Chinese new drugs. Gong Huan Zhi Xie Pian (宮環止血片) has been considered and under development for the treatment of uterine bleeding arising from the common contraceptive method of Intrauterine Device usage ("IUD"). It acts with the mechanism of protecting endometrium. It arrests hemorrhage, prevents inflammation and relieves pain that would otherwise occur in IUD users with the IUD dislocation problem. Dang Long Xin Nao Pian (丹龍醒腦片) treats senectitude vascular dementia that is not a single disease. It is developed by extracting the effective components from six Chinese herbal medicines. The drug retains its effectiveness by working quickly even when a mild dosage is applied.

It treats senectitude vascular dementia by improving cerebral blood circulation as well as regulating the metabolism of nerve cells and neuro-transmitters.

Clinical trials of both drugs are scheduled for completion between 2004 and 2005 and are expected to be commercially available in 2005.

### Research and development pipeline

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

### Strengthening and expansion of the distribution network

The Group adopted and implemented the strategy of establishing direct representative offices ("DROs") since the third quarter of 2002. The effect of the DROs is to enable the Group to more pragmatically and effectively promote and drive penetration of the biopharmaceutical products to hospitals and end markets.

The Group currently has five DROs throughout the major provinces and cities in the PRC.

## FINANCIAL REVIEW

Group revenue for the nine months ended 30 September 2003 increased by 57% to approximately HK\$31.6 million as compared to the corresponding previous period. Revenue of approximately HK\$13.9 million was derived from the distribution of Novo's biopharmaceutical insulin products.

Gross profit, however, decreased to approximately HK\$15 million for the nine months ended 30 September 2003 when compared to HK\$16.9 million for the same period in the previous year, despite the gross profit margin from the sales of Beifuji (貝復濟) and Beifushu (貝復舒) remaining unchanged at over 84%.

The Group suffered a loss of approximately HK\$6.8 million for the nine months ended 30 September 2003 due to the increase in distribution and selling costs and administrative expenses.

Distribution and selling expenses slightly increased to approximately HK\$14.7 million for the nine months ended 30 September 2003 from approximately HK\$13.8 million for the corresponding previous period. The increase was mainly caused by the increase of sales volume during the period under review, investments in DROs, increase of marketing and promotional activities and increase of sales commission.

Administration expenses increased during the period under review to approximately HK\$8.5 million from approximately HK\$5.7 million in the corresponding previous period. The increase was mainly attributable to the expansion of the research and development centre of Essex Research which is responsible for carrying out research and development of TCM and chemical drug projects, and the administration costs increased in line with the increase of sales volume during the period under review.

The Group continues to be in a strong financial position. Cash and bank balances as at 30 September 2003 was approximately HK\$20.5 million (2002: approximately HK\$16.9 million). There were no bank borrowings as at 30 September 2003 (2002: Nil).



**OTHER INFORMATION****Directors' interests and short positions in shares, underlying shares and debentures**

As at 30 September 2003, the interests or short positions of the directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were 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 they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

**Interests in ordinary shares**

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

**Notes:**

- 288,458,000 shares were held by Essex Holdings Limited ("Essex Holdings") which is owned as to 50% by Ngiam Mia Je Patrick and as to 50% by Ngiam Mia Kiat Benjamin. Therefore, Ngiam Mia Je Patrick 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.
- 6,666,667 shares were held by Dynatech Ventures Pte Ltd ("Dynatech") which is wholly owned by Essex (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares and therefore, Ngiam Mia Je Patrick 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 meetings.

**Interests in share options**

Name of director	Number of options granted	Number of options		Exercise price HK\$
		exercised/ lapsed	outstanding at 30 September 2003	
Ngiam Mia Je Patrick	4,500,000	2,250,000	2,250,000	0.10
Fang Haizhou	4,000,000	2,000,000	2,000,000	0.10
Zhong Sheng	3,000,000	1,500,000	1,500,000	0.10

Save as disclosed above, as at 30 September 2003, none of the directors or their associates had any personal, family, corporate or other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have 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 they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

**Substantial shareholders**

As at 30 September 2003, the following shareholders were interested in more than 5% of the issued share capital of the Company as recorded in the register maintained under Section 336 of the SFO:

Name	Number of shares held	Approximate percentage of shareholding
Essex Holdings Limited	288,458,000	51.95%
Ngiam Mia Je Patrick	297,374,667 <i>(note 1)</i>	53.56%
Ngiam Mia Kiat Benjamin	295,449,667 <i>(note 2)</i>	53.21%
Lauw Hui Kian	297,374,667 <i>(note 3)</i>	53.56%

*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 in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, was interested in or had a 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.

#### Directors' rights to acquire shares

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 directors 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 are as follows:

Name of director	Date of grant	Number of options granted	Number of options		Exercise price HK\$
			exercised/ lapsed	outstanding at 30 September 2003	
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
146 other employees or directors of subsidiaries of the Company	13 June 2001	28,225,000	7,970,000	20,255,000	0.10 to 0.35
		<u>39,725,000</u>	<u>13,720,000</u>	<u>26,005,000</u>	

Save as disclosed above, at no time during the period under review was the Company, its holding company or any of its subsidiaries 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' interests in contracts

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

## Sponsor's interests

As at 30 September 2003 and 4 November 2003, 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.

## Board practices and procedures

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the period ended 30 September 2003.

## Purchase, redemption or sale of listed securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period ended 30 September 2003.

## 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 2003 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, 5 November 2003