



ESSEX

ESSEX BIO-TECHNOLOGY LIMITED

億勝生物科技有限公司

(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT
2004

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

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The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

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 three months ended 31 March 2004 as follows:

RESULTS

	Notes	For the three months ended 31 March	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	6,037	16,812
Cost of sales		(967)	(11,811)
Gross profit		5,070	5,001
Other revenue	3	630	603
Selling and distribution expenses		(3,061)	(4,445)
Administrative expenses		(1,629)	(2,853)
Profit/(Loss) from operating activities		1,010	(1,694)
Finance costs		(1)	(123)
Profit/(Loss) before tax		1,009	(1,817)
Tax	4	-	-
Profit/(Loss) before minority interests		1,009	(1,817)
Minority interests		-	204
Profit/(Loss) attributable to shareholders		1,009	(1,613)
Earnings/(Loss) per share	5		
– basic		HK0.18 cent	HK(0.29) cent
– diluted		HK0.18 cent	N/A

Notes:

1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

2. Turnover

Turnover represents net invoiced value of biopharmaceutical products supplied to customers, less discounts, returns, and applicable goods and services taxes.

3. Other revenue

	For the three months ended	
	2004	2003
	HK\$'000	HK\$'000
Gain on disposal of investment	418	–
Gain on disposal of a subsidiary	205	–
Government subsidy	–	565
Exchange gain/(loss)	–	(2)
Sundries	7	40
	<u>630</u>	<u>603</u>

4. 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 ended 31 March 2004 and the corresponding period in 2003.

The Group's operating subsidiaries in 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 31 March 2004 and the corresponding period in 2003.

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.

5. Earnings / (loss) per share

(a) Basic

The calculation of the basic earnings per share for the three months ended 31 March 2004 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$1,009,000 (2003: unaudited consolidated loss attributable to shareholders of approximately HK\$1,613,000) and the weighted average number of 555,240,571 (2003: 555,240,000) ordinary shares outstanding during the periods.

(b) Diluted

The calculation of the diluted earnings per share for the three months ended 31 March 2004 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$1,009,000 and the weighted average number of 557,419,861 ordinary shares.

Diluted loss per share amounts for the period ended 31 March 2003 has not been presented, as the share options outstanding during the three months ended 31 March 2003 had an anti-dilutive effect on the basic loss per share for the three months ended 31 March 2003.

6. Dividends

The directors do not recommend the payment of any dividend for the three months ended 31 March 2004 (2003: Nil).

7. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	970	362	14	(4,573)	(3,227)
Net loss for the period	—	—	—	(1,613)	(1,613)
	<u>970</u>	<u>362</u>	<u>14</u>	<u>(6,186)</u>	<u>(4,840)</u>
At 31 March 2003	970	362	14	(6,186)	(4,840)
At 1 January 2004	970	362	14	(22,928)	(21,582)
Net profit for the period	—	—	—	1,009	1,009
	<u>970</u>	<u>362</u>	<u>14</u>	<u>(21,919)</u>	<u>(20,573)</u>
At 31 March 2004	<u>970</u>	<u>362</u>	<u>14</u>	<u>(21,919)</u>	<u>(20,573)</u>

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 corneal 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 other pharmaceutical projects.

The outbreak of SARS in the first half of 2003 created an extremely difficult operating environment for the Group and most Hong Kong and PRC businesses. Accordingly and proactively, the Group implemented market development and investment strategies to accomplish its business objectives and optimal revenue growth. The success of these strategies is evident in the turnaround in performance the first quarter of 2004 with the Group registering a profit of approximately HK\$1 million.

Obtained good supply practice certificate

On 10 February 2004, the Group obtained the Good Supply Practice ("GSP") certificate from the State Food Drug Administration of China ("SFDA") for the period from 10 February 2004 to 9 February 2009.

The GSP are guidelines and regulations from time to time issued pursuant to the Law of the PRC on the Administration of Pharmaceuticals as part of quality assurance to ensure that pharmaceutical products subject to those guidelines and regulations are consistently distributed in compliance with prescribed quality control standards for safe and effective use by the public. Requirements are set in terms of hardware and software standards such as specified storage conditions for warehouse, information management policy, personnel distribution chain. In accordance with the SFDA's announcement, both GSP and GMP certificates are mandatory for the operations of manufacturing and distribution of pharmaceutical products in the PRC on 31 December 2004 and 30 June 2004 respectively.

The Group, together with the GMP certificate obtained in 2000, is now recognised as a full-fledged authorised manufacturer and distributor in the PRC pharmaceutical arena and is strategically and competitively poised to extend its market coverage and penetration of its flagship biopharmaceutical products as well as third party pharmaceutical products.

Entrenching market presence, continuously strengthening sales and distribution network through direct representative offices ("DROs")

The Group continued to execute its plan of establishing a network of DROs, which was adopted since the third quarter of 2002.

DROs are located in strategic cities to complement the already established distribution network and are aimed at providing more effective control and management of market coverage and reach.

As at 31 March 2004, a total of nine DROs have been established throughout major provinces in the PRC.

Priming research and development ("R&D") pipeline with innovative market driven products

The cessation of the R&D operations in Shenzhen in the last quarter of 2003 enabled the Group to better utilise its resources and realise return on investments.

The Group channelled its resources to focus on cultivating its genetic R&D activities at its Zhuhai facilities. Genetic drug projects in the product pipeline include 貝復適 (Beifushi), 貝復泰 (Beifutai), Calcitonin, rh-GDNF, 貝復濟凝膠劑型 (Beifuji in gel formulation) and 貝復舒凝膠劑型 (Beifushu in gel formulation).

FINANCIAL REVIEW

The Group registered an unaudited profit attributable to shareholders of approximately HK\$1 million for the period ended 31 March 2004, a significant turnaround when compared to the loss of approximately HK\$1.6 million for the corresponding period in the previous year.

The turnaround is attributable to the effectiveness of the Group's market development and restructuring strategies that were implemented in 2003. These included:

- Consistent investment in market development, in particular the establishment of the DROs which complemented the already established distribution network and are aimed at providing more effective control and management of market coverage and reach;
- Major restructuring measures which included the cessation of R&D operations in Shenzhen which enabled the Group to better utilise its resources to focus on cultivating its genetic R&D activities and realise return on investments; and
- Deeper market acceptance and penetration of its core biopharmaceutical products, particularly 貝復舒 (Beifushu).

The Group recorded a revenue of approximately HK\$1 million primarily from the sales of its flagship category I biopharmaceutical products 貝復濟 (Beifuji) and 貝復舒 (Beifushu).

The significant decrease in Group revenue to approximately HK\$6 million in the period under review from approximately HK\$16.8 million for period ended 31 March 2003 was a result of the cessation of the distribution of biopharmaceutical insulin products, although there was an increase of 16% in the sales of the flagship biopharmaceutical products in the period under review.

The cessation of the biopharmaceutical insulin products has propelled the gross profit margin from 29.7 % to 84%, which is an intrinsic reflection of the consistent high gross margin nature of the flagship category I biopharmaceutical products 貝復濟 (Beifuji) and 貝復舒 (Beifushu).

As a result, overall gross profit increased to approximately HK\$5.1 million during the period under review when compared to approximately HK\$5 million for the same period in last year.

Selling and distribution expenses decreased to approximately HK\$3.1 million in the period under review when compared to approximately HK\$4.4 million for the same period in last year. This is attributable to cost savings in various areas including sales commissions to distributors which were progressively replaced by the DROs, decrease in outsourcing for marketing and promotional activities, stringent cost control and increased efficiency.

Administration expenses decreased to approximately HK\$1.6 million in the period under review when compared to approximately HK\$2.9 million for the corresponding period in the previous year. The decrease is mainly attributable to the cessation of the R&D centre in Shenzhen.

The increase in gross profit and the concomitant decrease in operating expenses have resulted in profit attributable to shareholders of approximately HK\$1 million.

The Group maintained a healthy financial position with approximately HK\$11.3 million cash on hand (2003: approximately HK\$20 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.

OTHER INFORMATION

Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the period ended 31 March 2004.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 March 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 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 to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Directly beneficially owned	Through spouse or child under 18	Through controlled corporation	Beneficiary of a trust	Total
Ngiam Mia Je Patrick	2,250,000	–	288,458,000 <i>(note 1)</i> 6,666,667 <i>(note 2)</i>	–	297,374,667
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 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 (Singapore) Pte Ltd ("Essex Singapore"). Since Essex Singapore is owned by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in equal shares and therefore, Ngiam Mia Je Patrick was deemed to be interested in these shares as he was entitled to exercise or control the exercise of more than one-third of the voting power of Dynatech at general meeting.

Interest in underlying shares of the Company:

Share options granted under the Pre-IPO Share Option Scheme:

Directors of the Company	Number of share options beneficially and directly held by the directors and outstanding as at 31 March 2004	Percentage of the share options to the Company's issued share capital as at 31 March 2004
Ngiam Mia Je Patrick	2,250,000	0.41%
Fang Haizhou	2,000,000	0.36%
Zhong Sheng	1,500,000	0.27%

Save as disclosed above, to the best knowledge of the directors of the Company, as at 31 March 2004, none of the directors, chief executives of the Company or their associates had any personal, family, corporate or other interest 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 the Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Directors' rights to acquire shares

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the period ended 31 March 2004 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable any of them to acquire such rights in any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 March 2004, the following shareholders had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position

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

Notes:

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

Save as disclosed above, as at 31 March 2004 and to the best knowledge of the directors, there was no person (other than the directors and chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short position in shares, underlying shares and debentures" above), had an interest or short position in the shares or underlying shares of the Company as recorded in the register to be kept by the Company under Section 336 of the SFO.

Competition and conflict of interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group during the period ended 31 March 2004.

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 31 March 2004.

Board practices and procedures

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the period ended 31 March 2004.

Audit committee

The Company established an audit committee on 13 June 2001 with written terms of reference in compliance with Rules 5.28 to 5.29 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 and Fung Chi Ying and Mauffrey Benoit Jean Marie, who are the independent non-executive directors of the Company.

Directors of the Company

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

On behalf of the Board
Ngiam Mia Je Patrick
Chairman and Executive Director

Hong Kong, 12 May 2004