



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
2004

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 a liquid market in the securities traded on GEM.

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The Stock Exchange 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 GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Essex Bio-Technology Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this 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 nine months ended 30 September 2004 as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	11,417	6,967	26,982	31,579
Cost of sales		(1,231)	(1,678)	(3,258)	(16,568)
Gross profit		10,186	5,289	23,724	15,011
Other revenue	3	12	–	4,391	866
Distribution and selling expenses		(6,907)	(5,252)	(15,048)	(14,664)
General and administrative expenses		(1,796)	(2,757)	(6,220)	(8,491)
Profit/(loss) from operating activities		1,495	(2,720)	6,847	(7,278)
Finance costs		(2)	(1)	(6)	(297)
Profit/(loss) before tax		1,493	(2,721)	6,841	(7,575)
Tax	4	–	–	–	–
Profit/(loss) before minority interests		1,493	(2,721)	6,841	(7,575)
Minority interests		–	235	–	788
Profit/(loss) from ordinary activities attributable to shareholders		1,493	(2,486)	6,841	(6,787)
Earnings/(loss) per share	5				
– basic		HK0.27 cent	HK(0.45) cent	HK1.23 cents	HK(1.22) cents
– diluted		HK0.27 cent	N/A	HK1.23 cents	N/A

Notes:

1. Basis of preparation and principal accounting policies

The basis of preparation and accounting policies adopted for the preparation of the third quarterly financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2003.

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

	Three months ended 30 September		Nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Processing fee	–	–	–	25
Gain on disposal of investment	–	–	4,156	–
Gain on disposal of a subsidiary	–	–	205	–
Government subsidy	–	–	–	565
Interest income	12	–	28	76
Sundry	–	–	2	200
	<u>12</u>	<u>–</u>	<u>4,391</u>	<u>866</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 and nine months ended 30 September 2004 and the corresponding periods in 2003.

The Group's operating subsidiaries are all established and carrying on business in the Special Economic Zones of the People's Republic of China (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 2004 and the corresponding periods in 2003.

5. Earnings/(loss) per share

(a) Basic

The basic loss per share for the three months and nine months ended 30 September 2004 are calculated based on the consolidated profit attributable to shareholders of the Company for the three months and nine months ended 30 September 2004 of approximately HK\$1,493,000 and HK\$6,841,000 respectively (2003: loss of approximately HK\$2,486,000 and HK\$6,787,000) and 555,244,000 shares and 555,242,286 shares respectively (2003: 555,240,000 shares and 555,240,000 shares respectively).

(b) Diluted

The calculation of the diluted earnings per share for the three months and nine months ended 30 September 2004 are based on the unaudited consolidated profit attributable to shareholders of the Company for the three months and nine months ended 30 September 2004 and 556,102,391 shares and 556,545,394 shares respectively.

The exercise of the share options granted by the Company would have an anti-dilutive effect on the loss per share for three months and nine months ended 30 September 2003.

6. Dividend

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the nine months ended 30 September 2004 (2003: Nil).

7. Reserves

	Share premium	Capital reserve and contributed surplus	Exchange fluctuation reserve	Retained earnings/ (Accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	970	362	14	(4,573)	(3,227)
Loss for the period	—	—	—	(4,301)	(4,301)
At 30 June 2003	970	362	14	(8,874)	(7,528)
Loss for the period	—	—	—	(2,486)	(2,486)
At 30 September 2003	970	362	14	(11,360)	(10,014)
At 1 January 2004	970	362	14	(22,928)	(21,582)
Profit for the period	—	—	—	5,348	5,348
At 30 June 2004	970	362	14	(17,580)	(16,234)
Profit for the period	—	—	—	1,493	1,493
At 30 September 2004	970	362	14	(16,087)	(14,741)

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 eye 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 effectiveness of these strategies is evident in the positive turnaround in the first half of 2004 and further reinforced by the significant and sustained performance in the third quarter of 2004 with the Group registering a profit of approximately HK\$6.8 million for the nine months ended 30 September 2004.

貝復舒(Beifushu) has been listed as an approved drugs on 國家基本醫療保險和工傷保險藥品目錄(2004年版) (The National Medical and Labour Insurance List (2004 Version))

The Group's category I biopharmaceutical product 貝復舒(Beifushu) has been listed as an approved drugs on 國家基本醫療保險和工傷保險藥品目錄(2004年版) (The National Medical and Labour Insurance List (2004 Version)) announced by Ministry of Labour and Social Security, PRC on 16 September 2004.

Following the successful listing, sales of 貝復舒(Beifushu) are expected to gain greater momentum and continue to contribute positively to Group turnover.

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 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 30 September 2004, the Group has nine DROs 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 fourth 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\$6.8 million for the nine months ended 30 September 2004, a significant turnaround when compared to the loss of approximately HK\$6.8 million for the corresponding previous period.

The turnaround is attributable to the effectiveness of the Group's market development and restructuring strategies that were implemented in 2003 and stringently adhered to throughout the period under review. 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\$24 million primarily from the sales of its flagship category I biopharmaceutical products 貝復濟(Beifuji) and 貝復舒(Beifushu) for the nine months ended 30 September 2004.

Sales of the flagship biopharmaceutical products rose 45.5% amidst a decrease in Group revenue to approximately HK\$27 million for the nine months ended 30 September 2004 from approximately HK\$31.6 million for the corresponding period in the previous year. The decrease in Group revenue was a result of the cessation of the distribution of biopharmaceutical insulin products.

The cessation of the biopharmaceutical insulin products and the accompanying rise in the sales of the flagship biopharmaceutical products bolstered and amplified the gross profit margin from 47.5% to 87.9%.

As a result, overall gross profit for the nine months ended 30 September 2004 increased to approximately HK\$23.7 million when compared to approximately HK\$15 million for the same period in last year.

Distribution and selling expenses slightly increased to approximately HK\$15 million for the nine months ended 30 September 2004 when compared to approximately HK\$14.7 million for the same period in last year. The increase was mainly attributable to the increase of sales volume in the flagship biopharmaceutical products during the period under review, increase of marketing and promotional activities and increase of sales commission.

Administration expenses decreased to approximately HK\$6.2 million for the nine months ended 30 September 2004 when compared to approximately HK\$8.5 million for the corresponding period in last 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\$6.8 million for the nine months ended 30 September 2004.

The Group maintained a healthy financial position with approximately HK\$22.6 million cash on hand (2003: approximately HK\$20.5 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 30 September 2004.

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

At 30 September 2004, the interests and short positions of the directors and chief executives 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")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 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 (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

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

Pursuant to a pre-IPO share option scheme (the "Pre-IPO Scheme") adopted by the Company on 13 June 2001, the Company had granted Pre-IPO share options on the Company's ordinary shares to the executive directors. Details of share options to subscribe for shares in the Company granted to the executive directors as at 30 September 2004 were as follows:

Directors of the Company	Number of share options outstanding as at 30 September 2004	Percentage of the share options to the Company's issued share capital as at 30 September 2004	Exercise period of share option	Exercise price per share HK\$
Ngiam Mia Je Patrick	2,250,000	0.41%	27 June 2001 to 12 June 2006	0.01
Fang Haizhou	2,000,000	0.36%	27 June 2001 to 12 June 2006	0.01
Zhong Sheng	1,500,000	0.27%	27 June 2001 to 12 June 2006	0.01

None of the options granted to the directors under the Pre-IPO Schemes have been exercised, cancelled or lapsed during the nine months ended 30 September 2004.

On 20 June 2003, the Company adopted a share option scheme (the "Post-Scheme"), the principal terms of which were set out in the circular of the Company dated 19 March 2003. No options have been granted under the Post-Scheme during the period ended 30 September 2004.

Save as disclosed above, as at 30 September 2004, none of the directors, chief executives of the Company had registered an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

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

At 30 September 2004, the following company and persons (other than the directors or chief executives of the Company) have 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 positions

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

Notes:

- 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 30 September 2004, no person or company (other than the directors and chief executives of the Company) had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to 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 30 September 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 30 September 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 nine months ended 30 September 2004.

Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the nine months ended 30 September 2004. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the nine months ended 30 September 2004.

Audit committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 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, Fung Chi Ying, Mauffrey Benoit Jean Marie and Yeow Mee Mooi, who are the independent non-executive directors of the Company. The Group's unaudited results for the nine months ended 30 September 2004 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

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, Mr Mauffrey Benoit Jean Marie and Ms Yeow Mee Mooi.

On behalf of the Board
Ngiam Mia Je Patrick
Chairman

Hong Kong, 12 November 2004