



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)



First Quarterly Report | 2006

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

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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.

RESULTS

The board of directors of Essex Bio-Technology Limited (the “Company”) is pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2006 are as follows:

| | | | For the three months ended 31 March 2005 |
|------------------------------------|-------|--------------------------|---|
| | Notes | 2006 HK\$'000 | HK\$'000 |
| Turnover | 2 | 17,889 | 7,629 |
| Cost of sales | | (8,210) | (1,066) |
| Gross profit | | 9,679 | 6,563 |
| Other revenue | 2 | 157 | 9,236 |
| Distribution and selling expenses | | (5,455) | (4,267) |
| Administrative expenses | | (2,499) | (2,092) |
| Finance costs | | – | (2) |
| Profit before tax | | 1,882 | 9,438 |
| Tax | 3 | – | – |
| Profit for the period | | 1,882 | 9,438 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 1,457 | 9,438 |
| Minority interests | | 425 | – |
| | | 1,882 | 9,438 |
| Earnings per share | 5 | | |
| – Basic | | HK0.26 cent | HK1.70 cents |
| – Diluted | | HK0.26 cent | HK1.61 cents |

Notes:**1. Principal accounting policies and basis of preparation**

The Group's unaudited quarterly results have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), which also include all Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(SIC)-Int") and in accordance with accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The first quarterly unaudited financial statements have been prepared under the historical cost convention, except for the available-for-sale investments which are measured at fair value.

2. Turnover and other revenue

Turnover represents sales value of biopharmaceutical products and agricultural fertilizers supplied to customers less discounts, returns, value added tax and other applicable local taxes.

The analysis of the Group's turnover and other revenue is as follows:

| | 2006 HK\$'000 | For the three months ended 31 March 2005 HK\$'000 |
|--|------------------|---|
| Turnover: | | |
| Sales of biopharmaceutical products | 8,534 | 7,629 |
| Sales of agricultural fertilizers | 9,355 | – |
| | 17,889 | 7,629 |
| Other revenue: | | |
| Gain on disposal of available-for-sale investments | 9 | 9,218 |
| Sundries | 148 | 18 |
| | 157 | 9,236 |
| | 18,046 | 16,865 |

3. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit subject to Hong Kong profits tax.

The Group's operating subsidiaries in Zhuhai, the PRC, are established and carrying on business in the Special Economic Zones of the PRC. They are subject to enterprise income tax at a concessionary rate of 15%. One of the Group's subsidiaries, which engages in production, is entitled to exempt from 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. The current period is the first year to enjoy 50% reduction in enterprise income tax.

The Group's newly acquired subsidiary in Yantai, the PRC, is also established and carrying on business in the PRC as sino-foreign joint venture which is entitled to exempt from 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 enterprise income tax has been made for the period ended 31 March 2006 as there was no net assessable income for the three months 31 March 2006.

Deferred tax has not been provided as there was no significant timing differences which would give rise to deferred tax liabilities at the balance sheet date (2005: Nil). The potential tax benefits attributable to tax losses of the Group and the Company have not been recognised due to unpredictability of future profit streams (2005: Nil).

4. Dividends

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the period ended 31 March 2006 (2005: Nil).

5. Earnings per share

Basic

The calculation of basic earnings per share for the three months ended 31 March 2006 is based on the profit attributable to shareholders of approximately HK\$1,457,000 (2005: HK\$9,438,000) and the 555,290,867 (2005: 555,244,000) ordinary shares in issue during the three months ended 31 March 2006.

Diluted

The calculation of the diluted earnings per share for the three months ended 31 March 2006 is based on profit attributable to shareholders of approximately HK\$1,457,000 (2005: HK\$9,438,000), and the weighted average number of 558,237,830 (2005: 586,307,073) ordinary shares in issue during the period, adjusted for the effects of all dilutive potential shares.

The weighted average of number of shares used in the calculation of diluted earnings per share is calculated based on the 555,290,867 ordinary shares in issue during the period ended 31 March 2006 plus the weighted average of 2,946,963 ordinary shares deemed to be issued at no consideration as if all of the Company's outstanding share options have been exercised.

6. Reserves

| | Share premium account HK\$'000 | Exchange fluctuation reserve HK\$'000 | Capital reserve and contributed surplus HK\$'000 | Investment revaluation reserve HK\$'000 | Retained profits/ (accumulated losses) HK\$'000 | Total HK\$'000 |
|--|---|--|--|--|---|-------------------|
| At 1 January 2005 | 970 | 14 | 362 | 10,794 | (15,324) | (3,184) |
| Changes in fair value on available- for-sale investments | - | - | - | (80) | - | (80) |
| Released on disposal of available- for-sale investments | - | - | - | (10,714) | - | (10,714) |
| Profit for the period | - | - | - | - | 9,438 | 9,438 |
| At 31 March 2005 | 970 | 14 | 362 | - | (5,886) | (4,540) |
| At 1 January 2006 | 970 | 479 | 362 | - | 103 | 1,914 |
| Exchange differences arising on translation of financial statements of overseas subsidiaries | - | 17 | - | - | - | 17 |
| Profit for the period | - | - | - | - | 1,882 | 1,882 |
| At 31 March 2006 | 970 | 496 | 362 | - | 1,985 | 3,813 |

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

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 and agricultural fertilizers. The Group also engaged in the research and development of biopharmaceutical products for the treatment of duodenal ulcers and nervous system damages and diseases, as well as other ophthalmic pharmaceutical projects.

In 2006, the Group will stay focus on driving organic growth from its core biopharmaceutical products through the established distribution network in China. Additionally, the Group will grow and expand the business of agricultural fertilizers through its newly acquired subsidiary, Yantai Baoyuan, which is principally engaged in the research, development and production of organic and chemical formulated agricultural fertilizers, in solid and liquid forms, for the agriculture industry in the PRC.

Market Development

During the period under review, the Group established 5 new Distributed Representative Offices (“DROs”), bringing a total of 14 DROs which are located in major provinces in the PRC. There are over 1,000 hospitals in major provinces in the PRC that carry the Group’s flagship pharmaceutical products.

To cultivate further market coverage and reach for the Group’s genetic products, the Group has conducted over 10 seminars and 55 market promotion activities, educating more than 1,970 doctors and medical practitioners on the clinical applications of the Group’s products, in major cities and provinces in the PRC for the period under review.

For the business of agricultural fertilizers, the Group is primarily focusing on penetrating the market in Shangdong province for the period under review. It has adopted two pronged marketing development strategies; servicing major customers directly and through distributors to reach out to smaller customers. Currently, the Group’s agricultural fertilizers are formulated specially for the cultivations of fruits, ground nuts, corns and leafy veggies.

Products Development

貝復濟凝膠劑型 (Beifuji gel formulation) – It is a derivative of the existing commercialised 貝復濟 (Beifuji) in lyophilized powder and liquid forms. 貝復濟凝膠劑型 (Beifuji gel formulation), namely 貝復新 (Beifuxin), is comparatively persistent when acting on wounds, which in turn promotes therapeutic efficacy.

貝復舒凝膠劑型 (Beifushu gel formulation) – It is used for the treatment of corneal wounds. It is a derivative of the flagship category I biopharmaceutical product 貝復舒 (Beifushu) eye-drop. The current eye-drop form of 貝復舒 (Beifushu) has been prescribed in hospitals. Beifushu gel is perceived to be comparative easy-to-use and more comfortable as a result of a smoother and even distribution when applying on conjunctiva. Moreover, it is more stable in physical nature, which extends the product’s persistency. The Group had obtained from SFDA approval for the commercial production of 貝復舒凝膠劑型 (Beifushu gel formulation) and the requisite GMP certification in the fourth quarter of 2005. The Group has started the manufacturing and distribution of 貝復舒凝膠劑型 (Beifushu gel formulation) in the first quarter of 2006.

The Group’s genetic drug product spectrum focuses on the treatment and healing of surface wound, corneal wound, duodenal ulcers and nervous system diseases and damages.

Research and Development (“R&D”)

R&D pipeline during the period under review included the following projects:

- 貝復適 (Beifushi) – Clinical trials are in progress. 貝復適 (Beifushi) is a category I biopharmaceutical product designed for the treatment and healing of duodenal ulcers.
- 貝復泰 (Beifutai) – Pre-clinical tests have been concluded and are pending SFDA’s approval to start clinical trials. 貝復泰 (Beifutai) is a category I biopharmaceutical product based on rh-bFGF for the treatment of nervous system diseases and damages.
- rh-GDNF – Pre-clinical tests are in progress. rh-GDNF is a neurotrophic factor for the treatment of nervous system damages and diseases.
- 妥布霉素滴眼液 (Tobramycin Eye Drop) – The research and development on this project has been successfully completed during the period under review and is pending receipt of the GMP certification and SFDA’s approval in order to commence production. 妥布霉素滴眼液 (Tobramycin Eye Drop) is developed for the treatment and healing of bacterial contamination.
- 雙氯芬酸鈉滴眼液 (Diclofenac Sodium Eye Drop) – The research and development on this project has been successfully completed during the period under review and is pending the receipt of the GMP certification and SFDA’s approval in order to commence production. 雙氯芬酸鈉滴眼液 (Diclofenac Sodium Eye Drop) is developed for the treatment and healing of keratitis and inflammation after cataract surgery.

Financial Review

The Group reported approximately HK\$17.9 million in turnover for the period ended 31 March 2006, an increase of 134.5% over the corresponding period of last year. Sales of flagship pharmaceutical products increased by 11.9% to approximately HK\$8.5 million as compared to approximately HK\$7.6 million in the same period of last year. Sales of agricultural fertilizers generated from the newly acquired subsidiary, Yantai Baoyuan, amounted to approximately HK\$9.4 million in the first quarter of 2006.

Overall gross profit for the period ended 31 March 2006 increased to approximately HK\$9.7 million when compared to approximately HK\$6.6 million recorded in same period of last year. The increase is attributed to the contributions from Yantai Baoyuan.

The Group registered a profit attributable to equity shareholders of the Company of approximately HK\$1.5 million for the period ended 31 March 2006.

Distribution and selling expenses increased to approximately HK\$5.5 million for period ended 31 March 2006 when compared to approximately HK\$4.3 million recorded in the same period of last year. The increase was mainly attributable to the increase in marketing and promotional activities and sales commission payable that were associated with the higher sales volume of the Group’s genetic and agricultural fertilizers products in the period under review.

Administration expenses increased to approximately HK\$2.5 million in the period ended 31 March 2006 when compared to approximately HK\$2.1 million recorded in the corresponding previous period. The increase was the result of cost incurred by the newly acquired subsidiary in Yantai.

The Group had cash on hand to approximately HK\$26.2 million as at 31 March 2006 (2005: HK\$36 million) from which HK\$8.5 million was pledged to a bank in Hong Kong to secure a loan facility of RMB8.5 million from a bank in the PRC. Bank loan as at 31 March 2006 was RMB4.5 million (equivalent to approximately HK\$4.3 million) (2005: Nil).

OTHER INFORMATION

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

As at 31 March 2006, 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 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules"), were as follows:

Long positions in ordinary shares of the Company:

| Directors of the Company | Personal interests | 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 | | |
| Ngiam Mia Je Patrick | 2,250,000 | – | 288,458,000 (note 1) 6,666,667 (note 2) | – | 297,374,667 | 53.56 |
| Fang Haizhou | 2,000,000 | – | – | – | 2,000,000 | 0.36 |
| 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 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 Investment (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-Scheme:

| Directors of the Company | Number of share options beneficially and directly held by the directors and outstanding as at 31 March 2006 | Approximate percentage of the Company's issued share capital as at 31 March 2006 |
|---------------------------------|--|---|
| 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, as at 31 March 2006, none of the directors or chief executive of the Company had registered an interest or short position in the 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 as otherwise notified to the Company and the Stock Exchange pursuant to the Rule 5.46 of the GEM Listing Rules.

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 under review 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 minor children, 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 the directors 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 2006, the following person 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 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 | Beneficially owned | 288,458,000 | 51.95 |
| Ngiam Mia Je Patrick | Beneficially and corporate owned | 297,374,667 (note 1) | 53.56 |
| Ngiam Mia Kiat Benjamin | Beneficially and corporate owned | 295,449,667 (note 2) | 53.21 |
| Lauw Hui Kian | Family owned | 297,374,667 (note 3) | 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, as at 31 March 2006, there was no person (other than the directors and chief executive of the Company whose interests are set out under 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 under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 31 March 2006.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

Save as to deviations stated in the annual report of the Company for the year ended 31 December 2005, the Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review.

AUDIT COMMITTEE

The Company 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 and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Mr Fung Chi Ying, Mr Mauffrey Benoit Jean Marie and Madam Yeow Mee Mooi. All of them are independent non-executive directors of the Company.

The Group's unaudited results for the three months ended 31 March 2006 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.

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 Madam Yeow Mee Mooi.

On behalf of the Board
Essex Bio-Technology Limited
Ngiam Mia Je Patrick
Chairman

Hong Kong
12 May 2006