

The logo for Essex Bio-Technology Limited, featuring the word "ESSEX" in a bold, red, sans-serif font inside a white circle, which is set against a yellow rectangular background.

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)

Third Quarterly Report | 2006

A composite image featuring a large, glowing DNA double helix structure in shades of blue and purple. Overlaid on this are images of laboratory equipment: a microscope with green and yellow lenses, and gloved hands performing a procedure with a pipette and a flask containing a yellow liquid. The background is a warm, orange-to-yellow gradient with abstract light patterns.

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.

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 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.

RESULTS

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 (the "Group") for the nine months ended 30 September 2006 as follows:

		For the three months ended 30 September		For the nine months ended 30 September	
	Notes	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	19,076	12,642	54,907	32,357
Cost of sales		(6,599)	(1,359)	(20,889)	(3,754)
Gross profit		12,477	11,283	34,018	28,603
Other revenue	2	337	293	1,045	9,550
Selling and distribution expenses		(8,041)	(6,959)	(20,898)	(17,776)
General and administrative expenses		(2,858)	(2,214)	(8,821)	(6,743)
Finance costs		(80)	(2)	(112)	(6)
Profit before tax		1,835	2,401	5,232	13,628
Tax	3	(227)	–	(559)	–
Net profit for the period		1,608	2,401	4,673	13,628
Attributable to:					
Equity holders of the parent		2,052	2,401	4,721	13,628
Minority interests		(444)	–	(48)	–
		1,608	2,401	4,673	13,628
Earnings per share	5				
Basic		HK0.37 cent	HK0.43 cent	HK0.85 cent	HK2.45 cents
Diluted		HK0.37 cent	HK0.43 cent	HK0.85 cent	HK2.45 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 ("HKFRS"), which also include all Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(SIC)-Int") (collectively "HKFRSs") 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 unaudited third quarterly financial statements have been prepared under the historical cost convention, except for the available-for-sale investments which are measured at fair value. The accounting policies and basis of preparation adopted in these third quarterly financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2005.

The adoption of the new HKFRSs issued which are effective for accounting periods on or after 1 January 2006 did not result in substantial changes to the accounting policies of the Group and did not have a significant impact on its results of operations and financial position.

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 30 September 2005 HK\$'000	2006 HK\$'000	For the nine months ended 30 September 2005 HK\$'000
Turnover:				
Sales of biopharmaceutical products	13,320	12,642	33,419	32,357
Sales of agricultural fertilizers	5,756	–	21,488	–
	19,076	12,642	54,907	32,357
Other revenue:				
Gain on disposal of available-for-sale investments	235	–	636	9,218
Provision for impairment on trade receivables written back	–	1,171	–	1,171
Interest income	102	24	398	60
Exchange loss	–	(905)	–	(905)
Sundry	–	3	11	6
	337	293	1,045	9,550

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 to 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 of this subsidiary to enjoy a 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 a 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.

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 30 September 2006 (2005: Nil).

5. Earnings per share

The calculation of basic earnings per share for the three months and nine months ended 30 September 2006 are based on the profit attributable to equity holders of the parent of HK\$2,052,000 (2005: HK\$2,401,000) and HK\$4,721,000 (2005: HK\$13,628,000), and the weighted average of 555,290,867 (2005: 555,244,000) and 556,201,934 (2005: 555,244,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the three months and nine months ended 30 September 2006 are based on the profit attributable to equity holders of the parent of HK\$2,052,000 (2005: HK\$2,401,000) and HK\$4,721,000 (2005: HK\$13,628,000), and the weighted average number of 557,974,090 (2005: 555,693,264) and 558,575,227 (2005: 556,348,276) 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 for the three months and nine months ended 30 September 2006 are calculated based on the weighted average of 555,290,867 (2005: 555,244,000) and 556,201,934 (2005: 555,244,000) ordinary shares in issue during the period plus the weighted average of 2,683,223 (2005: 449,264) and 2,373,293 (2005: 1,104,276) 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 HK\$'000	Exchange reserve HK\$'000	Capital reserve and contributed surplus HK\$'000	Investment revaluation reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Attributable to equity holders of the parent HK\$'000	Minority interests HK\$'000	Total reserves HK\$'000
At 1 January 2005	970	14	362	10,794	(15,322)	(3,182)	-	(3,182)
Changes in fair value on available-for-sale investments	-	-	-	(1,576)	-	(1,576)	-	(1,576)
Released on disposal of available-for-sale investments	-	-	-	(9,218)	-	(9,218)	-	(9,218)
Net profit for the period	-	-	-	-	13,628	13,628	-	13,628
At 30 September 2005	970	14	362	-	(1,694)	(348)	-	(348)
At 1 January 2006	970	479	362	-	104	1,915	5,204	7,119
Exchange differences arising on translation of financial statements of overseas subsidiaries	-	64	-	-	-	64	-	64
Net profit for the period	-	-	-	-	4,721	4,721	(48)	4,673
At 30 September 2006	970	543	362	-	4,825	6,700	5,156	11,856

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

During the period under review, the Group is 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.

The Group did and will stay focused, for the remaining months of the year, on driving organic growth from its core biopharmaceutical products through the established distribution network in China. Additionally, the Group will continue to 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.

Biopharmaceutical products

During the period under review, turnover from biopharmaceutical products represented over 60.9% or HK\$33.4 million of Group turnover. The progressive sale growth of 貝復舒 (Beifushu) eye-drop is the key contributing factor to the turnover of biopharmaceutical products.

貝復舒 (Beifushu) eye-drop is a self-developed, category I, biopharmaceutical product based on rb-bFGF for the treatment and healing of corneal wounds.

During the period under review, the Group has 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 273 seminars and market promotion activities, educating more than 16,000 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.

Organic and chemical formulated agricultural fertilizers

For the business of agricultural fertilizers, the Group’s subsidiary, Yantai Baoyuan, has primarily focused on penetrating the market in Shandong 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.

The performance of the business of organic and chemical formulated agricultural fertilizers in the period under review is encouraging.

During the period under review, Yantai Baoyuan has been appointed by the Soil & Fertilizer General Station of Shandong Province as one of the authorized manufacturers in Shandong Province, responsible for the production and supply of the formulated fertilizers required by Shandong Soil & Fertilizer Network.

The main objectives of the Project of Formulated Fertilization Based on Soil Testing organized by the Ministry of Agriculture in Shandong province are to provide free technical services of formulated fertilization based on soil testing to approximately 5 million farmers and to provide training to 250,000 farmers. The adoption of formulated fertilizers can increase the fertilizer utilization rate by 3 to 5%. Yantai Baoyuan has been appointed as one of the 16 authorized manufacturers for the supply of 600,000 tons of formulated fertilizers for the Project of Formulated Fertilization Based on Soil Testing in Shandong Province in 2006.

In order to meet the demand in 2006 second half and onward, on 12 June 2006, the Group has entered into a workshop acquisition agreement, an equipment and machinery acquisition agreement ("E&M Acquisition Agreement") and a research and development centre construction agreement ("Construction Agreement") for the expansion of its production facilities.

Further details of the acquisitions are set out in the circular of the Company dated 30 June 2006.

Further, Yantai Baoyuan was granted the certificate of ISO9001 for the recognition of its systematic quality control management from research and development to production. The certification is valid till 24 May 2009.

Yantai Baoyuan passed the examination by the China Green Food Development Center and was granted the Certificate of Conformity of Quality System Certification, implying that the 雙寶牌 fertilizers produced by Yantai Baoyuan have satisfied the A-grade green food production requirements.

During the period under review, Yantai Baoyuan was validated with the scientific and technological achievements, of Shandong in which the research and development and application of its 雙螯合 organic and chemical compound fertilizers have attained the leading standards in China while the 雙螯合 liquid fertilizer for fruits and vegetables has also achieved the advanced standards in the China. Yantai Baoyuan is also recognized by the Ministry of Science and Technology in Shandong as a high-tech enterprise in Shandong.

Financial Review

The Group reported approximately HK\$54.9 million in turnover for the period ended 30 September 2006, an increase of 69.7% over the corresponding period of last year. Sales of flagship pharmaceutical products increased by 3.3% to approximately HK\$33.4 million as compared to approximately HK\$32.4 million in the same period of last year. Sales of agricultural fertilizers generated from the newly acquired subsidiary, Yantai Baoyuan, amounted to approximately HK\$21.5 million for the nine months ended 30 September 2006.

Overall gross profit for the period ended 30 September 2006 increased to approximately HK\$34 million when compared to approximately HK\$28.6 million recorded in same period of last year. The increase is attributed to the contributions from Yantai Baoyuan.

The Group registered a profit of approximately HK\$4.7 million for the period ended 30 September 2006.

Distribution and selling expenses increased to approximately HK\$20.9 million for period ended 30 September 2006 when compared to approximately HK\$17.8 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 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\$8.8 million in the period ended 30 September 2006 when compared to approximately HK\$6.7 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\$25.2 million as at 30 September 2006 (2005: HK\$35.7 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. The bank loan of RMB4.5 million (equivalent to approximately HK\$4.3 million) was fully repaid in the third quarter of 2006. There were no bank borrowings as at 30 September 2006 (2005: Nil).

OTHER INFORMATION

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

As at 30 September 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:

Name of director	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	53.42
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 30 September 2006	Approximate percentage of the Company's issued share capital as at 30 September 2006
Ngiam Mia Je Patrick	2,250,000	0.40
Fang Haizhou	2,000,000	0.36
Zhong Sheng	1,500,000	0.27

Note: Save as disclosed above, as at 30 September 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 30 September 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	Corporate owned	288,458,000	51.82
Ngiam Mia Je Patrick	Beneficially and corporate owned	297,374,667 (note 1)	53.42
Ngiam Mia Kiat Benjamin	Beneficially and corporate owned	295,449,667 (note 2)	53.08
Lauw Hui Kian	Family owned	297,374,667 (note 3)	53.42

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 30 September 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 nine months ended 30 September 2006.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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.

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. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the directors throughout the period ended 30 September 2006.

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 nine months ended 30 September 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 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 Madam Yeow Mee Mooi.

ON BEHALF OF THE BOARD
Ngiam Mia Je Patrick
Chairman