



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 **2007**

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.

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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 the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the nine months ended 30 September 2007 together with the comparative figures for the corresponding periods in last financial year.

		For the three months ended 30 September		For the nine months ended 30 September	
	Notes	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	2	35,029	19,076	104,499	54,907
Cost of sales		(16,202)	(6,599)	(56,545)	(20,889)
Gross profit		18,827	12,477	47,954	34,018
Other revenue		1,221	337	4,030	1,045
Distribution and selling expenses		(12,443)	(8,041)	(30,799)	(20,898)
Administrative expenses		(3,026)	(2,858)	(9,530)	(8,821)
Finance costs		(345)	(80)	(821)	(112)
Profit before taxation		4,234	1,835	10,834	5,232
Taxation	3	(352)	(227)	(878)	(559)
Net profit for the period		3,882	1,608	9,956	4,673
Attributable to:					
Equity shareholders of the Company		3,905	2,052	9,876	4,721
Minority interests		(23)	(444)	80	(48)
		3,882	1,608	9,956	4,673
Earnings per share	5				
Basic		HK0.70 cent	HK0.37 cent	HK1.8 cents	HK0.85 cent
Diluted		N/A	HK0.37 cent	N/A	HK0.85 cent

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, which also include Hong Kong Accounting Standards and Interpretations and in accordance with 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 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:

	2007 HK\$'000	For the three months ended 30 September 2006 HK\$'000	2007 HK\$'000	For the nine months ended 30 September 2006 HK\$'000
Turnover:				
Sales of biopharmaceutical products	19,588	13,320	49,244	33,419
Sales of agricultural fertilizers	15,441	5,756	55,255	21,488
	35,029	19,076	104,499	54,907
Other revenue :				
Value added tax refund	926	–	3,315	–
Gain on disposal of available-for-sale investments	–	235	66	636
Interest income	185	102	539	398
Sundries	110	–	110	11
	1,221	337	4,030	1,045

3. TAXATION

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 as foreign investment enterprises. 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 exemption 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 income tax exemption period of the subsidiary expired and the income tax is calculated at 7.5% (50% reduction in enterprise income tax) for the period. The current period is the second year this subsidiary to enjoy a 50% reduction in enterprise income tax.

The Group's subsidiary in Yantai, the PRC, is subject to enterprise income tax at a concessionary rate of 30%. No provision for enterprise income tax has been made for the period ended 30 September 2007 as the subsidiary obtained the certificate from the PRC tax authority for exemption from enterprise income tax for its first two profitable years of operations and a 50% reduction in enterprise income tax for the succeeding three years. The current period is the first year this subsidiary to enjoy the tax exemption for its first two profitable years of operations.

Deferred tax has not been provided as there were no significant temporary differences which would give rise to deferred tax liabilities at the balance sheet date (2006: Nil). The potential tax benefits attributable to tax losses of the Group and the Company have not been recognised due to unprecipitability of future profit streams (2006: 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 2007 (2006: Nil).

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and nine months ended 30 September 2007 are based on the profit attributable to equity shareholders of the Company of HK\$3,905,000 (2006: HK\$2,052,000) and HK\$9,876,000 (2006: HK\$4,721,000), and the weighted average of 556,750,000 (2006: 555,290,867) and 556,750,000 (2006: 556,201,934) ordinary shares in issue during the period.

No diluted earnings per share for the three months and nine months ended 30 September 2007 are presented as there are no outstanding share options as at 30 September 2007.

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 shareholders of the Company of HK\$2,052,000 and HK\$4,721,000, and the weighted average number of 557,974,090 and 558,575,227 ordinary shares in issue during the period, adjusted for the effects of all dilutive potential shares.

The weighted average 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 and 556,201,934 ordinary shares in issue during the period plus the weighted average of 2,683,223 and 2,373,293 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	Statutory surplus reserve HK\$'000	Retained profit HK\$'000	Attributable to equity shareholders of the Company HK\$'000	Minority interests HK\$'000	Total reserve HK\$'000
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
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
At 1 January 2007	970	1,826	362	2,410	2,253	7,821	4,580	12,401
Exchange differences arising on translation of financial statements of overseas subsidiaries	–	1,831	–	–	–	1,831	–	1,831
Profit for the period	–	–	–	–	9,876	9,876	80	9,956
At 30 September 2007	970	3,657	362	2,410	12,129	19,528	4,660	24,188

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. 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 2007, the Group maintains its business development strategy to ensure sustaining organic growth from its core biopharmaceutical products, Beifushu and Beifuji, through the established distribution network in the PRC. In addition, the Group strategically promotes its newly commercialized product, 貝復濟凝膠劑型 (Beifuji gel formulation) and 貝復舒凝膠劑型 (Beifushu gel formulation) to be its future growth avenue.

In parallel, Group effort is also dedicated towards cultivating and developing the business of agricultural fertilizers through its 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, 3 more direct representative offices (“DROs”) were set up and the Group currently maintained 17 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 57 seminars and 296 market promotion activities in major cities and provinces in the PRC for the period under review, educating more than 14,660 doctors and medical practitioners on the clinical applications of the Group’s products.

The Group’s good performance in the period under review showed strong momentum in sales of flagship pharmaceutical products. Over 87.1% gross margin was maintained together with the continuing cost containment efforts instituted by senior Group management resulted in significant performance improvement in the period under review.

In respect of the Group’s agricultural fertilizers business, the Group is primarily focusing on penetrating the market in Shandong province and has expanded into Guangxi province and Hainan city for the period under review. It adopted two pronged marketing development strategies: (i) servicing major customers directly and (ii) servicing through distributors to reach out to smaller customers. Currently, the Group’s agricultural fertilizers are specially formulated for the cultivations of fruits, ground nuts, corns and leafy veggies.

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 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 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 HK\$104.5 million in turnover for the period ended 30 September 2007, a significant increase of 90.3% over the corresponding period of the last financial year. Sales of flagship pharmaceutical products significantly increased by 47.4% to approximately HK\$49.2 million as compared to approximately HK\$33.4 million in the same period of the last financial year. Sales of agricultural fertilizers also significantly increased to approximately HK\$55.3 million for the nine months ended 30 September 2007 as compared to approximately HK\$21.5 million in the corresponding previous period.

Overall gross profit for the period ended 30 September 2007 increased to approximately HK\$48 million when compared to approximately HK\$34 million recorded in the same period of the last financial year. The increase is attributable to the significant increase in sale of the Group’s flagship pharmaceutical products, which continue to maintain at average gross profit margins of about 87%, and agricultural fertilizers.

The Group registered a profit attributable to equity shareholders of the Company of approximately HK\$9.9 million for the period ended 30 September 2007.

Distribution and selling expenses increased to approximately HK\$30.8 million for period ended 30 September 2007 when compared to approximately HK\$20.9 million recorded in the same period of the last financial year. The increase was mainly attributable to higher expenses incurred in sales, marketing and promotional activities in the period under review.

Administration expenses increased to approximately HK\$9.5 million in the period ended 30 September 2007 when compared to approximately HK\$8.8 million recorded in the corresponding previous period. The increase is in tandem with the expanded operations to support the business expansion.

The Group had cash and cash equivalents of approximately HK\$31.2 million as at 30 September 2007 (2006: HK\$16.7 million).

The Group had pledged deposits of approximately HK\$4.2 million as at 30 September 2007 (2006: HK\$8.5 million).

As at 30 September 2007, short-term secured bank loans amounted to approximately HK\$8.3 million (2006: Nil) are secured by a charge over the Group’s leasehold land and buildings. Other unsecured borrowings amounted to approximately HK\$6.2 million (2006: HK\$2.7 million).

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2007, 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 position in ordinary shares of the Company:

Name	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	53.41
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.

Save as disclosed above, as at 30 September 2007, 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 2007, 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 position 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	51.81
Ngiam Mia Je Patrick	Beneficially and corporate owned	297,374,667 (note 1)	53.41
Ngiam Mia Kiat Benjamin	Beneficially and corporate owned	295,449,667 (note 2)	53.07
Lauw Hui Kian	Family owned	297,374,667 (note 3)	53.41

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 30 September 2007, 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.

COMPETING INTERESTS

None of the directors or the management shareholders and their respective associates of the Company (as defined in the GEM Listing Rules) had any business or interest which competes or may compete with the business of the Group nor any other conflicts or interest with the Group during the period under review.

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 2007.

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 2007.

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.

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 2007 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

Ngiam Mia Je Patrick
Chairman

Hong Kong
13 November 2007