



ESSEX

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)

2008

Third Quarterly Report



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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 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") presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2008 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	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	2	62,574	35,029	174,536	104,499
Cost of sales		(31,760)	(16,202)	(94,156)	(56,545)
Gross profit		30,814	18,827	80,380	47,954
Other revenue	2	433	1,221	7,272	4,030
Distribution and selling expenses		(17,295)	(12,443)	(44,629)	(30,799)
General and administrative expenses		(3,044)	(3,026)	(11,030)	(9,530)
Finance costs		(693)	(345)	(1,887)	(821)
Profit before tax		10,215	4,234	30,106	10,834
Taxation	3	(701)	(352)	(1,793)	(878)
Net profit for the period		9,514	3,882	28,313	9,956
Attributable to:					
Equity holders of the Company		7,756	3,905	21,924	9,876
Minority interests		1,758	(23)	6,389	80
		9,514	3,882	28,313	9,956
Earnings per share – basic	5	HK1.40 cents	HK0.70 cents	HK3.94 cents	HK1.80 cents

NOTES

1. Principal accounting policies and basis of preparation

The Group's unaudited quarterly financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") (which also include all Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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.

The Group's unaudited consolidated results for the nine months ended 30 September 2008 have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee.

The accounting policies and basis of preparation used in the preparation of the unaudited consolidated results are consistent with those used in the 2007 audited financial statements.

2. Turnover and other revenue

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

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

	2008 <i>HK\$'000</i>	For the three months ended 30 September 2007 <i>HK\$'000</i>	2008 <i>HK\$'000</i>	For the nine months ended 30 September 2007 <i>HK\$'000</i>
Turnover:				
Sales of biopharmaceutical products	28,102	19,588	68,305	49,244
Sales of agricultural fertilisers	34,472	15,441	106,231	55,255
	62,574	35,029	174,536	104,499
Other revenue:				
Value added tax refund	2,068	926	6,374	3,315
Reverse provision for trade receivable write back in previous quarter	(1,929)	–	–	–
Interest income	192	185	431	539
Sundry	102	110	467	176
	433	1,221	7,272	4,030

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 18%. One of the Group's subsidiaries in Zhuhai, the PRC, 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 9% (50% reduction in enterprise income tax) (2007: 7.5%) for the period.

The Group's operating subsidiary in Yantai, the PRC, is subject to enterprise income tax at a rate of 25%. The subsidiary is entitled to 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. No provision for enterprise income tax has been made for the period ended 30 September 2008 as the subsidiary is enjoying the first year of tax exemption in 2008.

Deferred tax has not been provided as there was no significant temporary differences which would give rise to deferred tax liabilities at the balance sheet date (2007: 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.

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 2008 (2007: Nil).

5. Earnings per share

The calculation of basic earnings per share for the three months and nine months ended 30 September 2008 is based on the profit attributable to equity holders of the Company of HK\$7,756,000 (2007: HK\$3,905,000) and HK\$21,924,000 (2007: HK\$9,876,000) respectively and ordinary shares of 556,750,000 in issue during the three months and nine months ended 30 September 2008 and 2007.

There was no diluted earnings per share for both periods ended 30 September 2008 and 2007 since the Company had no dilutive potential shares outstanding as at 30 September 2008 and 2007.

6. Reserves

	Share premium HK\$'000	Foreign currency translation reserve HK\$'000	Capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Retained profit HK\$'000	Attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
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
At 1 January 2008	970	5,282	362	3,771	11,442	21,827	5,391	27,218
Exchange differences arising on translation of financial statements of overseas subsidiaries	-	3,411	-	-	-	3,411	-	3,411
Profit for the period	-	-	-	-	21,924	21,924	6,389	28,313
Total recognised income and expenses for the period	-	3,411	-	-	21,924	25,335	6,389	31,724
Appropriation of profits	-	-	-	1,797	(1,797)	-	-	-
At 30 September 2008	970	8,693	362	5,568	31,569	47,162	11,780	58,942

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

During the period under review, one of the Group's two principal activities was 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 the first three quarters of 2008, the Group maintained its business development strategy to ensure sustained organic growth from its core biopharmaceutical products, Beifushu and Beifuji, through the established distribution network in the PRC. In addition, the Group strategically promoted its newly commercialized products; 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 was also dedicated towards cultivating and expanding the business of agricultural fertilizers through its subsidiary, Yantai Baoyuan, which was 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 maintained 17 direct representative offices ("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 67 seminars and 502 market promotion activities in major cities and provinces in the PRC for the period under review, educating more than 15,000 doctors and medical practitioners on the clinical applications of the Group's products.

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 Hebei province 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.

During the period under review, the Group has established two strategic business tie-ups with InSite in USA and ABC in Italy. Details of which are outlined below:

- InSite USA – Essex Bio-Pharmacy Limited has been appointed by InSite to be its exclusive licensee and distributor of InSite's 阿奇霉素滴眼液 (AzaSite®, Azithromycin ophthalmic solution), a product that is for the treatment of bacterial conjunctivitis (pink eye). The appointment covers exclusively the mainland China, Hong Kong and Macau.
- ABC Farmaceutici S.P.A – Zhuhai Essex Medipharm Co., Ltd. has signed an exclusive licensing and distribution agreement with an Italian company, ABC Farmaceutici S.P.A ("ABC"), for the distribution of the ursodeoxycholic acid (UDCA) API and UDCA capsules manufactured by ABC throughout the PRC. UDC capsules are indicated for cholesterol gallstones, gallstones residual in the choledochus or recurrent after operation on the bile pathways as well as biliary reflux gastritis.

Research and Development (“R&D”)

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

- 貝復舒單劑量滴眼液 (Beifushu single dose eye-drop) – The research and development on this project has been successfully completed and is pending SFDA’s approval in order to commence production. Beifushu single dose eye-drop is developed for the treatment and healing of dry eye and cornea after various surgeries.
- 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 project has successfully obtained SFDA’s approval for commercialisation in early 2008 but is pending the receipt of GMP certification 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 recorded approximately HK\$174.5 million in turnover for the nine months ended 30 September 2008, a significant increase of 67.0% over the corresponding period of the last financial year.

Overall gross profit for the nine months ended 30 September 2008 increased to approximately HK\$80 million when compared to approximately HK\$48 million recorded in the same period of last year. The increase is attributable to the significant increase in sale of the Group’s flagship pharmaceutical products and agricultural fertilizers, the high gross profit margin of 89% maintained by the flagship pharmaceutical products and a gross margin of 17.6% achieved by the agricultural fertilisers during the period under review.

The significant increase in turnover and gross profit has generated a profit attributable to equity holders of the Company of approximately HK\$21.9 million for the nine months ended 30 September 2008.

Distribution and selling expenses increased to approximately HK\$44.6 million for the nine months ended 30 September 2008 when compared to approximately HK\$30.8 million recorded in the same period of last 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\$11 million in the nine months ended 30 September 2008 when compared to approximately HK\$9.5 million recorded in the corresponding previous year. The increase is in tandem with the expanded operations to support the business expansion.

The Group had cash and cash equivalents of approximately HK\$46.6 million as at 30 September 2008 (2007: HK\$31.2 million).

The Group had pledged deposits of approximately HK\$2.3 million as at 30 September 2008 (2007: HK\$4.2 million).

As at 30 September 2008, short-term secured bank loans amounted to approximately HK\$34.6 million (2007: HK\$8.3 million). The short-term secured bank loans are secured by a charge over the Group's properties, land use rights and inventories.

As at 30 September 2008, the Group had no other unsecured borrowings (2007: HK\$6.2 million).

Material acquisitions and disposals of subsidiaries/Future plans for material investments

The Group had no material acquisitions and disposals during the period under review.

To facilitate the business development plan of the Group, the Group intends to acquire certain piece(s) of land(s) in the PRC for its business operation in the near future. Save as disclosed herein, the Group does not have any plans for material investments or capital assets for the financial year ending 2008.

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

As at 30 September 2008, 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 pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions 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 <i>(note 1)</i> 6,666,667 <i>(note 2)</i>	–	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 2008, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2008, the following person, other than a director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or, as the case may be, the registered capital of any other members of the Group, and 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	51.81
Ngiam Mia Kiat Benjamin	Beneficially and corporate owned	295,449,667 (note 1)	53.07
Lauw Hui Kian	Family owned	297,374,667 (note 2)	53.41

Notes:

1. (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.
2. (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 2008, as far as is known to the directors, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or, as the case may be, the registered capital of any other members of the Group, and as recorded in the register to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months period ended 30 September 2008, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

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 the required standard of dealings and the Company's code of conduct regarding securities transactions by the directors throughout the nine months period ended 30 September 2008.

COMPETING INTEREST

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 of interest with the Group during the period under review.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE PRACTICE

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 Rules 5.28 and 5.33 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, 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 2008 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 has 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

Hong Kong

12 November 2008