

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)



2009

First 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.

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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.

The board of directors of Essex Bio-Technology Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2009 together with the comparative unaudited figures for the corresponding period in last financial year.

RESULTS

	<i>Notes</i>	2009 HK\$'000	For the three months ended 31 March 2008 HK\$'000
Turnover	2	66,968	48,745
Cost of sales		(49,043)	(27,734)
Gross profit		17,925	21,011
Other revenue	2	1,565	2,098
Distribution and selling expenses		(13,726)	(11,247)
Administrative expenses		(3,989)	(3,056)
Profit from operations		1,775	8,806
Finance costs		(504)	(628)
Profit before taxation		1,271	8,178
Taxation	3	(721)	(455)
Profit for the period		550	7,723
Attributable to:			
Equity holders of the Company		1,812	5,916
Minority interests		(1,262)	1,807
		550	7,723
Earnings per share – basic	5	HK0.33 cents	HK1.06 cents

NOTES

1. BASIS OF PREPARATION

The Group's first quarterly unaudited results of 2009 have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, 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 three months ended 31 March 2009 have not been audited by the Company's auditors, 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 2008 audited financial statements.

2. TURNOVER AND OTHER REVENUE

Turnover, which is also the revenue, 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:

	2009 HK\$'000	For the three months ended 31 March 2008 HK\$'000
Turnover:		
Sales of biopharmaceutical products	20,569	17,284
Sales of agricultural fertilizers	46,399	31,461
	66,968	48,745
Other revenue:		
Value added tax refund	1,392	1,888
Sundries	173	210
	1,565	2,098
	68,533	50,843

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 subsidiary in Zhuhai, the PRC, is established and carrying on business in the Special Economic Zones of the PRC as a high technology enterprise. The subsidiary has obtained a 高新技術企業證書 (High Technology Enterprises Certificate) and, is entitled to enjoy the enterprise income tax at the concessionary rate of 15% for three years from 2008 to 2010.

The Group's another operating subsidiary in Zhuhai, the PRC, is established and carrying on business in the Special Economic Zones of the PRC is subject to enterprise income tax at a concessionary rate of 20% (2008: 18%).

The Group's operating subsidiary in Yantai, the PRC, is subject to enterprise income tax at a concessionary rate of 20% (2008: 18%). No provision for enterprise income tax has been made for the three months ended 31 March 2009 as the subsidiary incurred loss for the three months ended 31 March 2009.

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 (2008: 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 (2008: Nil).

4. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2009 (2008: Nil).

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2009 is based on the profit attributable to equity holders of the Company of HK\$1,812,000 (2008: HK\$5,916,000) and 556,750,000 (2008: 556,750,000) ordinary shares in issue during the three months ended 31 March 2009.

There was no diluted earnings per share for both periods ended 31 March 2009 and 2008 since the Company had no dilutive potential shares outstanding as at 31 March 2009 and 2008.

6. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Statutory surplus reserve HK\$'000	Foreign currency translation reserve HK\$'000	Retained profits HK\$'000	Attributable to equity holders of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2008	970	362	3,771	5,282	11,442	21,827	5,391	27,218
Currency translation difference	-	-	-	2,310	-	2,310	245	2,555
Net profit for the period	-	-	-	-	5,916	5,916	1,807	7,723
Total recognised income and expenses for the period	970	362	3,771	7,592	17,358	30,053	7,443	37,496
Appropriation of profits	-	-	469	-	(469)	-	-	-
At 31 March 2008	970	362	4,240	7,592	16,889	30,053	7,443	37,496
At 1 January 2009	970	362	5,889	8,851	31,150	47,222	10,877	58,099
Currency translation difference	-	-	-	2	-	2	-	2
Net profit for the period	-	-	-	-	1,812	1,812	(1,262)	550
Total recognised income and expenses for the period	970	362	5,889	8,853	32,962	49,036	9,615	58,651
Appropriation of profits	-	-	425	-	(425)	-	-	-
At 31 March 2009	970	362	6,314	8,853	32,537	49,036	9,615	58,651



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 quarter of 2009, the Group's pharmaceutical business was resilient and able to maintain its organic growth from its core biopharmaceutical products, 貝復舒 (Beifushu) and 貝復濟 (Beifuji), the continued growth was made possible through its established distribution network and relentless marketing effort and investments in the PRC. In addition, the Group's strategic promotion of 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) has started to see contributions.

In the past years, the Group's effort which dedicated towards cultivating and developing the business of agricultural fertilizers is done through its subsidiary, Baoyuan Bio-Agri (Shandong) Limited (formerly known as Baoyuan Bio-Agri Technology (Yantai) Limited), 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.

The Group's agricultural fertilizers business has, however, experienced a material decline in gross profit as compared to the corresponding period in 2008. The decline was mainly attributed to the volatility of prices of raw materials for agricultural fertilizers that has negatively impacted the selling prices of the Group's fertilizer products. We are not optimistic of an early return to normalcy of the selling prices and the trading condition would continue to impact negatively in the Group's financial performance in this sector.

Market Development

During the period under review, the Group established 3 more direct representative offices ("DROs") in Nanning, Liuzhou and Hainan. The Group totally maintained 20 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 27 seminars and 87 market promotion activities in major cities and provinces in the PRC for the period under review, educating more than 1,320 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 in last year. 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.

The development status on two strategic business tie-ups with two international pharmaceutical companies entered into last year is outlined as follows:

- InSite USA – One of the Company's subsidiaries, Essex Bio-Pharmacy Limited has been appointed by InSite USA to be its exclusive licensee and distributor of InSite's AzaSite®, Azithromycin ophthalmic solution (阿奇霉素滴眼液), a product that is for the treatment of bacterial conjunctivitis (pink eye). The appointment covers exclusively the mainland China, Hong Kong and Macau.

Documents to apply for the clinical trials in the PRC will be submitted to SFDA for approval in the second quarter.

- ABC Farmaceutici S.P.A – One of the Company's subsidiaries, Essex Medipharma (Zhuhai) Company Limited 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. UDCA 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.

Import and distribution licenses of ursodeoxycholic acid (UDCA) was obtained during the period under review. License to distribute UDCA capsules will be applied in the second half of 2009.



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 the approval from State Food Drug Administration of China (“SFDA”) 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 Good Manufacturing Practice (“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 and GMP certification. It will be launched to market in the second quarter of 2009. 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\$67 million in turnover for the period ended 31 March 2009, an increase of 37.4% over the corresponding previous period.

Overall gross profit for the period ended 31 March 2009 decreased to approximately HK\$17.9 million when compared to approximately HK\$21 million recorded in the same period of last year. The decrease was attributable to the lower selling prices of the Group’s fertilizer products which was affected by the volatility in prices of the raw materials, whilst the Group’s flagship pharmaceutical products is still maintained with gross margins of 89%.

The lower selling prices and gross profit amid the volatility of prices of raw materials of the agricultural fertilizers have resulted in a significant declined in profit attributable to equity holders of the Company to approximately HK\$1.8 million for the period ended 31 March 2009 (2008: HK\$5.9 million).

Distribution and selling expenses increased to approximately HK\$13.7 million for the period ended 31 March 2009 when compared to approximately HK\$11.2 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\$4 million in the period ended 31 March 2009 when compared to approximately HK\$3.1 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\$46.5 million as at 31 March 2009 (2008: HK\$41.4 million).

As at 31 March 2009, short-term secured bank loans amounted to approximately HK\$19.8 million (2008: HK\$28.3 million). The short-term secured bank loans are secured by a charge over the Group's land, properties and inventories.

OTHER INFORMATION

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

As at 31 March 2009, 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	53.41
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.

Long positions in ordinary shares of the associated corporation of the Company:

Name of director	Capacity	Associated corporation	Number of ordinary shares in associated corporation	Approximate
				percentage of the issued Share capital of the associated corporation
Ngiam Mia Je Patrick	Beneficial owner	Essex Holdings Limited	5,000	50.00

Save as disclosed above, as at 31 March 2009, none of the Directors or chief executive of the Company or their respective associates had any 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 or debentures

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 or underlying shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors or their respective spouses or minor children to acquire such rights in the Company or any other body corporate.

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

As at 31 March 2009, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company 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	Beneficial owner	288,458,000	51.81
Ngiam Mia Kiat Benjamin	Beneficially owner and corporate interest	295,449,667 (note 1)	53.07
Lauw Hui Kian	Family interest	297,374,667 (note 2)	53.41
Kee Sue Hwa	Beneficial owner	32,476,000	5.83

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) Lauw Hui Kian is the spouse of Ngiam Mia Je Patrick (an executive Director), Lauw Hui Kian was deemed to be interested in the shares in which Ngiam Mia Je Patrick was interested. Ngiam Mia Je Patrick was interested in 297,374,667 shares of the Company.

Save as disclosed above, as at 31 March 2009, 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 positions 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 period under review.

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.

DIRECTORS' SECURITIES TRANSACTIONS

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 Directors have complied with such code of conduct and the required standard of dealings under the GEM Listing Rules throughout the period ended 31 March 2009.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders of the Company or any of their respective associates has engaged in any businesses that competes or may compete, either directly or indirectly, with the business of the Group or has any other conflicts of interest with the Group during the period under review which are required to be disclosed under the GEM Listing Rules.

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 2009 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

Hong Kong

8 May 2009