



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)



THIRD QUARTERLY REPORT 2010

## 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.*

## 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 2010 together with the comparative figures for the corresponding periods in last financial year.

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Continuing operations</b>					
Turnover	2	40,837	33,412	102,082	83,386
Cost of sales		(3,100)	(2,731)	(8,649)	(7,955)
Gross profit		37,737	30,681	93,433	75,431
Other revenue	2	172	120	726	186
Distribution and selling expenses		(24,700)	(20,227)	(61,178)	(48,881)
Administrative expenses		(3,938)	(4,816)	(10,253)	(10,855)
Finance costs		(7)	(7)	(20)	(20)
Profit before income tax expenses		9,264	5,751	22,708	15,861
Income tax expenses	3	(1,740)	(1,074)	(3,962)	(2,945)
Profit for the period from continuing operations		7,524	4,677	18,746	12,916
<b>Discontinued operations</b>					
Loss for the period from discontinued operations		–	(1,091)	–	(8,014)
<b>Profit for the period</b>		<b>7,524</b>	<b>3,586</b>	<b>18,746</b>	<b>4,902</b>
<b>Other comprehensive income</b>					
Exchange differences on translating foreign operations		1,099	5	1,621	14
<b>Total comprehensive income for the period</b>		<b>8,623</b>	<b>3,591</b>	<b>20,367</b>	<b>4,916</b>
<b>Profit/(loss) attributable to:</b>					
Owners of the Company		7,524	3,586	18,746	8,295
Minority interests		–	–	–	(3,393)
		<b>7,524</b>	<b>3,586</b>	<b>18,746</b>	<b>4,902</b>
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the Company		8,623	3,591	20,367	8,309
Minority interests		–	–	–	(3,393)
		<b>8,623</b>	<b>3,591</b>	<b>20,367</b>	<b>4,916</b>
<b>Earnings per share from continuing and discontinued operations – Basic</b>	5	<b>HK1.35 cents</b>	HK0.64 cents	<b>HK3.37 cents</b>	HK1.49 cents
<b>Earnings per share from continuing operations – Basic</b>	5	<b>HK1.35 cents</b>	HK0.84 cents	<b>HK3.37 cents</b>	HK2.32 cents

## NOTES

**1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION**

The third quarterly unaudited results of 2010 have been prepared in accordance with the Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards 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 2010 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 third quarterly unaudited results are consistent with those used in the 2009 audited financial statements.

**2. TURNOVER AND OTHER REVENUE**

Turnover, which is also the revenue, represents sales value of pharmaceutical products and agricultural fertilizers supplied to customers less discounts, returns, value added tax and other applicable local taxes.

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>				
Continuing operations:				
Sales of pharmaceutical products	40,837	33,412	102,082	83,386
Discontinued operations:				
Sales of agricultural fertilizers	–	18,092	–	86,339
	<u>40,837</u>	<u>51,504</u>	<u>102,082</u>	<u>169,725</u>
<b>Other revenue</b>				
Continuing operations:				
Interest income-bank deposits	58	37	153	103
Interest income on a convertible note receivable	113	–	526	–
Others	1	83	47	83
Discontinued operations:				
Value added tax refund	–	543	–	2,590
Others	–	21	–	389
	<u>172</u>	<u>684</u>	<u>726</u>	<u>3,165</u>
	<u><u>41,009</u></u>	<u><u>52,188</u></u>	<u><u>102,808</u></u>	<u><u>172,890</u></u>

**3. INCOME TAX EXPENSES**

No provision for Hong Kong profits tax has been made as the Group had incurred losses for Hong Kong profits tax purpose.

The Group's operating subsidiary in Zhuhai, the PRC, was established and carrying on business in the Special Economic Zones of the PRC as a high technology enterprises. The subsidiary has obtained a 高新技術企業證書 (High Technology Enterprise Certificates) 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, was established in the Special Economic Zones of the PRC and carrying on business in the PRC, which is subject to enterprise income tax at a concessionary rate of 22% (2009: 20%).

**4. DIVIDENDS**

The Board does not recommend the payment of dividend for the nine months ended 30 September 2010 (2009: Nil).

**5. EARNINGS PER SHARE****For continuing and discontinued operations**

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

**Earnings**

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Earnings for the purpose of basic earnings per share	<u>7,524</u>	<u>3,586</u>	<u>18,746</u>	<u>8,295</u>

**From continuing operations**

The calculation of the basic earnings per share from continuing operations attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	For the three months ended		For the nine months ended	
	30 September		30 September	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period attributable to owners of the Company	7,524	3,586	18,746	8,295
Add: Loss for the period from discontinued operations	—	1,091	—	4,621
Earnings for the purpose of basic earnings per share from continuing operation	<u>7,524</u>	<u>4,677</u>	<u>18,746</u>	<u>12,916</u>

The denominator used for both earnings per share from continuing and discontinued operations and from continuing operations is the number of ordinary shares of 556,750,000 (2009: 556,750,000) in issue during the periods.

#### From discontinued operations

Basic loss per share for the discontinued operations for the three months and nine months ended 30 September 2009 was HK0.20 cents and HK0.83 cents per share, based on the loss from the discontinued operations of HK1.1 million and HK4.6 million, respectively, and the number of ordinary shares of 556,750,000 in issue during the periods.

Diluted earnings per share for the periods ended 30 September 2010 and 2009 are not presented since the Company did not have any dilutive potential ordinary shares outstanding during both periods.

## 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 owners of the Company HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2009	970	362	5,889	8,851	31,150	47,222	10,877	58,099
Release upon disposal of a subsidiary	-	-	-	(885)	-	(885)	-	(885)
Total comprehensive income for the period	-	-	-	14	8,295	8,309	(10,877)	(2,568)
2008 final dividend	-	-	-	-	(5,568)	(5,568)	-	(5,568)
Appropriation of profits	-	-	1,712	-	(1,712)	-	-	-
At 30 September 2009	<u>970</u>	<u>362</u>	<u>7,601</u>	<u>7,980</u>	<u>32,165</u>	<u>49,078</u>	<u>-</u>	<u>49,078</u>
At 1 January 2010	970	362	8,363	8,004	34,660	52,359	-	52,359
Total comprehensive income for the period	-	-	-	1,621	18,746	20,367	-	20,367
2009 final dividend	-	-	-	-	(5,568)	(5,568)	-	(5,568)
Appropriation of profits	-	-	2,464	-	(2,464)	-	-	-
At 30 September 2010	<u>970</u>	<u>362</u>	<u>10,827</u>	<u>9,625</u>	<u>45,374</u>	<u>67,158</u>	<u>-</u>	<u>67,158</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***Business review and prospects***

The Group's principal activities are in the manufacturing and sale of pharmaceutical products for the treatment and healing of surface wounds, eye wounds and diseases. The Group is also engaged in the research and development of pharmaceutical 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 the year, the Group achieved a revenue growth of 22.4% to approximately HK\$102.1 million as compared to the same period of the previous financial year. The increase is attributed to the continued expansion of sales of its core pharmaceutical products into the inner cities and counties of major provinces in the People's Republic of China (the "PRC").

For building a strong product pipeline to enable future growth, the Group has strategically forged a tie-up with 廣東省視覺眼科學研究所 (Guangdong Ophthalmologic Science Institute) to jointly research and develop bFGF medical amniotic membrane. The product once successfully developed and approved will have a wide range of applications for repairing corneal and conjunctival defects caused by multiple factors as well as filtration bleb after glaucoma surgery.

### ***Market development***

#### *Distribution networks*

During the period under review, the Group established 3 more direct representative offices ("DROs") in Shanghai, Jilin and Lanzhou, bringing the total number of DROs to 23. The DROs are located in major provinces in the PRC. There are over 1,300 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 pharmaceutical products, the Group has conducted over 81 seminars and 470 market promotion activities in major cities and provinces in the PRC for the period under review, educating more than 22,000 doctors and medical practitioners on the clinical applications of the Group's products.

#### *Business associates*

The development status on two strategic business tie-ups with two international pharmaceutical companies 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<sup>®</sup>, 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.

Application to State Food Drug Administration of China ("SFDA") for the clinical trials is in progress.

- ABC Farmaceutici S.P.A – One of the Company's subsidiaries, Essex Medipharma (Zhuhai) Company Limited ("Essex Medipharma"), 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 licences of ursodeoxycholic acid (UDCA) API were obtained in 2009 and the first batch of 250kg UDCA are being distributed in China.

Application of licence to distribute UDCA capsules in the PRC is in progress.

In addition, Essex Medipharma has signed distribution agreement with an Indian company, Sun Pharmaceutical Industries Ltd., for the distribution of 拉坦前列素滴眼液 (Latanoprost Ophthalmic Solution) which is indicated for the treatment of Glaucoma. The commercial launch of the product is pending for SFDA's approval.

#### *Collaboration agreements*

The Group entered into two ophthalmic pharmaceutical collaboration agreements with Jinan Bestcomm Pharmaceutical R&D Co., Ltd ("Jinan Bestcomm") in 2009.

Jinan Bestcomm is a high-tech enterprise specializing in the development of new medicine products and is the first enterprise of its kind to obtain ISO-9001 Quality Management System Certification.

Under one of the collaboration agreements, the Group has obtained an exclusive distribution rights for 10 years from Jinan Bestcomm to distribute 鹽酸倍他洛爾滴眼液 (Betaxolol Hydrochloride Eye Drop) in China. 鹽酸倍他洛爾滴眼液 (Betaxolol Hydrochloride Eye Drop) is an ophthalmology pharmaceutical product for the treatment of Glaucoma. It can lower intraocular pressure effectively to avoid optic nerve damage and reduce the effect on heart and lung to minimal. The product was launched in the second quarter of 2010.

Another collaboration agreement with Jinan Bestcomm for the cooperation in the research and development of an ophthalmic antibiotics product – 甲苯磺酸妥舒沙星滴眼液 (Tosufloxacin Tosylate Eye Drop). The main ingredient of 甲苯磺酸妥舒沙星滴眼液 (Tosufloxacin Tosylate Eye Drop) is the 4th generation of quinolone. The 4th generation of quinolone has shown strong antibacterial activity and broad antibacterial spectrum but with minor side effect. Among the quinolone based eye drop antibiotics products, our product shall be the first to be considered medically suitable for use in children.

Pre-clinical trial of Tosufloxacin Tosylate Eye Drop was completed by Jinan Bestcomm in 2009 and is pending SFDA's approval to commence the clinical trial.

**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 SFDA 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.
- bFGF 藥物羊膜 (bFGF medical amniotic membrane) – Pre-clinical tests are in progress. bFGF medical amniotic membrane is mainly used for repairing corneal and conjunctival defects caused by multiple factors as well as filtration bleb after glaucoma surgery.

**Financial review**

The Group recorded approximately HK\$102.1 million in turnover for the nine months ended 30 September 2010, an increase of 22.4% over the corresponding previous period.

Overall gross profit for the nine months ended 30 September 2010 increased to approximately HK\$93.4 million when compared to approximately HK\$75.4 million recorded in the same period of last year.

Distribution and selling expenses increased to approximately HK\$61.2 million for the period ended 30 September 2010 when compared to approximately HK\$48.9 million recorded in the same period of last year. The increase was mainly attributable to higher expenses incurred in sales, marketing and promotional activities which are in line with the growth of pharmaceutical business in the period under review.

Administrative expenses maintained at the same level at approximately HK\$10.3 million for the period ended 30 September 2010 as compared to approximately HK\$10.9 million for the corresponding period in last year.

The Group had cash and cash equivalents of approximately HK\$73.8 million as at 30 September 2010 (2009: HK\$64.6 million).

As at 30 September 2010 and 2009, the Group has no bank and other borrowings.

## OTHER INFORMATION

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

As at 30 September 2010, 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	Number of issued ordinary shares of HK\$0.10 each in the Company				Total	Approximate percentage of the Company's issued share capital
	Personal interests	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.

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

<b>Name of Director</b>	<b>Capacity</b>	<b>Associated corporation</b>	<b>Number of ordinary shares in associated corporation</b>	<b>Approximate percentage of the issued share capital of the associated corporation</b>
Ngiam Mia Je Patrick	Beneficial owner	Essex Holdings Limited	5,000	50.00

Save as disclosed above, as at 30 September 2010, 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 30 September 2010, 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:

<b>Name</b>	<b>Capacity and nature of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of the Company's issued share capital</b>
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 30 September 2010, 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 has 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 30 September 2010.

#### COMPETING BUSINESS

None of the Directors, the management shareholders and substantial shareholders of the Company and any of their respective associates (as defined in the GEM Listing Rules) 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.

## 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 2010 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

4 November 2010