CHINA MEDICAL AND BIO SCIENCE LIMITED
中 華 藥 業 生 物 科 學 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8120

ANNUAL REPORT
2007

* *For identification purposes only*

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the Directors of CHINA MEDICAL AND BIO SCIENCE LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.

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Corporate Information

EXECUTIVE DIRECTORS

Liu Yang *(Chairman and Chief Executive Officer)*
Wong Moon Ha
Liu Dong Hui
Wong Sai Wa
Fang Ming

NON-EXECUTIVE DIRECTORS

Kwan Kai Cheong
Tan Min

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Kin Hang
Ding Hanpeng
Garry Alides Willinge

AUDIT COMMITTEE

Chan Kin Hang *(Chairman)*
Ding Hanpeng
Garry Alides Willinge

REMUNERATION COMMITTEE

Ding Hanpeng *(Chairman)*
Chan Kin Hang
Kwan Kai Cheong

COMPLIANCE OFFICER

Liu Dong Hui

COMPANY SECRETARY

Leung Kin Lung

QUALIFIED ACCOUNTANT

Leung Kin Lung

PRINCIPAL BANKERS

UBS AG, Hong Kong
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL INVESTMENT BANKER

Goldman Sachs International

REGISTERED OFFICE

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

AUDITORS

PKF
Certified Public Accountants

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3202A, Lippo Centre
Tower 1
89 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Bufferfield Fund Services (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F Tesbury Centre
28 Queen’s Road East
Wanchai, Hong Kong

BUSINESS REVIEW AND OUTLOOK

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$6,289,000 for the year ended 31 July 2007, representing a decrease of approximately 88.4% as compared to approximately HK$54,054,000 that was recorded in the preceding year whereas the turnover from sale of veterinary drugs declined to approximately HK$5,528,000 from approximately HK$16,854,000 in 2006. The decrease was mainly attributable to (a) The performance in veterinary drug business of Viking Yuen Heng was affected by change of industrial planning in the area, GMP review and inspection with the result of production restrain, and keen competition from non-GMP certified manufacturers. (b) GMP operation of Concord Yuen Heng was still under construction and failed to complete as scheduled. Production and sales were thus failed, and could not provide any sales income; (c) The Group completed the acquisition of feed supplements business on 22 January 2007, which created new centres of economic growth for the future development of the Group. Upon the completion of the acquisition, the Group invested substantial amount of capital in the formulation of market strategies, customer retention and training, product enhancement, application development, technologies support and establishment of sales system, and the accumulation of human resources. Satisfactory results were obtained, and formed strong income and profit base. However, during the year ended 31 July 2007, the above factors had not yet contributed significantly forthwith to the income of the Group.

The Group recorded a loss attributable to the shareholders of the Company for the year ended 31 July 2007 of approximately HK$65,899,000 (2006: approximately HK$5,774,000). The loss in this year increased from the preceding year, which was mainly caused by (a) The performance in veterinary drug business of Viking Yuen Heng was affected by change of industrial planning in the area and GMP review and inspection with the result of production restrain. Therefore impairment provisions were made to plant and equipment as well as accounts receivables. (b) upon the completion in the acquisition of feed supplements by the Group on 22 January 2007, operating expenses increased relatively faster as a result of faster pace expansion strategies in the market for the formation of sales and profitability.

Liquidity, financial resources and capital structure

The Group generally financed its operations through internally generated cashflows, bank and other borrowings. As at 31 July 2007, the aggregate borrowings were HK$15,117,000 (2006: approximately HK$22,055,000). The reduction of approximately 31.5% in aggregate borrowings for the year under review was mainly attributable to the repayment of borrowings from Sichuan Concord Yuen Heng. As at 31 July 2007, the amount of banking facilities available and utilised was approximately HK$13,460,000 (2006: approximately HK$12,686,000). The Group's outstanding bank and other loans bear interest at the prevailing market rate.

Following the acquisition of feed supplement business, it was announced on 19 January 2007 that the Group issued 260 million shares and placed to independent investors at HK$0.148, with a net proceeds of approximately HK$37 million. It was further announced on 23 March 2007 that the Group issued 100 million shares at HK$0.66 and placed to investors, with a net proceeds of approximately HK$63 million.

The Group continues to adopt a conservative approach towards its treasury policy with all bank deposits in either Hong Kong Dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

Gearing ratio

The gearing ratio as at 31 July 2007 (total borrowing less cash and cash equivalents to the total assets) was in net cash position (2006: approximately 26.8%). Total assets also increased as a result of increase in capital after the issue of ordinary shares to the shareholders.

Foreign exchange and interest rate exposure

The Group mainly earns revenue and incurs cost in Renminbi, US dollar and Hong Kong dollar. The Directors consider that the impact of foreign exchange and interest rate exposures of the Group is minimal, and therefore, no hedging against foreign currency and interest rate exposures is considered necessary.

Charges on group asset

As at 31 July 2007, the following assets were pledged to secure borrowings granted to the Group:

	2007	2006
	HK$'000	*HK$'000*
Leasehold land (on net book value)	**3,044**	2,869
Plant and machinery (on net book value)	**1,394**	1,344
Construction in progress (on net book value)	**12,218**	10,780
Production licences (on net book value)	**4,183**	4,878

Contingent liabilities

As at 31 July 2007 and 2006, the Group did not have any significant contingent liabilities.

Commitments

As at 31 July 2007, the Group had outstanding capital commitment of HK$7,768,000 (2006: approximately HK$6,809,000).

Future plan for investment

Except as disclosed in the financial statements, as at 31 July 2007, the Group did not have future plan for material investment and capital assets.

Material acquisitions/disposals

Except for those set out in the paragraphs of "Operation Review" and "Outlook", the Group had no other material acquisitions or disposals of subsidiaries and affiliated companies for the year under review.

Employee Information

As at 31 July 2007, the Group had approximately 60 employees (2006: 198) in Hong Kong, PRC and Singapore. The total remuneration to employees, including directors' emoluments amounted to approximately HK$7,037,000 (2006: approximately HK$5,162,000). The Group remunerates its employees based on their performance, qualification, experience and the prevailing industry practice. Other benefits include contributions to statutory mandatory provident fund scheme and medical coverage to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

OPERATION REVIEW

Continuing operations

Veterinary drug and animal vaccines: During the year under review, the sale of veterinary drugs decreased from approximately HK$16,854,000 in 2006 to approximately HK$5,528,000 in 2007. The decrease was mainly attributable to (a) The performance in veterinary drug business of Viking Yuen Heng was affected by change of industrial planning in the area, GMP review and inspection with the result of production restrained, and keen competition from non-GMP certified manufacturers. (b) GMP operation of Concord Yuen Heng was still under construction. During the year under review, the Group used its best endeavours to deploy resources from different sources, but failed to complete GMP inspection as scheduled. Production and sales were thus failed, and could not provide any sales income.

Feed supplements business: The Group completed the acquisition of feed supplements business on 22 January 2007, which created new centres of economic growth for the future development of the Group. During the year under review, the sales of feed supplements by the Group was HK$761,000. Upon the completion of the acquisition, the Group invested substantial amount of capital in the formulation of market strategies, customer retention and training, product enhancement, application development, technologies support and establishment of sales system, and the accumulation of human resources. Satisfactory results were obtained, and formed strong income and profit base. However, during the year ended 31 July 2007, the above factors had not yet contributed significantly forthwith to the income of the Group.

Research and Development

After acquiring the feed supplements business, the Group has obtained new patent technologies relating to manufacturing livestock feed based on feed supplements. During the year under review, the Group continued to conduct research and development for the application of feed supplements in Japan, Singapore, Malaysia, Hong Kong and PRC in livestock such as pig, chicken and prawn, which has laid a foundation within and outside PRC for their large scale development.

OUTLOOK

After completion of acquisition of feed supplements business on 22 January 2007, the Group's principal businesses shifted from the original business to feed supplements and the production and operation of end-user food safety formed by the use of feed supplements.

Pollution on agricultural products becomes increasing serious around the world, in particular for developing countries. This is resulted from the abuse of antibiotics and additives or prohibited drugs and decay feeds, as well as the three key pollution sources brought to the environment from the industrial sector, and the extensive use of pesticides in agricultural production. In terms of pollution by pesticides, heavy metals, antibiotics and androgen, excessive use of pesticides, antibiotics and androgen, together with heavy metals such as mercury, lead and arsenic were partly absorbed by the plants and built up in agricultural and husbandry products upon pollution of water and soil. On the other hand, the medical residuals in pesticides, pork, chicken, egg and aquatic produce always exceed the benchmark. As people are fed on such husbandry and agricultural products, such related products are also culminated inside the human bodies. This will finally hamper the well being of human race, which is witnessed by early maturity in children becoming serious, resistance to antibiotics and decrease in immunity. At the same time when the state-of-the-art husbandry has provided abundant food such as meat, poultry, milk and egg, it is confirmed by the medical sector that cancer disease commonly found in human beings, mal-development, drug-resistance, early maturity of children, and cardiovascular diseases for middle and old age people are related to the abuse and remains of antibiotics, androgen, and other synthetic drug in certain food. The challenges faced by husbandry industry are stringent. Diseases and remains are the two factors restraining the development of husbandry and export of husbandry products. At present the situation for disease in China is quite complicated. In order to protect the ecological environment, and pursue for sustainable development, quality monitoring of all aspects from the "land" to the "table" is implemented. The present directions and targets for the pursuit of development in agricultural industry globally are ensuring the production of safety, healthy and quality food. It was prohibited in 2006 by European Union to the use of certain antibiotics. On the bases of feed supplements, the Group's patents over the breeding system are an effective solution to tackle the difficulties in husbandry and agricultural products.

The feed supplements business continued to benefit from the rural reforms adopted by the Central People's Government of the PRC (the "Central Government"). According to Central Government State Council's "No. 1 Document" dated 29 January 2007 – "Certain Opinions on Actively Developing Modern Agriculture and Improving Construction of Socialist New Villages (關於積極發展現代農業扎實推進社會主義新農村建設的若干意見)" and the document of "Guofa (2007) No 4" – "State Council's Opinions on Promoting Sustainable and Healthy Development of Husbandry Industry (國務院關於促進畜牧業持續健康發展的意見)", the Central Government will continue to strongly support the development of agriculture, rural areas and farmers (collectively call "三農"). During 2007, the Central Government will contribute RMB 391.7 billion for financing of agriculture, rural areas and farmers through central fiscal arrangements, an increase of RMB 52 billion when comparing to last year, principally for: (1) improving agriculture's sustainable development and encouraging development of recycling and ecological agriculture, and accelerating development of organic agriculture in suitable places; (2) speeding up change of the way to grow of husbandry industry, actively developing healthy breeding and feeding, establishing modern husbandry industry system and strengthening safe feed management to control product quality safety of husbandry industry from its source; (3) strictly adhering to rely on science and technology, encouraging scientific and technological innovation, promoting use of suitable advanced technologies, speeding up the transformation of scientific and technological achievements to boost industry upgrade and enhance the competitiveness of husbandry industry; (4) strengthening supervision quality safety in production of livestock products. The Group is aimed to establish comprehensive quality standards of livestock products, strengthen quality management, optimize inspection approaches and enhance inspecting and monitoring quality of livestock products. The Group also pursued to establish a retrospective system for quality of livestock products, strengthen management of poultry and husbandry breeding and feeding archive, conduct whole process quality supervision in breeding and feeding, standardize usage of feed, feed supplements and veterinary drugs and actively developing production of pollution free, green and organic livestock products.

Hence the existing potential of market for feed supplements in PRC and regions outside PRC is considerably huge. The Company has established wholly-owned subsidiaries for the operation of food supplements and its safe food businesses in Singapore and Hong Kong. Wholly-owned subsidiaries will also be established in Japan and Southeast Asia Regions, such as Malaysia and Mainland China for the operation of food supplements and its safe food businesses. Efforts will be devoted to concentrate in the expansion of food supplement and its safe food businesses, so as to satisfy the increasing demand from the society. In order to accelerate the expansion in the market, the Company intends to issue convertible bonds with warrants. Part of the proceeds from which will be applied in the capture of acquisition opportunities to be arising from the operation of feed supplements business in a better manner. Part of which will be applied as the working capital required for market expansion. With the assurance of funds, the Company will also actively perfect the organization structure and management system. The Company will also implement equity incentive plans to motivate staff and various professional advisers to perform actively and effectively in the expansion of the Company's businesses.

In terms of market expansion strategies, the Company will seek to strengthen liaison with dedicated food producers in Japan and Singapore, such as Singapore Food Industries Limited listed in Singapore. The development is brand oriented, which will adopt advanced patent technologies as means to joint establish a new standard in the culture of ecological system with healthy and safe products. Other than expanding in existing markets in Japan, Singapore, Mainland China, Hong Kong and Macao, the Company will also expand the markets in Europe and Australia.

On the basis of business restructuring, endeavours in management and establishment of sales system, the Company will further strengthen the finance and internal control system, and the establishment of regulatory measures for the Company. It is strongly expected the Company will achieve growth in market share and profitability in the coming financial year, so as to create better value and efficiency for shareholders.

EXECUTIVE DIRECTORS

Ms. Liu Yang, aged 44, is the chairman and chief executive officer of the Group. Ms. Liu graduated from law school of the Chinese Academy of Social Science and is responsible for overseeing and implementing all strategies and decisions of the Group.

Ms. Wong Moon Ha, aged 54, is currently the manager of personnel and administrative department of Tempo Electronic Industrial Co. Ltd. Ms. Wong is the younger sister of Mr. Wong Sai Wa, an executive Director.

Dr. Liu Dong Hui, aged 39, is responsible for general management. He graduated from Sun Yat-sen University with a master degree in economics and doctorate degree in management. Dr. Liu was an investment planner and a managing director in an international trade and investment company from 1994 to 2001.

Mr. Wong Sai Wa, aged 64, is one of the founders of the Group. Mr. Wong holds a degree in Mechanical Engineering from the Scientific and Engineering University in the PRC and completed the Stanford Executive Program in 1993. Mr. Wong has also been a Director of Pacific Concord Holding Limited since 1987 and was appointed as a Joint Managing Director in 1999.

Mr. Fang Ming, aged 38, is responsible for sales and marketing of the Group. Mr. Fang received a graduated degree from The University of International Business and Economics in China, a master degree in laws from The Beijing University and a Master Business Administration degree from The University of South Australia. Mr Fang has been the manager of COFCO(S) Pte Ltd.

NON-EXECUTIVE DIRECTORS

Mr. Kwan Kai Cheong, aged 57, was appointed as an executive director in September 2000 and was re-designated as a non-executive director in January 2007. He has been a Director of Pacific Concord Holding Limited since 1993 and was appointed as a Joint Managing Director in 1999. Prior to joining the Pacific Concord Group, he was the President for the Asia Pacific Region of Merrill Lynch & Co. Inc. He is currently a non-executive director of Pacific Concord and the President of Morrison & Company Limited. Mr. Kwan graduated from the University of Singapore with a degree in Accounting and qualified as a Chartered Accountant in Australia. He completed the Stanford Executive Program in 1992.

Dr. Tan Min, aged 48, graduated from Sun Yat-Sen University with a doctorate degree in medicine. Dr. Tan is a professor of surgery and chief of the minimally invasive surgery (MIS). He was previously the deputy dean of the first affiliated hospital of Sun Yat-Sen University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Kin Hang, aged 37, is a fellow of The Hong Kong Institute of Certified Public Accountants since 2005 and an associate of the Institute of Accountants of the United Kingdom since 1996. He obtained a master degree in Accounting from the Curtin University of Technology, Australia in 1999. Mr. Chan has 18 years working experiences. He is currently the proprietor of K. H. Chan & Co., a firm of certified public accountant and the managing director of Honest Joy Accounting Service Co., Ltd.

Dr. Ding Hanpeng, aged 40, graduated from Huazhong University of Science and Technology with a bachelor degree in Science of Engineering, Sun Yat-Sen University with a master degree in Economics and a doctorate in Management. He was previously a post-graduate researcher on applied Economics with Jinan University and the Secretary General and researcher with The Centre of Enterprises and Marketing of the National Sun Yat-Sen University. He was also a supervisor of Shenzhen Tellus Holding Co., Ltd., a company listed on the Shenzhen Stock Exchange.

Mr. Garry Alides Willinge, aged 58, is a fellow of both the Australian Institute of Company Directors and HK Institute of Directors. In addition to his Undergraduate degree in Science he also has Graduate diplomas in finance and investment and corporate governance. Until 2004, he was a senior executive for IBM in Asia and Europe. This included Director of Asia Pacific Business Development and Director Information Technology, Sydney Olympic Games 2000. He was assigned to the West Australian Premier in 1990, where he led the government's Office of Public Sector Management, focused on leading public sector reform and transforming CEO leadership in the public sector. In Hong Kong, he is a member of the General Management Committee of the Hong Kong Management Association. Mr. Willinge was appointed as a director in September 2004. He also has had Company director roles in listed and private companies, in Australia, Hong Kong and London for more than 10 years.

SENIOR MANAGEMENT

Mr. Leung Kin Lung, aged 39, is the qualified accountant and company secretary of the Company. He is currently an associate member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants and has over 17 years of experience in auditing, financial management and accounting.

The Company is committed to fulfilling its responsibilities to shareholders by ensuring a high standard of corporate governance practices. This report describes its corporate governance practices and explains the applications of the principles of the Code on Corporate Governance Practice (the "Code") set out in Appendix 15 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited, which became effective on 1st January 2005.

Throughout the year ended 31 July 2007, the Company has complied with the Code provisions set out in the Code except for Code Provisions A.2.1, A.4.1 and E.1.2. The Board will keep these matters under review on a periodical basis.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The code provisions A.2.1 require that the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Ms. Liu Yang is both the chairman and chief executive officer of the Company, who is responsible for managing the board of directors (the "Board") and the businesses of the Company and its subsidiaries (collectively the "Group"). The Group considers Ms. Liu Yang has in-depth knowledge in the Group's business and can make appropriate decision efficiently.

Since the members of the Board meet regularly to discuss the issues affecting the operations of the Group, the Group considers the existing structure will not impair the balance of power and authority between the Board and the management. The Group also considers the existing structure, which has been working efficiently and effectively in the past, should be maintained in order to ensure consistent leadership for the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The code provisions A.4.1 requires that non-executive directors should be appointed for a specific term, subject to re-election. Apart from two directors, no other directors of the Company (the "Directors") are currently appointed with specific terms which are subject to retirement in accordance with the articles of association of the Company (the "Articles"). According to the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation.

COMMUNICATION WITH SHAREHOLDERS

The code provisions E.1.2 requires that the Chairman of the Board should attend the annual general meeting (the "AGM") and arrange for the chairman of the audit, and remuneration committees (or in the absence of the chairman of any such committee, another member of the committee) to be available to answer questions at the AGM.

Due to another business engagement, the chairman of the board was not able to attend the annual general meeting on 5 December 2006. Mr. Kwan Kai Cheong, an executive Director, and Mr. Garry Alides Willinge, an independent non-executive Director and member of the audit committee of the Company, attended the 2006 annual general meeting and were available to answer questions at the meeting.

BOARD OF DIRECTORS

The Board's primary responsibilities are to formulate the Company's long-term corporate strategy, to oversee the management of the Group, to evaluate the performance of the Group and enhance long-term shareholder value.

Executive Directors

Ms. Liu Yang	*Chairman and Chief Executive Officer*
Ms. Wong Moon Ha	*Executive Director*
Dr. Liu Dong Hui	*Executive Director*
Mr. Wong Sai Wa	*Executive Director*
Mr. Fang Ming	*Executive Director*

Non-executive Directors

Mr. Kwan Kai Cheong	*Non-executive Director*
Dr. Tan Min	*Non-executive Director*

Independent Non-Executive Directors

Mr. Chan Kin Hang	*Independent Non-Executive Director*
Dr. Ding Hanpeng	*Independent Non-Executive Director*
Mr. Garry Alides Willinge	*Independent Non-Executive Director*

The relationship among the members of the Board are disclosed under the "Directors' and Senior Management's Biographies" section in the Report of the Directors.

INDEPENDENCE

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all the independent non-executive Directors to be independent.

MEETINGS AND ATTENDANCE

The board regularly met in person or through other means of electronic communication at least four times every year. Apart from the regular board meetings of the year, the board will meet on other occasions when a board-level decision on a particular matter is required. Details of the participation of individual Directors at the Board meeting and Audit Committee meeting are set out as follows:

	Meetings Participated/Held	
Directors	**Board**	**Audit Committee**
Executive		
Liu Yang (appointed on 22 January 2007)	9/11	N/A
Wong Moon Ha (appointed on 22 January 2007)	7/11	N/A
Liu Dong Hui (appointed on 22 January 2007)	9/11	N/A
Wong Sai Wa	11/11	N/A
Fang Ming (appointed on 20 April 2007)	2/11	N/A
Wong Fei Fei (resigned on 22 January 2007)	0/11	N/A
Non-executive		
Kwan Kai Cheong (re-designated from executive to non-executive on 22 January 2007)	11/11	N/A
Tan Min (appointed as executive on 22 January 2007 and re-designated to non-executive on 20 April 2007)	3/11	N/A
Lai Chik Fan (re-designated from independent non-executive to non-executive on 22 January 2007 and resigned on 9 August 2007)	5/11	N/A
Independent non-executive		
Chan Kin Hang (appointed on 31 March 2007)	4/11	1/4
Ding Hanpeng (appointed on 20 April 2007)	1/11	1/4
Garry Alides Willinge	8/11	4/4
Chow Wai Ming (resigned on 31 March 2007)	2/11	2/4
Ho Kwok On (appointed on 22 January 2007 and resigned on 24 January 2007)	0/11	N/A

BOARD COMMITTEES

The Board has established Audit and Remuneration Committees in accordance with the Code Provisions and all or a majority of the members of the Committees are independent non-executive Directors.

The Audit Committee

The Company established an audit committee on 23 March 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28, 5.29 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the Board. The audit committee are also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. Currently it consists of three independent non-executive Directors, Mr. Chan Kin Hang, Dr. Ding Hanpeng and Mr. Garry Alides Willinge, while Mr. Chan Kin Hang is the chairman of the audit committee. During the year under review, the Audit Committee met with the external auditor once.

The Remuneration Committee

The Company established a Remuneration Committee since 13 July 2006 and adopted the terms of reference of the Remuneration Committee in alignment with the provisions set out in the Code. The Remunerations Committee now comprises two independent non-executive Directors, namely Mr. Ding Hanpeng and Mr. Chan Kin Hang and a non-executive director, Mr. Kwan Kai Cheong. Mr. Ding Hanpeng is the chairman of the Remuneration Committee.

During the year ended 31 July 2007, the Remuneration Committee hold one committee meeting.

The main responsibilities of the Remuneration Committee are to review and endorse the remuneration policy of the Directors and to make recommendations to the Board for the remuneration of the Directors. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration.

DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company.

The Board confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standards set out in the GEM Listing Rules throughout the year ended 31 July 2007.

INTERNAL CONTROL

The Board is responsible for maintaining adequate system of internal controls of the Group and reviewing its effectiveness with the Audit Committee. During 2007, the Board has evaluated the effectiveness of the Group's internal control system and considered it to be adequate.

The Company convenes meeting to discuss financial, operational and risk management control and the audit committee also discusses the internal control process with management as and when considered necessary.

AUDITORS' REMUNERATION

The remuneration in respect of the services provided by the Company's auditors, PKF, is analysed as follows:

	2007	2006
	HK$'000	HK$'000
Services rendered		
– Audit services	**250**	300
– Non-audit services	**180**	35
	430	335

The directors present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 July 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings and the Group is principally involved in the development and distribution of animal fee supplements and veterinary drugs. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements. On 31 July 2006, the Company entered into an agreement to acquire 70% equity interest of a feed supplements business for a consideration of 480 million new shares of the Company, further details of which are set out in the note 35 to the financial statements. Save as mentioned above, there were no other significant changes in the nature of the Group's principal activities during the year.

RESULTS

The results of the Group for the year ended 31 July 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 80.

DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 July 2007.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the five financial years ended 31 July 2007 is set out below:

RESULTS

	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**6,289**	54,054	121,061	171,533	128,046
(Loss)/profit from operating activities	**(53,503)**	(3,035)	(33,953)	(30,365)	9,152
Finance costs	**(3,857)**	(4,743)	(10,325)	(14,555)	(9,415)
Share of results of an associate	**–**	–	1,256	1,449	(1,202)
Assets impairment	**(10,000)**	–	(25,247)	–	–
Loss before tax	**(67,360)**	(7,778)	(68,269)	(43,471)	(1,465)
Tax	**(231)**	(193)	(665)	(337)	(783)
Loss for the year	**(67,591)**	(7,971)	(68,934)	(43,808)	(2,248)
Loss attributable to					
Shareholders of the Company	**(65,899)**	(5,774)	(63,560)	(43,791)	(652)
Minority interests	**(1,692)**	(2,197)	(5,374)	(17)	(1,596)
	(67,591)	(7,971)	(68,934)	(43,808)	(2,248)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**131,000**	78,698	287,489	584,140	590,169
TOTAL LIABILITIES	**(58,038)**	(64,451)	(270,695)	(497,159)	(454,399)
MINORITY INTERESTS	**–**	(1,469)	(3,606)	(11,036)	(16,034)
	72,962	12,778	13,188	75,945	119,736

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 31 to the financial statements.

SHARE OPTION SCHEME

Details of the Company's share option schemes are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's by law or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity on page 33 respectively.

DISTRIBUTABLE RESERVES

As at 31 July 2007, the Company did not have distributable reserves.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for 39% of the total sales for the year and sales to the largest customer included therein amounted to 12%. Purchase from the Group's five largest suppliers accounted for 25% of the total purchases for the year and purchase from the largest supplier included therein amounted to 6%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers and suppliers.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ms. Liu Yang (appointed as executive director on 22 January 2007)
Ms. Wong Moon Ha (appointed as executive director on 22 January 2007)
Dr. Liu Dong Hui (appointed as executive director on 22 January 2007)
Mr. Wong Sai Wa
Mr. Fang Ming (appointed as executive director on 20 April 2007)
Mr. Wong Fei Fei (resigned as executive director on 22 January 2007)

Non-executive directors:

Mr. Kwan Kai Cheong (re-designated from executive director to non-executive director on 22 January 2007)
Mr. Tan Min (appointed as executive director on 22 January 2007 and re-designated to non-executive director on 20 April 2007)
Mr. Lai Chik Fan (re-designated from independent non-executive director to non-executive director on 22 January 2007 and resigned on 9 August 2007)

Independent non-executive directors:

Mr. Chan Kin Hang (appointed as independent non-executive director on 31 March 2007)
Dr. Ding Hanpeng (appointed as independent non-executive director on 20 April 2007)
Mr. Garry Alides Willinge
Mr. Chow Wai Ming (resigned as independent non-executive director on 31 March 2007)
Mr. Ho Kwok On (appointed and resigned as an independent non-executive director on 22 January 2007 and 24 January 2007 respectively)

In accordance with article 116 of the Company's Articles of Association, Mr. Kwan Kai Cheong will retire by rotation and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

Each of Mr. Wong Sai Wa and Mr. Kwan Kai Cheong has entered into a service contract with the Company. The service contracts provide for an initial term of two years commencing from 10 April 2001 and shall be continuing thereafter, subject to termination by either party in accordance with the provisions of the service contracts.

Save as disclosed above, no other service contract has been entered into between the Company and the Directors.

All independent non-executive directors are not appointed for specific terms and are subject to retirement by rotation in accordance with the Company's Articles of Association.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES OF THE COMPANY

As at 31 July 2007, the interests or short position of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which is taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Name of the Director	Capacity and nature of interest	Shares/equity derivatives	Number/amount of Shares/equity derivatives held (Long position)	Percentage of the Company's issued share capital
Ms. Liu Yang	Through controlled corporation *(Note 1)*	Shares	432,000,000 Shares *(Note 1)*	31.94%
Mr. Wong Sai Wa	Directly beneficially owned	Options *(Note 2)*	3,200,000 options	0.24%
Mr. Kwan Kai Cheong	Directly beneficially owned	Options *(Note 2)*	3,000,000 options	0.22%

Notes:

1. The Shares were held by Ms. Liu Yang through JBC Bio Technology Company Limited ("JBC Bio Tech"). Prior to the unauthorized sale of 48,000,000 Shares as mentioned in the announcement of the Company dated 29 May 2007, JBC Bio Tech held 480,000,000 Shares, representing 35.49% of the total issued share capital of the Company.

2. The options are exercisable at any time during the period from 10 October 2001 up to and including 22 March 2011 at an exercisable price of HK$0.55 per Share in accordance with the terms of the pre-initial public offerings share option scheme adopted by the Company on 23 March 2001.

Save as disclosed herein, as at 31 July 2007, none of Directors or chief executives of the Company had any interests or short position in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which was taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

The following share options were outstanding under the Pre-IPO Plan during the period under review:

Name or category of participant	At 1.8.2006	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	At 31.7.2007	Date of grant of share options *(Note a)*	Exercise period of share options	Exercise price of share options *(Note b)* HK$
Directors									
Mr. Wong Sai Wa	3,200,000	–	–	–	–	3,200,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
Mr. Kwan Kai Cheong	3,000,000	–	–	–	–	3,000,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
	6,200,000	–	–	–	–	6,200,000			
Other employees	400,000	–	–	–	–	400,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
	6,600,000	–	–	–	–	6,600,000			

Notes:

(a) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The exercise of the above 6,600,000 outstanding share options as at 31 July 2007, would under the present capital structure of the Company, result in the issue of 6,600,000 additional share capital of HK$330,000 and share premium of HK$3,300,000 (before issue expenses). During the year ended 31 July 2007, none of the directors or employees of the Company had exercised any share options and no allotment or issue of shares was made pursuant to the Pre-IPO Plan.

On 23 March 2001, the Company adopted a Share Option Scheme under which the board of directors of the Company may, at their discretion, grant options to full time employees of the Group, including any executive directors of the Company and any of its subsidiaries, to subscribe for shares in the Company in accordance with the provisions in the Share Option Scheme. The Share Option Scheme became effective on 23 March 2001 for a period of ten years. Further details of the Share Option Scheme are set out in the Prospectus. No options were granted under the Share Option Scheme during the period under review.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' and Chief Executives' Interests in Securities of the Company" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHODLERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY

(A) Substantial Shareholders

As at 31 July 2007, so far as was known to the Directors or chief executives of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name	Capacity and nature of interest	Shares/equity derivatives	Number/amount of Shares/equity derivatives held (Long position)	Percentage of the Company's issued share capital
JBC Bio Tech	Corporation *(Note 1)*	Shares	432,000,000 Shares *(Note 1)*	31.94%
Concord Pharmaceutical Technology (Holdings) Limited ("CPT")	Corporation *(Note 2)*	Shares	400,000,000 Shares	29.58%
Concord Business Management Limited ("CBM")	Through controlled corporation *(Note 2)*	Shares	400,000,000 Shares	29.58%
Wong Sai Chung	Through controlled corporation *(Note 2)*	Shares	400,000,000 Shares	29.58%

Notes:

1. The Shares were held by Ms. Liu Yang through JBC Bio Tech. Prior to the unauthorized sale of 48,000,000 Shares as mentioned in the announcement of the Company dated 29 May 2007, JBC Bio Tech held 480,000,000 Shares, representing 35.49% of the total issued share capital of the Company.

2. CPT is a wholly-owned subsidiary of CBM. Accordingly, CBM is deemed to have an interest in the 400,000,000 shares held by CPT. CBM was wholly owned by Mr. Wong Sai Chung as at 31 July 2007. Accordingly, Mr. Wong Sai Chung is also deemed to be interested in the aggregate of 400,000,000 Shares in which CPT is interested. Mr. Wong Sai Chung resigned as an executive Director and chairman of the Company in April 2005. Mr. Wong Sai Chung is the brother of Mr. Wong Sai Wa and Ms. Wong Moon Ha, both are executive Directors of the Company.

(B) Other person who are required to disclose their interests pursuant to section 336 of the SFO

Name	Capacity and nature of interest	Share/equity derivates	Number/amount of Shares/equity derivatives held (Long position)	Percentage of the Company's issued share capital
Keywise Capital Management (HK) Limited	Investment Manager	Shares	108,148,000 Shares	8.00%
Keywise Greater China Opportunities Master Fund	Investment Manager	Shares	108,148,000 Shares	8.00%

Save as disclosed herein, as at 31 July 2007, so far as was known to the Directors or chief executives of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, no other persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have, any interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions as detailed in note 40 to the financial statements, which also constituted connected transactions under the GEM Listing Rules. In the opinion of the directors, such connected transactions were conducted in the normal course of business and the Company has complied with the relevant requirements under Chapter 20 of the GEM Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the directors, the substantial shareholders or the management shareholders (as defined in the GEM Listing Rules) had any interests in any business which competed with or might compete with the business of the Group.

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintain high standards of corporate governance. Details are set out in the Corporate Governance Report on pages 11 to 16 of the annual report.

AUDITOR

A resolution to re-appoint the retiring auditor, Messrs. PKF, is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Liu Yang
Chairman

Hong Kong, 30 October 2007

梁學濂會計師事務所

PKF

26th Floor, Citicorp Centre,
18 Whitfield Road,
Causeway Bay,
Hong Kong

TO THE SHAREHOLDERS OF
CHINA MEDICAL AND BIO SCIENCE LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Medical and Bio Science Limited set out on pages 29 to 80, which comprise the consolidated and the company balance sheets as at 31 July 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw to your attention that because we were unable to obtain sufficient evidence concerning the financial information of certain subsidiaries disposed of during the year ended 31 July 2006 (the "Disposed Subsidiaries"), we were unable to satisfy ourselves that the Disposed Subsidiaries' contribution to the Group's turnover and loss for the year of HK$37,200,000 and HK$1,032,000 respectively, and the gain arising on disposal of the Disposed Subsidiaries of HK$1,335,000, which were included in the consolidated income statement of the Group for the year ended 31 July 2006, were free from material misstatement. Similarly, we were unable to satisfy ourselves that the analysis of net liabilities of HK$1,335,000 of the Disposed Subsidiaries at the date of disposal, as disclosed in note 36 to the financial statements, is free from material misstatement.

PKF
Certified Public Accountants

Hong Kong
30 October 2007

Consolidated Income Statement

For the Year ended 31 July 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	7		
– Continuing operations		**6,289**	16,854
– Discontinued operations		**–**	37,200
		6,289	54,054
Cost of sales		**(4,525)**	(37,950)
Gross profit		**1,764**	16,104
Other revenue	7	**1,132**	416
Written back of provisions for disposal of subsidiaries		**–**	12,606
Selling and distribution costs		**(3,392)**	(9,214)
General and administrative expenses		**(29,932)**	(10,671)
Other operating expenses		**(7,658)**	(2,689)
Gain on disposal of subsidiaries		**–**	1,335
Provision for bad and doubtful debts		**(15,417)**	(10,922)
Loss from operating activities	9	**(53,503)**	(3,035)
Finance costs	10	**(3,857)**	(4,743)
Impairment on property, plant and equipment		**(10,000)**	–
Profit/(loss) before tax			
– Continuing operations		**(67,360)**	(8,251)
– Discontinued operations		**–**	473
		(67,360)	(7,778)
Tax	13(a)		
– Continuing operations		**(231)**	(23)
– Discontinued operations		**–**	(170)
		(231)	(193)
Profit/(loss) for the year			
– Continuing operations		**(67,591)**	(8,274)
– Discontinued operations		**–**	303
		(67,591)	(7,971)
Loss attributable to:			
Shareholders of the Company	14	**(65,899)**	(5,774)
Minority interests		**(1,692)**	(2,197)
		(67,591)	(7,971)
Earnings/(loss) per share attributable to Shareholders of the Company (in cents)	15		
Basic			
– Continuing operations		**(7.37)**	(1.21)
– Discontinued operations		**–**	0.06
		(7.37)	(1.15)
Diluted			
– Continuing operations		**N/A**	N/A
– Discontinued operations		**N/A**	N/A

Consolidated Balance Sheet

As at 31 July 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16(a)	**26,297**	33,430
Leasehold land	17	**7,425**	2,945
Intangible assets	18	**4,183**	6,314
Goodwill	19	**26,701**	3,309
Deposits for acquisition of property, plant and equipment		**2,443**	2,443
Deferred tax asset	13(b)	**–**	231
		67,049	48,672
CURRENT ASSETS			
Inventories	21	**253**	5,488
Trade receivables	22	**1,323**	12,345
Deposits, prepayments and other debtors	23	**2,772**	11,257
Financial assets at fair value through profit or loss	24	**18,735**	–
Derivative financial instruments	25	**72**	–
Cash and cash equivalents	26	**40,796**	936
		63,951	30,026
DEDUCT:			
CURRENT LIABILITIES			
Derivative financial instruments	25	**1,826**	–
Bank and other borrowings	27	**15,117**	22,055
Finance lease obligations	28	**78**	–
Trade payables	29	**1,177**	5,107
Other payables and accruals		**36,728**	35,461
Amounts due to directors	30	**1,581**	889
Income tax payable		**996**	939
		57,503	64,451
NET CURRENT ASSETS/(LIABILITIES)		**6,448**	(34,425)
TOTAL ASSETS LESS CURRENT LIABILITIES		**73,497**	14,247
DEDUCT:			
NON-CURRENT LIABILITIES			
Finance lease obligations	28	**535**	–
NET ASSETS		**72,962**	14,247

As at 31 July 2007

	Notes	**2007 HK$'000**	2006 HK$'000
REPRESENTING:			
CAPITAL AND RESERVES			
Share capital	31	**67,620**	25,000
Reserves	33(a)	**5,342**	(12,222)
Equity attributable to Shareholders of the Company		**72,962**	12,778
Minority interests		**–**	1,469
TOTAL EQUITY		**72,962**	14,247

APPROVED AND AUTHORISED FOR ISSUE BY
THE BOARD OF DIRECTORS ON 30 OCTOBER 2007

Liu Yang
Director

Liu Dong Hui
Director

Balance Sheet

As at 31 July 2007

	Notes	**2007 HK$'000**	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16(b)	**–**	1
Interests in subsidiaries	20	**124,918**	12,371
		124,918	12,372
CURRENT ASSETS			
Deposits, prepayments and other debtors	23	**10,475**	9,400
Cash and cash equivalents	26	**4**	4
		10,479	9,404
DEDUCT:			
CURRENT LIABILITIES			
Other payables and accruals		**4,778**	6,687
Amount due to a director	30	**533**	–
		5,311	6,687
NET CURRENT ASSETS		**5,168**	2,717
NET ASSETS		**130,086**	15,089
REPRESENTING:			
CAPITAL AND RESERVES			
Share capital	31	**67,620**	25,000
Reserves	33(b)	**62,466**	(9,911)
TOTAL EQUITY		**130,086**	15,089

APPROVED AND AUTHORISED FOR ISSUE BY
THE BOARD OF DIRECTORS ON 30 OCTOBER 2007

Liu Yang
Director

Liu Dong Hui
Director

Consolidated Statement of Changes in Equity

For the Year ended 31 July 2007

	Attributable to Shareholders of the Company						
	Share capital	Share premium	Capital reserve	Exchange fluctuation reserve	Accumulated losses	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 August 2005, as previously reported	25,000	17,992	27,104	828	(57,736)	3,606	16,794
Effect of adopting new financial reporting standards	–	–	–	–	4,746	–	4,746
At 1 August 2005, as restated	25,000	17,992	27,104	828	(52,990)	3,606	21,540
Exchange differences arising on translation of financial statements of overseas subsidiaries	–	–	–	618	–	60	678
Loss for the year	–	–	–	–	(5,774)	(2,197)	(7,971)
At 31 July 2006 and 1 August 2006	25,000	17,992	27,104	1,446	(58,764)	1,469	14,247
Acquisition of subsidiaries	24,000	–	–	–	–	261	24,261
Issue of shares, net of expenses	18,620	83,094	–	–	–	–	101,714
Exchange differences arising on translation of financial statements of overseas subsidiaries	–	–	–	369	–	(38)	331
Loss for the year	–	–	–	–	(65,899)	(1,692)	(67,591)
At 31 July 2007	**67,620**	**101,086**	**27,104**	**1,815**	**(124,663)**	**–**	**72,962**

Consolidated Cash Flow Statement

For the Year ended 31 July 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(67,360)**	(7,778)
Adjustments for:			
Interest expenses and finance lease charges		**3,857**	4,743
Gain on disposal of subsidiaries		**–**	(1,335)
Interest income		**(921)**	(28)
Depreciation		**1,590**	3,706
Net unrealised fair value loss on financial assets at fair value through profit or loss and derivative financial instruments		**1,139**	–
Amortisation of deferred income		**–**	(331)
(Gain)/loss on disposal of property, plant and equipment		**(29)**	169
Provision for bad and doubtful debts		**15,417**	10,922
Provision for obsolete inventories		**2,907**	–
Written back of provisions for disposal of subsidiaries		**–**	(12,606)
Amortisation of leasehold land		**48**	185
Amortisation of intangible assets		**2,568**	2,785
Impairment		**10,000**	–
Operating (loss)/profit before working capital changes		**(30,784)**	432
Decrease/(increase) in inventories		**2,725**	(8,971)
Decrease in trade receivables		**2,729**	18,840
Decrease/(increase) in deposits, prepayments and other debtors		**2.839**	(16,152)
Decrease in notes payable		**–**	(24,217)
Decrease in trade payables		**(4,294)**	(2,750)
(Decrease)/increase in other payables and accruals		**(6,159)**	14,199
Increase in amounts due to directors		**618**	71
Cash used in operations		**(32,326)**	(18,548)
Income tax paid		**–**	(395)
Interest received		**921**	28
Interest paid		**(2,834)**	(3,025)
NET CASH USED IN OPERATING ACTIVITIES		**(34,239)**	(21,940)

Consolidated Cash Flow Statement *(continued)*

For the Year ended 31 July 2007

	Note	**2007** **HK$'000**	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**(2,398)**	(6,729)
Increase in deposits for acquisition of property, plant and equipment		**–**	(2,443)
Proceeds from disposal of property, plant and equipment		**754**	388
Acquisition of a subsidiary	35	**73**	–
Disposal of subsidiaries	36	**–**	(2,039)
Decrease in pledged deposits		**–**	15,316
Acquisition of financial assets at fair value through profit or loss		**(18,120)**	–
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		**(19,691)**	4,493
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**–**	10,790
Repayment of bank loans		**–**	(5,075)
Other new loans		**–**	9,369
Repayment of other loans		**(8,029)**	–
Issue of shares		**101,714**	–
Principal repayment of finance lease obligations		**(23)**	–
NET CASH FROM FINANCING ACTIVITIES		**93,662**	15,084
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**39,732**	(2,363)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**128**	17
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**936**	3,282
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**40,796**	936
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**40,796**	936

1. CORPORATE INFORMATION

China Medical and Bio Science Limited (the "Company") and its subsidiaries (collectively the "Group") are principally involved in the development and distribution of animal feed supplements and veterinary drugs. The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 20 to the financial statements.

Pursuant to a special resolution passed at an extraordinary general meeting held on 7 March 2007, the name of the Company was changed from China Medical Science Limited to China Medical and Bio Science Limited with immediate effect.

The registered office of the Company is located at Ugland House, P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies.

The principal place of business of the Company is 3202A, Lippo Centre, Tower 1, 89 Queensway, Hong Kong.

2. BASIS OF PREPARATION

(a) These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") (hereafter collectively referred to as "Hong Kong Financial Reporting Standards") and are prepared under the historical cost convention as modified by the revaluation of the financial assets at fair value through profit or loss and derivative financial instruments. These financial statements also comply with the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") and by the Hong Kong Companies Ordinance.

(b) Initial application of Hong Kong Financial Reporting Standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards that are effective or available for early adoption for the current accounting period of the Group. The initial application of these Hong Kong Financial Reporting Standards does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

2. BASIS OF PREPARATION *(continued)*

(c) Hong Kong Financial Reporting Standards in issue but not yet effective

The following Hong Kong Financial Reporting Standards in issue at 31 July 2007 have not been applied in the preparation of the Group's financial statements for the year ended 31 July 2007 since they were not yet effective for the annual period beginning on 1 August 2006:

HKAS 1 (Amendment)	Capital Disclosures [1]
HKAS 23 (Revised)	Borrowing Costs [2]
HKFRS 7	Financial Instruments: Disclosures [1]
HKFRS 8	Operating Segments [2]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment [3]
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions [4]
HK(IFRIC)-Int 12	Service Concession Arrangements [5]

[1] Effective for accounting periods beginning on or after 1 January 2007
[2] Effective for accounting periods beginning on or after 1 January 2009
[3] Effective for accounting periods beginning on or after 1 November 2006
[4] Effective for accounting periods beginning on or after 1 March 2007
[5] Effective for accounting periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 July 2007. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intra-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in results and net assets of the Company's subsidiaries.

(b) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less aggregate depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Property, plant and equipment *(continued)*

Other than construction in progress, depreciation is calculated to write off the cost of property, plant and equipment over their estimated useful lives on the straight line basis at the following annual rates:

Leasehold buildings	Over the terms of the joint venture or land use right, whichever is shorter
Plant and machinery	10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%
Computer equipment	20%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss on disposal of property, plant and equipment, representing the difference between the net sales proceeds and the carrying amounts of the relevant assets, is recognised in the income statement.

Construction in progress is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(c) Leasehold land

Leasehold land is stated at cost less aggregate amortisation and impairment losses. The leasehold land is amortised over the period of the lease on the straight line basis over the lease term.

(d) Subsidiaries

A subsidiary is an entity over which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses. Income from subsidiaries is recognised in the Company's financial statements on the basis of dividends declared by the subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Investments

Investments are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investment or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

The Group's investments are classified as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are financial assets acquired principally for the purpose of selling in the short term. Derivatives are classified as financial assets at fair value through profit or loss unless they are designated as hedges. Financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is carried at cost less impairment losses and is subject to annual impairment review or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Any impairment loss for goodwill is recognised directly in the income statement and is not reversed in subsequent periods.

On disposal of a subsidiary, any attributable amount of goodwill is included in the determination of the amount of gain or loss on disposal recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets

Intangible assets are stated at cost less aggregate amortisation and impairment losses. Amortisation is calculated to write off the cost of intangible assets over their estimated useful lives on a straight line basis at the following annual rates:

Technical know-how	Over the terms of the joint venture or 7 years, whichever is shorter
Production licences	Over the terms of the joint venture or 5 years, whichever is shorter

(h) Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are measured to fair value at subsequent reporting dates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

(j) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to prepare for their intended use, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. The capitalisation rate is based on the actual cost of the related borrowings.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

(l) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

(m) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(n) Payables

Payables including amounts due to related parties are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(q) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised at their fair value at the date of acquisition or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as finance lease obligations. Finance charges, which represent the difference between the total leasing commitments and the recorded value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to the income statement on the straight line basis over the periods of the respective leases.

3. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(r) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market exchange rates ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the income statement.

The consolidated financial statements are prepared by using the net investment method such that the balance sheets of the Company's overseas subsidiaries are translated into Hong Kong dollars at the market exchange rate ruling at the balance sheet date, while their income statements are translated at the average exchange rate for the year. Any exchange differences arising on such translation are dealt with in the exchange fluctuation reserve.

(s) Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

Interest income is recognised as it accrued using the effective interest method.

(t) Employee benefits

Salaries, annual bonuses, annual leave entitlements and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Obligations for contributions to retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance and the People's Republic of China (the "PRC") central pension scheme, are recognised as an expense in the income statement as incurred.

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(v) Related parties

An individual is related to the Group if the individual (i) has, directly or indirectly, control or joint control or significant influence over the Group, or (ii) is a member of the key management personnel of the Group, or (iii) is a close member of the family of the individuals in (i) or (ii).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Related parties *(continued)*

An entity is related to the Group if the entity (i) has, directly or indirectly, control or joint control or significant influence over the Group, or (ii) is controlled by or under common control with the Group, or (iii) is an associate or jointly controlled entity of the Group, or (iv) is controlled, jointly-controlled or significantly influenced by an individual related to the Group.

A post-employment benefit plan for the benefit of the employees of the Group or employees of an entity related to the Group is also a related party.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal management reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. Inter-segment transfer pricing is based on cost plus an appropriate margin.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financing expenses.

(x) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on the straight line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual value involve management's estimation.

The Group assesses annually the residual value and the useful lives of property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation of the year and the subsequent periods.

(b) Impairment of property, plant and equipment, goodwill and other non-current assets

Determining whether property, plant and equipment, goodwill and other non-current assets are impaired requires an estimation of the value in use of the cash-generating units to which the property, plant and equipment, goodwill and other non-current assets have been allocated. The calculation of value in use requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.

(c) Provision for impairment of trade and other receivables

The policy for impairment allowances on trade and other receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and other debtor. If the financial conditions of customers and other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

(d) Income tax

As at 31 July 2007, no deferred tax asset has been recognised in respect of the unutilised tax losses of approximately HK$23,505,000 (2006: HK$10,536,000), general provision for bad and doubtful debts of approximately HK$29,925,000 (2006: HK$14,508,000) and impairment of assets of HK$10,000,000 (2006: Nil) due to the unpredictability of future taxable profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax asset may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial risks and the policies on how to mitigate these risks are set out below. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank and other borrowings. Details of the Group's bank and other borrowings are disclosed in note 27 to the financial statements. The management keeps monitoring interest rate exposure and considering appropriate measures to address the exposure.

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 July 2007 is the carrying amount of financial assets at fair value through profit or loss and bank balances. The management considers the financial assets and bank balances are held by financial institutions with high credit quality. In this regard, the Group's credit exposure is well under control.

(c) Liquidity risk

The Group maintains sufficient liquid assets to meet its liquidity requirements. Accordingly, the liquidity risk is considered limited.

(d) Price risk

The Group has no significant exposure to price risk.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(e) Foreign exchange risk

The Group is not exposed to significant foreign currency risk as majority of its commercial transactions are denominated in currencies equivalent to the functional currency of the operations to which they relate.

(f) Fair value

The carrying amounts of the Group's financial assets and liabilities approximate their respective fair values due to the relatively short maturity terms.

6. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the veterinary drugs segment comprises the production and distribution of veterinary drugs;

(b) the animal feed supplements segment comprises the development and distribution of animal feed supplements; and

(c) the corporate segment comprises corporate income and expense items.

In determining the Group's geographic segments, revenue is attributable to the segments based on the location of customers, and assets are attributable to the segments based on the location of the assets.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

6. SEGMENT INFORMATION *(continued)*

Business segments

The following tables present revenue, loss and certain assets, liabilities and expenditure information for the Group's business segments.

	Continuing operations						Discontinued operations					
	Veterinary drugs		Corporate		Animal feed supplements		Human drugs		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**5,528**	16,854	**–**	–	**761**	–	**–**	37,200	**–**	–	**6,289**	54,054
Other revenue	**201**	423	**–**	12,606	**10**	–	**–**	352	**–**	(387)	**211**	12,994
Total revenue	**5,729**	17,277	**–**	12,606	**771**	–	**–**	37,552	**–**	(387)	**6,500**	67,048
Segment results	**(26,810)**	(16,762)	**(16,950)**	11,300	**(10,664)**	–	**–**	2,399	**–**	–	**(54,424)**	(3,063)
Interest income											**921**	28
Loss from operating activities											**(53,503)**	(3,035)
Finance costs											**(3,857)**	(4,743)
Impairment on property, plant and equipment	**(10,000)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(10,000)**	–
Loss before tax											**(67,360)**	(7,778)
Tax	**(231)**	(23)	**–**	–	**–**	–	**–**	(170)	**–**	–	**(231)**	(193)
Loss for the year											**(67,591)**	(7,971)

6. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

	Continuing operations						Discontinued operations					
	Veterinary drugs		Corporate		Animal feed supplements		Human drugs		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**43,716**	82,682	**261,441**	47,432	**19,498**	–	**–**	–	**(193,655)**	(51,416)	**131,000**	78,698
Total assets	**43,716**	82,682	**261,441**	47,432	**19,498**	–	**–**	–	**(193,655)**	(51,416)	**131,000**	78,698
Segment liabilities	**63,177**	61,657	**171,233**	54,210	**17,283**	–	**–**	–	**(193,655)**	(51,416)	**58,038**	64,451
Total liabilities	**63,177**	61,657	**171,233**	54,210	**17,283**	–	**–**	–	**(193,655)**	(51,416)	**58,038**	64,451
Other segment information:												
Depreciation and amortisation (excluding goodwill)	**4,029**	4,326	**9**	24	**168**	–	**–**	2,326	**–**	–	**4,206**	6,676
Amortisation of deferred income	**–**	–	**–**	–	**–**	–	**–**	(331)	**–**	–	**–**	(331)
Capital expenditure	**796**	8,391	**154**	–	**2,084**	–	**–**	68	**–**	–	**3,034**	8,459

Geographical segments

	Hong Kong		PRC		Malaysia		Singapore		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external sales	**–**	–	**5,528**	54,054	**761**	–	**–**	–	**6,289**	54,054
Segment assets	**56,869**	–	**65,943**	78,698	**–**	–	**8,188**	–	**131,000**	78,698
Capital expenditure incurred during the year	**154**	–	**796**	8,459	**–**	–	**2,084**	–	**3,034**	8,459

7. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold after allowances for returns and discounts, and net of value-added tax. An analysis of the Group's turnover and other revenue is as follows:

	2007	2006
	HK$'000	HK$'000
Continuing operations		
Sales of veterinary drugs	**5,528**	16,854
Sales of animal feed supplements	**761**	–
	6,289	16,854
Discontinued operations		
Sales of human drugs	**–**	37,200
	6,289	54,054
Other revenue		
Interest income	**921**	28
Sundry income	**172**	57
Exchange gain	**10**	–
Gain on disposal of property, plant and equipment	**29**	–
Amortisation of deferred income	**–**	331
	1,132	416
Total revenue	**7,421**	54,470

8. DISCONTINUED OPERATIONS

On 20 May 2005, Chengdu Viking Yuen Heng Pharmaceutical Co., Ltd., an indirectly 91% owned subsidiary of the Company entered into an equity interest transfer agreement with an independent third party for the disposal of the 51.05% equity interest in Sichuan Shule Pharmaceutical Joint Stock Co., Ltd. ("Sichuan Shule") for a consideration of RMB1. Sichuan Shule and its subsidiary were engaged in the human drugs business segment.

The transfer was considered completed on 7 December 2005 and the Company had consolidated the results of Sichuan Shule and its subsidiary from 1 August 2005 to 7 December 2005 in the financial statements for the year ended 31 July 2006.

After the completion of the aforementioned disposal, the Group discontinued its human drugs businesses.

The turnover, expenses and results of the discontinued operations included in the consolidated income statement for the year ended 31 July 2006 are as follows:

	HK$'000
Turnover	37,200
Cost of sales	(26,001)
Other revenue	380
Selling and distribution costs	(4,816)
General and administrative expenses	(4,198)
Other operating expenses	(138)
Finance costs	(3,289)
Loss before tax	(862)
Tax	(170)
Operating loss for the year	(1,032)
Gain on disposal of subsidiaries	1,335
Profit for the year	303

The discontinued operations contributed approximately HK$19,376,000 to the Group's net operating outflow, contributed approximately HK$68,000 to the Group's net investing outflow and contributed approximately HK$10,660,000 to the Group's net financing inflow for the year ended 31 July 2006.

The carrying amounts of assets of liabilities of the discontinued operations at the date of disposal are disclosed in note 36 to the financial statements.

9. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging/(crediting):

	2007	2006
	HK$'000	HK$'000
Amortisation of intangible assets	**2,568**	2,785
Amortisation of leasehold land	**48**	185
Auditors' remuneration	**254**	300
Depreciation	**1,590**	3,706
Guaranteed return	**–**	864
Sales proceeds	**(754)**	(388)
Less: Net book value	**725**	557
(Gain)/loss on disposal of property, plant and equipment	**(29)**	169
Minimum operating lease payments for land and buildings	**814**	271
Provision for obsolete inventories	**2,907**	–
Research and development expenditure	**3,053**	118
Staff costs (including directors' emoluments in note 11):		
Salaries, wages and other allowances	**6,852**	4,518
Pension scheme contributions	**185**	644
	7,037	5,162
Net unrealised fair value loss on financial assets at fair value through profit or loss and derivative financial instruments	**1,139**	–

10. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Finance lease charges	**4**	–
Interest on bank loans wholly repayable within five years	**1,220**	4,434
Interest on other loans	**2,633**	798
Less: Amount capitalised	**–**	(489)
	3,857	4,743

For the year ended 31 July 2006, interest on other loans was capitalised to construction in progress at the average annual rate of 24%.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	Fees		Salaries, allowances and benefit-in-kinds		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors						
Liu Yang (Note (i))	**379**	–	**1,391**	–	**1,770**	–
Wong Moon Ha (Note (i))	**126**	–	**–**	–	**126**	–
Liu Dong Hui (Note (i))	**253**	–	**–**	–	**253**	–
Wong Sai Wa	**360**	360	**695**	–	**1,055**	360
Fang Ming (Note (ii))	**–**	–	**308**	–	**308**	–
Kwan Kai Cheong (Note (iii))	**–**	–	**–**	–	**–**	–
Tan Min (Note (iv))	**–**	–	**–**	–	**–**	–
Wong Fei Fei (Note (v))	**–**	–	**–**	–	**–**	–
	1,118	360	**2,394**	–	**3,512**	360
Non-executive directors						
Kwan Kai Cheong (Note (iii))	**–**	–	**–**	–	**–**	–
Tan Min (Note (iv))	**–**	–	**–**	–	**–**	–
Lai Chik Fan (Note (vi))	**–**	–	**–**	–	**–**	–
	–	–	**–**	–	**–**	–
Independent non-executive directors						
Garry Alides Willinge	**120**	120	**–**	–	**120**	120
Chan Kin Hang (Note (vii))	**40**	–	**–**	–	**40**	–
Ding Hanpeng (Note (viii))	**34**	–	**–**	–	**34**	–
Lai Chik Fan (Note (vi))	**50**	120	**–**	–	**50**	120
Chow Wai Ming (Note (ix))	**80**	120	**–**	–	**80**	120
Ho Kwok On (Note (x))	**–**	–	**–**	–	**–**	–
	324	360	**–**	–	**324**	360
	1,442	720	**2,394**	–	**3,836**	720

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

Notes:

(i) Appointed as executive directors on 22 January 2007

(ii) Appointed as an executive director on 20 April 2007

(iii) Re-designated from an executive director to a non-executive director on 22 January 2007

(iv) Appointed as an executive director on 22 January 2007 and re-designated as a non-executive director on 20 April 2007

(v) Resigned as an executive director on 22 January 2007

(vi) Re-designated from an independent non-executive director to and resigned as a non-executive director on 22 January 2007 and 9 August 2007 respectively

(vii) Appointed as an independent non-executive director on 31 March 2007

(viii) Appointed as an independent non-executive director on 20 April 2007

(ix) Resigned as an independent non-executive director on 31 March 2007

(x) Appointed and resigned as an independent non-executive director on 22 January 2007 and 24 January 2007 respectively

There were no directors' fees and other emoluments payable to the non-executive directors.

Apart from the directors' fees, there were no other emoluments payable to the independent non-executive directors.

No emoluments were paid by the Group to the directors, either as an inducement upon joining or to join the Group, or as compensation for loss of office.

During the year, there were no share options granted to the directors in respect of their services to the Group.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Five highest paid employees

The five highest paid employees during the year included four (2006: four) directors, details of whose remuneration are set out in note 11(a) to the financial statements. Details of the remuneration of the remaining one (2006: one) highest paid non-director employee are as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and allowances	**178**	372
Pension scheme contributions	**4**	12
	182	384

12. PENSION SCHEME

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its eligible employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's PRC subsidiaries are required to participate in a central pension scheme operated by the local municipal government. The PRC subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The central pension scheme is responsible for the entire pension obligations payable to all retired employees and the Group has no further obligations for the pension payments on post-retirement benefits beyond the annual contributions.

During the year, the Group made pension contributions of approximately HK$185,000 (2006: HK$644,000).

13. TAX

(a) Tax expense in the consolidated income statement represents:

	2007	2006
	HK$'000	HK$'000
Current tax:		
PRC	**–**	180
Deferred tax (Note 13(b)):		
Current year	**231**	13
Tax expense	**231**	193

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits arising in Hong Kong for both years. Current tax of preceding year represents the China enterprise income tax charged on the estimated taxable profits of certain subsidiaries operating in the PRC and is calculated at the prevailing tax rate.

Tax expense for the year can be reconciled as follows:

	2007	2006
	HK$'000	HK$'000
Loss before tax	**(67,360)**	(7,778)
Tax effect at the PRC statutory income tax rate of 33%	**(22,229)**	(2,567)
Tax effect of non-deductible expenses	**9,867**	1,355
Tax effect of tax exempt revenue	**(75)**	(4,601)
Tax effect of unrecognised general provision for bad and doubtful debts	**5,088**	1,929
Tax effect of unrecognised impairment of assets	**3,300**	–
Tax effect of unrecognised tax losses	**4,280**	4,077
Tax expense	**231**	193

13. TAX *(continued)*

(b) Deferred tax (asset)/liability in the consolidated balance sheet represent:

	Decelerated depreciation allowances HK$'000	Accelerated depreciation allowances HK$'000	Total HK$'000
At 1 August 2005	(244)	303	59
Disposal of subsidiaries	–	(303)	(303)
Charge for the year	13	–	13
At 31 July 2006 and 1 August 2006	(231)	–	(231)
Charge for the year	231	–	231
At 31 July 2007	**–**	**–**	**–**

(c) The components of unrecognised deductible temporary differences at the balance sheet date are as follows:

	2007 HK$'000	2006 HK$'000
Unutilised tax losses	**23,505**	10,536
General provision for bad and doubtful debts	**29,925**	14,508
Impairment of assets	**10,000**	–
	63,430	25,044

The unutilised tax losses accumulated in the PRC subsidiaries would expire in five years from the respective years of loss.

Deductible temporary differences have not been recognised in these financial statements owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences.

(d) At the balance sheet date, the Company had no taxable or deductible temporary differences.

14. LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Loss attributable to shareholders of the Company includes a loss of HK$10,718,000 (2006: HK$17,600,000) which has been dealt with in the financial statements of the Company.

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic loss per share attributable to shareholders of the Company from continuing operations is based on the loss attributable to the shareholders of the Company from continuing operations for the year of approximately HK$65,899,000 (2006: approximately HK$6,077,000) and the weighted average number of 893,930,959 (2006: 500,000,000) ordinary shares in issue during the year.

For the year ended 31 July 2006, the calculation of basic earnings per share attributable to shareholders of the Company from discontinued operations is based on the profit attributable to the shareholders of the Company from discontinued operations of approximately HK$303,000 and the weighted average number of 500,000,000 ordinary shares in issue during the year.

No diluted earnings/loss per share from continuing and discontinued operations is shown as there were no dilutive potential shares.

16. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Leasehold buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 August 2005							
As previously reported	78,975	43,518	57	1,346	1,407	3,996	129,299
Adoption of HKAS 17	(24,524)	–	–	–	–	–	(24,524)
As restated	54,451	43,518	57	1,346	1,407	3,996	104,775
Exchange adjustments	416	149	6	24	5	63	663
Additions	–	1,035	217	–	54	7,153	8,459
Disposals	–	(1,885)	–	–	–	–	(1,885)
Disposals of subsidiaries	(33,507)	(36,104)	–	(130)	(1,156)	(432)	(71,329)
At 31 July 2006	21,360	6,713	280	1,240	310	10,780	40,683
Aggregate depreciation:							
At 1 August 2005							
As previously reported	4,935	13,352	47	643	600	–	19,577
Adoption of HKAS 17	(961)	–	–	–	–	–	(961)
As restated	3,974	13,352	47	643	600	–	18,616
Exchange adjustments	62	69	4	17	3	–	155
Charge for the year	971	2,367	66	210	92	–	3,706
Written back on disposals	–	(1,328)	–	–	–	–	(1,328)
Written back on disposal of subsidiaries	(1,931)	(11,485)	–	–	(480)	–	(13,896)
At 31 July 2006	3,076	2,975	117	870	215	–	7,253
Impairment:							
At 1 August 2005	–	3,678	–	–	–	–	3,678
Written back on disposal of subsidiaries	–	(3,678)	–	–	–	–	(3,678)
At 31 July 2006	–	–	–	–	–	–	–
Net book value:							
At 31 July 2006	18,284	3,738	163	370	95	10,780	33,430

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) The Group *(continued)*

	Leasehold buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 1 August 2006	21,360	6,713	280	1,240	310	10,780	40,683
Exchange adjustments	1,302	384	20	76	18	657	2,457
Additions	–	1,034	26	1,061	132	781	3,034
Acquisition of subsidiaries	–	210	88	–	13	–	311
Disposals	–	(1,235)	(94)	(689)	(171)	–	(2,189)
At 31 July 2007	**22,662**	**7,106**	**320**	**1,688**	**302**	**12,218**	**44,296**
Aggregate depreciation:							
At 1 August 2006	3,076	2,975	117	870	215	–	7,253
Exchange adjustments	210	163	46	60	13	–	492
Charge for the year	726	611	56	174	23	–	1,590
Acquisition of subsidiaries	–	88	39	–	1	–	128
Written back on disposals	–	(701)	(112)	(541)	(110)	–	(1,464)
At 31 July 2007	**4,012**	**3,136**	**146**	**563**	**142**	**–**	**7,999**
Impairment:							
At 1 August 2006	–	–	–	–	–	–	–
Charge for the year	8,617	1,383	–	–	–	–	10,000
At 31 July 2007	**8,617**	**1,383**	**–**	**–**	**–**	**–**	**10,000**
Net book value:							
At 31 July 2007	**10,033**	**2,587**	**174**	**1,125**	**160**	**12,218**	**26,297**

The Group's leasehold buildings are situated in the PRC under medium-term leases.

16. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) The Group *(continued)*

As at 31 July 2007, certain of the Group's plant and machinery and construction in progress with net book value of approximately HK$1,394,000 and HK$12,218,000 respectively (2006: HK$1,344,000 and HK$10,780,000 respectively) were pledged to secure the Group's other loans (Note 27).

As at 31 July 2007, the net book value of property, plant and equipment held under finance leases amounted to approximately HK$876,000 (2006: HK$Nil).

As detailed in note 41 to the financial statements, certain of the Group's property, plant and equipment with net book value of HK$10,669,000 as at 31 July 2007 have been frozen under a court order.

(b) The Company

	Computer equipment HK$'000
Cost:	
At 1 August 2005 and 31 July 2006	17
Aggregate depreciation:	
At 1 August 2005	12
Charge for the year	4
At 31 July 2006	16
Net book value:	
At 31 July 2006	1
Cost:	
At 1 August 2006 and 31 July 2007	**17**
Aggregate depreciation:	
At 1 August 2006	16
Charge for the year	1
At 31 July 2007	**17**
Net book value:	
At 31 July 2007	**–**

17. LEASEHOLD LAND

	2007	2006
	HK$'000	HK$'000
Net book value at beginning of the year		
As previously reported	**3,004**	–
Effect of adopting HKAS 17	**–**	23,563
As restated	**3,004**	23,563
Exchange difference	**309**	76
Acquisition of subsidiaries	**4,306**	–
Disposal of subsidiaries	**–**	(20,450)
Amortisation for the year	**(48)**	(185)
Net book value at end of the year	**7,571**	3,004
Current portion (included in deposits, prepayments and other receivables)	**(146)**	(59)
Non-current portion	**7,425**	2,945

The Group's leasehold land comprises lands in the PRC under medium-term leases.

As at 31 July 2007, certain of the Group's leasehold land with net book value of approximately HK$3,044,000 (2006: HK$2,869,000) were pledged to secure the Group's other loans (Note 27).

Included in leasehold land is a plot of land of which a subsidiary of the Company had not fully settled the purchase consideration. An amount of approximately HK$2,855,000 was outstanding as at 31 July 2007 (included in other payable and accruals). According to the agreement entered into between the landlord and the subsidiary, the landlord has the right to repossess the land use right if the purchase consideration could not be settled before May 2004. The subsidiary entered into a further agreement with the landlord to extend the full settlement of the purchase consideration to a date no later than 30 June 2007. The land use right is still registered in the name of the subsidiary.

18. INTANGIBLE ASSETS

	Technical know-how HK$'000	Production licenses HK$'000	Total HK$'000
Cost:			
At 1 August 2005	11,853	7,050	18,903
Exchange adjustments	208	123	331
At 31 July 2006	12,061	7,173	19,234
Aggregate amortisation:			
At 1 August 2005	8,748	1,206	9,954
Exchange adjustments	174	7	181
Charge for the year	1,703	1,082	2,785
At 31 July 2006	10,625	2,295	12,920
Net book value:			
At 31 July 2006	1,436	4,878	6,314
Cost:			
At 1 August 2006	12,061	7,173	19,234
Exchange adjustments	735	437	1,172
At 31 July 2007	**12,796**	**7,610**	**20,406**
Aggregate amortisation:			
At 1 August 2006	10,625	2,295	12,920
Exchange adjustments	694	41	735
Charge for the year	1,477	1,091	2,568
At 31 July 2007	**12,796**	**3,427**	**16,223**
Net book value:			
At 31 July 2007	**–**	**4,183**	**4,183**

As at 31 July 2007, the Group's production licences were pledged to secure the Group's other loans (Note 27).

19. GOODWILL AND NEGATIVE GOODWILL

	Goodwill	Negative goodwill
	HK$'000	HK$'000
Cost:		
At 1 August 2005, as previously reported	14,731	(8,333)
Effect of adoption of HKFRS 3		
– Elimination of (aggregate amortisation)/recognition as income	(1,488)	3,587
– Adjustment to accumulated losses	–	4,746
At 1 August 2005, as restated	13,243	–
Disposal of subsidiaries	(9,934)	–
At 31 July 2006	3,309	–
Aggregate amortisation/(recognition as income):		
At 1 August 2005	1,488	(3,587)
Effect of adoption of HKFRS 3		
– Elimination of (aggregate amortisation)/recognition as income	(1,488)	3,587
At 31 July 2006	–	–
Impairment:		
At 1 August 2005	9,934	–
Written back on disposal of subsidiaries	(9,934)	–
At 31 July 2006	–	–
Net book value:		
At 31 July 2006	3,309	–
Cost:		
At 1 August 2006	3,309	–
Acquisition of subsidiaries (Note 35)	23,392	–
At 31 July 2007	**26,701**	**–**

At the balance sheet date, the goodwill is identified to the cash-generating units ("CGU") of veterinary drugs and animal feed supplements businesses. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projection based on financial budgets approved by management covering a five-year period. The directors are of the opinion that, based on the projection, the recoverable amount of the goodwill exceeds its carrying amount in the consolidated balance sheet and no impairment is necessary.

20. INTERESTS IN SUBSIDIARIES

	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**66,876**	42,876
Amounts due from subsidiaries	**112,258**	26,707
Amount due to a subsidiary	**(216)**	(3,212)
	178,918	66,371
Impairment loss	**(54,000)**	(54,000)
	124,918	12,371

(a) Particulars of the subsidiaries as at 31 July 2007 are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary shares/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Biotechnology Limited	Cayman Islands	US$3	100.00	–	Investment holding
Glazier Limited	British Virgin Islands	US$2	–	100.00	Investment holding
Seechain Investments Limited	British Virgin Islands	US$1	–	100.00	Investment holding
Chengdu Concord Yuen Heng Industrial Co., Ltd. #	PRC	US$10,399,000 (Note 20(d))	–	100.00	Manufacture and distribution of veterinary drugs
Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd. *	PRC	RMB18,000,000	–	91.00	Manufacture and distribution of veterinary drugs
四川利亨生物藥業有限公司 *	PRC	RMB3,096,800	–	72.80	Manufacture and distribution of veterinary drugs

20. INTERESTS IN SUBSIDIARIES *(continued)*

(a) *(continued)*

Name	Place of incorporation/ establishment and operations	Nominal value of issued ordinary shares/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
JBC Bio Products Company Company Limited	British Virgin Islands	US$100	70.00	–	Investment holding
JBC Bio Products China Limited	British Virgin Islands	US$100	–	70.00	Investment holding
Zhongshan JBC Bio-Technology Co., Ltd. #	PRC	US$2,100,000 (Note 20(d))	–	70.00	Development of animal feed supplements
Asia Gain Investment Limited	Hong Kong	HK$1	–	100.00	Dormant
Hong Kong Bio Products Manufacturing Limited	Hong Kong	HK$10,000	–	100.00	Dormant
China Bio-Products (S) PTE Limited	Singapore	SGD1,000,000	–	100.00	Development of animal feed supplements

Wholly-foreign-owned enterprise

* Sino-foreign joint venture enterprise

(b) The amounts due from/to subsidiaries are unsecured and interest-free, and have no fixed terms of repayment.

(c) The Group acquired JBC Bio Products Company Limited ("JBC Bio Products") and its subsidiaries by issuing 480,000,000 of the Company's new ordinary shares of HK$0.05 each during the year. Details of the transaction are disclosed in note 35 to the financial statements.

(d) As at 31 July 2007, the Group had not yet contributed the outstanding capital of Chengdu Concord Yuen Heng Industrial Co., Ltd. and Zhongshan JBC Bio-Technology Co., Ltd. of US$8,839,000 and US$1,523,000 respectively. These contributions were due during the year. The Group is in the process of obtaining extension for contributing the outstanding capital.

(e) As detailed in note 41 to the financial statements, the Group's investment in 四川利亨生物藥業有限公司 has been frozen under a court order.

21. INVENTORIES

	2007	2006
	HK$'000	HK$'000
Raw materials	**41**	2,209
Work in progress	**–**	7
Finished goods	**212**	3,272
	253	5,488

22. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and the management regularly reviews the overdue balances.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date and net of provisions, is as follows:

	2007	2006
	HK$'000	HK$'000
Within 3 months	**–**	3,528
3 to 6 months	**761**	3,244
6 to 12 months	**562**	5,374
Over 1 year	**–**	199
	1,323	12,345

23. DEPOSITS, PREPAYMENTS AND OTHER DEBTORS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**807**	3,051	**103**	–
Deposits and other debtors	**1,819**	8,147	**10,372**	9,400
Current portion of leasehold land (Note 17)	**146**	59	**–**	–
	2,772	11,257	**10,475**	9,400

Included in the Company's deposits and other debtors was an amount of HK$9,382,000 (2006: HK$9,382,000) due from a beneficial shareholder, Mr. Wong Sai Chung.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007	2006
	HK$'000	HK$'000
Listed shares in Hong Kong	**1,541**	–
Listed shares outside Hong Kong	**1,345**	–
Equity linked notes	**15,849**	–
	18,735	–

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2007		2006	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Over-the-counter contingent forward transactions	**72**	**1,826**	–	–

The Group has entered into several forward agreements to purchase certain listed equity securities at a fixed price over a pre-determined period of time from the date of the agreements. According to the agreements, the purchase commitments of the Group will be terminated when the market price of the equity securities rises to a pre-determined price level. As at 31 July 2007, the aggregated maximum purchase commitments of the Group under the agreements were approximately HK$24,249,000 (2006: HK$Nil) of which approximately HK$200,000 (2006: HK$Nil) will not be crystallised. For the commitments that will not be crystallised, the market price of the underlying equity securities has reached the pre-determined price level and the agreements were terminated subsequently after the balance sheet date.

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**8,994**	936	**4**	4
Time deposits	**31,802**	–	**–**	–
	40,796	936	**4**	4

27. BANK AND OTHER BORROWINGS

	2007	2006
	HK$'000	HK$'000
Repayable within one year:		
Unsecured bank loans	**13,460**	12,686
Secured other loans	**1,657**	9,369
	15,117	22,055

(a) The Group's borrowings are denominated in the functional currency of the group entities to which they relate.

(b) The Group's borrowings are fixed rate loans. The bank loans carry interest ranging from 8.97% to 9.43% per annum (2006: 8.97% to 9.43%) and the other loans carry interest at 12% to 24% per annum (2006: 12% to 24%).

(c) The bank loans were overdue as at 31 July 2007. The bank took legal action against the subsidiary, Cheungdu Viking Yuan Heng Pharmaceutical Co., Ltd. and its guarantors to recover the bank loans. Details of the litigation are disclosed in note 41 to the financial statements.

(d) The other loans are secured by the Group's (i) leasehold land (Note 17), (ii) plant and machinery (Note 16), (iii) construction in progress (Note 16), (iv) production licences (Note 18) and (v) deposits for acquisition of property, plant and equipment respectively.

(e) Included in other loans is a loan of approximately HK$621,000 (2006: HK$586,000) due to a family member of a former senior management personnel of the Group.

28. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**109**	–	**78**	–
In the second to fifth years inclusive	**434**	–	**355**	–
Over five years	**190**	–	**180**	–
	733	–	**613**	–
Less: Future finance charges	**120**	–	**–**	–
Present value of lease obligations	**613**	–	**613**	–
Less: Amount due for settlement within twelve months (shown under current liabilities)			**78**	–
Amount due for settlement after twelve months (shown under non-current liabilities)			**535**	–

The lease term is about seven years and the lease is on a fixed repayment basis with no arrangements entered into for contingent rental payments.

29. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on payment due date, is as follows:

	2007	2006
	HK$'000	HK$'000
Within 3 months	**–**	984
3 to 6 months	**–**	1,179
6 to 12 months	**295**	1,195
Over 1 year	**882**	1,749
	1,177	5,107

30. AMOUNTS DUE TO DIRECTORS

The amounts are interest-free, unsecured and repayable on demand.

31. SHARE CAPITAL

Shares

Ordinary shares of HK$0.05 each	**2007** Number of shares	**2007** HK$'000	2006 Number of shares	2006 HK$'000
Authorised:				
At beginning of the year	**1,000,000,000**	**50,000**	1,000,000,000	50,000
Increase (Note 31(a))	**500,000,000**	**25,000**	–	–
At end of the year	**1,500,000,000**	**75,000**	1,000,000,000	50,000
Issued and fully paid:				
At beginning of the year	**500,000,000**	**25,000**	500,000,000	25,000
Issue of shares for acquisition of subsidiaries (Note 31(b))	**480,000,000**	**24,000**	–	–
Issue of shares (Note 31(c))	**372,400,000**	**18,620**	–	–
At end of the year	**1,352,400,000**	**67,620**	500,000,000	25,000

Notes:

(a) Pursuant to an ordinary resolution passed at an extraordinary general meeting on 16 January 2007, the authorised share capital of the Company was increased to HK$75,000,000 by the creation of 500,000,000 ordinary shares of HK$0.05 each.

(b) Upon the completion of the acquisition of JBC Bio Products on 22 January 2007, the Company issued 480,000,000 new shares of HK$0.05 each to the vendor. The issue of new shares was recognised at HK$0.05 per share, being the par value of the ordinary shares.

(c) In March 2007, the Company issued and allotted 260,000,000 new shares to a major shareholder at a price of HK$0.148 per share after the placement of 260,000,000 old shares by the major shareholder at a price of HK$0.148 per share to independent third parties. In connection with the placement of shares, 12,400,000 new shares were issued to the placement agent as commission shares.

In April 2007, the Company issued and allotted 100,000,000 new shares to a major shareholder at a price of HK$0.66 per share after the placement of 100,000,000 old shares by the major shareholder at a price of HK$0.66 per share to independent third parties.

Share options

The details of share option schemes operated by the Company are set out in note 32 to the financial statements.

32. SHARE OPTION SCHEMES

(a) Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include full-time employees and executive directors of the Company and any of its subsidiaries. The Scheme became effective on 23 March 2001 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

Options granted are exercisable at any time after the first anniversary of the grant of the option and during a period to be notified by the board of directors to each grantee, such period of time being not less than three years and not more than ten years from the date of grant of the options, but each shall lapse if the relevant grantee ceases to be employed by the relevant companies.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount, upon their exercise, not exceeding 10% of the entire issued share capital of the Company as at the end of the first day on which the dealings of the Company's shares commenced on the GEM or 30% of the entire issued share capital of the Company on the day of shareholders' approval for the refreshment of the 10% limit stated above, as the case may be. In determining the said 30% limit, the following shares shall be excluded: (1) shares issued pursuant to the Scheme and any other share option schemes; and (2) any pro-rata entitlements to subscribe for further shares issued in respect of those shares mentioned in (1) above. The maximum number of shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of shares of the Company in issue under the Scheme at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by all the independent non-executive directors of the Company. In addition, where share options are proposed to be granted to a connected person who is also a substantial shareholder of the Company, or any of its associates, and the proposed grant of share options, when aggregate with the options already granted to such connected person in the past 12 months, would entitle him/her to receive more than 0.1% of the total issued shares of the Company for the time being and the value of which is in excess of HK$5 million, then the proposed grant must be subject to shareholders' approval in general meeting.

The offer of a grant of share options may be accepted within five business days from the date of the offer and upon payment of a nominal consideration of HK$1 in total by the grantee.

32. SHARE OPTION SCHEMES *(continued)*

(a) Share Option Scheme *(continued)*

The subscription price of a share in respect of any particular option granted under the Scheme shall be such price as the board of directors in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the closing price of the Company's shares on the GEM as stated in the Stock Exchange's daily quotation sheet on the date of grant of the options; (ii) the average of the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the options; and (iii) the nominal value of the share.

No option has been granted by the Company under the Scheme since its adoption.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

(b) Pre-IPO Share Option Scheme

The terms of the Company's Pre-IPO Share Option Scheme (the "Pre-IPO Plan") adopted by the Company on 23 March 2001 are substantially the same as those under the Scheme except that:

(i) the subscription price is HK$0.55 per share; and

(ii) save for the options which have been granted under the Pre-IPO Plan (see below), no further options will be offered or granted under the Pre-IPO Plan as the right to do so was terminated upon the listing of the Company's shares on the GEM on 10 April 2001.

The following share options were outstanding under the Pre-IPO Plan during the year:

Name or category of participant	At 1.8.2006 and at 31.7.2007	(Note i) Date of grant of share options	Exercise period of share options	(Note ii) Exercise price of share options HK$
Directors				
Mr. Wong Sai Wa	3,200,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
Mr. Kwan Kai Cheong	3,000,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
	6,200,000			
Other employees	400,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
	6,600,000			

32. SHARE OPTION SCHEMES *(continued)*

(b) Pre-IPO Share Option Scheme *(continued)*

Notes:

(i) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(ii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No options were exercised, lapsed or cancelled during the year ended 31 July 2007.

The exercise of the above 6,600,000 outstanding share options at the balance sheet date would, under the present capital structure of the Company, would result in the issue of 6,600,000 additional ordinary shares of the Company and additional share capital of HK$330,000 and share premium of HK$3,300,000 (before issue expenses).

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

33. RESERVES

(a) The Group

The capital reserve arising from capitalisation of a loan represents the difference between the amount due to a beneficial shareholder Mr. Wong Sai Chung capitalised and the nominal value of shares issued by China Biotechnology Limited.

(b) The Company

	Share premium	**Contributed surplus**	**Accumulated losses**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 August 2005	17,992	42,876	(53,179)	7,689
Loss for the year	–	–	(17,600)	(17,600)
At 31 July 2006 and 1 August 2006	17,992	42,876	(70,779)	(9,911)
Issue of shares (Note 31(c))	83,095	–	–	83,095
Loss for the year	–	–	(10,718)	(10,718)
At 31 July 2007	**101,087**	**42,876**	**(81,497)**	**62,466**

33. RESERVES *(continued)*

(b) The Company *(continued)*

The contributed surplus represents the excess of the combined net asset value of the subsidiaries acquired pursuant to the reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM over the nominal value of the Company's shares issued in exchange.

The Company had no distributable reserves as at 31 July 2007.

34. MAJOR NON-CASH TRANSACTIONS

The Company acquired JBC Bio Products and its subsidiaries by issuing 480 million of its new ordinary shares during the year. Details of the transactions are set out in note 35 to the financial statements.

35. ACQUISITIONS OF SUBSIDIARIES

On 31 July 2006, the Company, as the purchaser, entered into an agreement with JBC Bio Technology Company Limited (the "Vendor"), in relation to the acquisition of 70% equity interest in JBC Bio Products for a consideration of 480 million new shares of the Company's ordinary shares ("Consideration shares") allotted and issued to the Vendor at par credited as fully paid upon the completion of the acquisition (the "Acquisition"). The Company and the Vendor entered into two supplementary agreements on 27 October 2006 and 8 December 2006 respectively to extend the long stop date for fulfilment of the conditions to the agreement.

In relation to the Acquisition, the Company published an announcement on 6 September 2006 and a circular dated 22 December 2006 was sent to shareholders. The Acquisition was approved at an extraordinary general meeting held on 16 January 2007 and was completed on 22 January 2007.

The aggregate fair value of the Consideration Shares was determined based on the par value of HK$0.05 per share. At the time of signing of the agreement for the Acquisition, trading in the Company's shares had been suspended for over 14 months, since 23 May 2005. The directors therefore considered the closing price of HK$0.125 per share at the last trading day before the trading in the Company's shares was suspended as not reflective of the market value of the Company's shares or the then existing consolidated financial position of the Company, and not an appropriate basis for determining the issue price of the Consideration Shares. The directors also considered the market price of the Company's shares of HK$0.41 on 22 January 2007, being the date of issuance of the Consideration Shares, was not an appropriate basis for determining the issue price of the Consideration Shares since the conditions attributable to the determination of the market price of the Company's shares as at 22 January 2007 did not exist when the acquisition agreement was entered into.

35. ACQUISITIONS OF SUBSIDIARIES *(continued)*

The aggregate difference in the fair value of the Consideration Shares using the par value and the market value as at 22 January 2007 of the Company's shares was HK$172,800,000.

JBC Bio Products and its subsidiaries are principally engaged in the development and distribution of animal feed supplements. The Group considered the acquisition of JBC Bio Products would bring a synergistic effect with the current business of the Group.

The acquired business contributed revenues of approximately HK$761,000 and net loss of HK$1,646,000 to the Group for the period from 23 January 2007 to 31 July 2007. The net assets acquired at the date of acquisition were as follows:

	HK$'000
Net assets acquired	
Cash and cash equivalents	73
Property, plant and equipment	183
Leasehold land	4,306
Inventories	233
Trade receivables	533
Deposits, prepayment and other debtors	319
Trade payables	(189)
Other payables and accruals	(4,589)
Minority interests	(261)
	608
Goodwill	23,392
	24,000
Satisfied by:	
Issue of new shares	24,000

An analysis of the inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash and cash equivalents in subsidiaries acquired	73

The Group's revenue and net loss for the year would be increased by HK$942,800 and HK$82,000 respectively if the acquisition was effected at the beginning of the year.

36. DISPOSAL OF SUBSIDIARIES

As detailed in note 8 to the financial statements, the Group discontinued its human drugs business during the preceding year. The net liabilities of the disposed subsidiaries at the date of disposal were as follows:

	2007	2006
	HK$'000	HK$'000
Net liabilities disposed of:		
Property, plant and equipment	–	53,755
Leasehold lands	–	20,450
Available-for-sale financial assets	–	2,826
Inventories	–	17,926
Trade receivable	–	61,845
Deposits, prepayment and other receivable	–	39,805
Cash and cash equivalents	–	2,039
Bank and other borrowings	–	(124,941)
Trade payables	–	(41,803)
Other payables and accruals	–	(23,228)
Deferred income	–	(3,278)
Amount due to a director	–	(2,352)
Income tax payable	–	(4,076)
Deferred tax liability	–	(303)
	–	(1,335)
Gain on disposal	–	1,335
	–	–
Satisfied by:		
Cash consideration of HK$1.00 for 2006	–	–

An analysis of the outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2007	2006
	HK$'000	HK$'000
Cash and cash equivalents disposed of	–	2,039

37. PLEDGE OF ASSETS

Details of the Group's assets which were pledged to secure the other borrowings granted to the Group are set out in note 27 to the financial statements.

38. OPERATING LEASE ARRANGEMENTS

As at 31 July 2007, the Group and the Company had outstanding commitments under non-cancellable operating leases for the use of land and buildings which fall due as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**1,650**	39	**1,169**	39
After one year	**1,242**	–	**781**	–
	2,892	39	**1,950**	39

Operating lease rentals represent rental payable by the Group and the Company for staff quarters and office premises. Leases are negotiated for an average term from one to two years with fixed monthly rentals.

39. COMMITMENTS

As at 31 July 2007, the Group had the following capital commitments:

	2007	2006
	HK$'000	HK$'000
Authorised and contracted for:		
Acquisition of plant and machinery	**7,768**	6,809

40. CONNECTED AND RELATED PARTY TRANSACTIONS

Apart from the transactions as disclosed elsewhere in the financial statements, the Group had the following material transaction with its related party during the year:

	2007	2006
	HK$'000	HK$'000
Amount due to Mr. Wong Sai Chung, a beneficial shareholder of the Company, included in other payable and accruals	**1,237**	5,256

The amount is interest-free, unsecured and repayable on demand.

41. LITIGATION

China Citic Bank (Chengdu Branch) (the "Bank") had taken legal action against the Company's subsidiary, Chengdu Viking Yuan Heng Pharmaceutical Co., Ltd. ("Viking Yuan Heng") to recover the overdue bank loans of RMB13,000,000 together with the overdue interest charged thereon. The Bank had also demanded the Company's subsidiary, Chengdu Concord Yuen Heng Industrial Co., Ltd. ("Concord Yuen Heng"), the Company's former subsidiary, Sichuan Shule Pharmaceutical Joint Stock Co., Ltd. and the Company's executive director, Mr. Wong Sai Wa, being the guarantors to the borrowing agreement (together the "Guarantors"), to indemnify the debts.

Viking Yuan Heng and the Guarantors did not repay the debts to the Bank. A court order was issued by the PRC court to freeze the plant and equipment of Concord Yuen Heng and Viking Yuan Heng's factory building and investment in the Company's another subsidiary, 四川利亨生物藥業有限公司.

The directors of the Company confirmed that the overdue bank loans would be repaid shortly after the date of this report.

42. SUBSEQUENT EVENTS

On 25 September 2007, the Company entered into a subscription agreement with a substantial shareholder of the Company whereby (i) the shareholder has conditionally agreed to subscribe for the zero coupon convertible bonds in the principal amount of HK$100 million to be issued by the Company ("Convertible Bonds") and (ii) in consideration of the shareholder agreeing to subscribe for the Convertible Bonds, the shareholder has conditionally agreed to be granted 70,588,235 warrants of the Company ("Warrants") at nil monetary consideration, which entitle the holders thereof to subscribe for up to 70,588,235 shares of the Company's ordinary shares at the exercise price of HK$0.85 per warrant share. The Convertible Bonds are convertible into the Company's ordinary shares at the conversion price of HK$0.66 per share, subject to adjustment pursuant to the terms of the Convertible Bonds.

The issue of the Convertible Bonds and the Warrants was approved in an extraordinary general meeting held on 29 October 2007.