

**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)**

**FIRST QUARTERLY REPORT**

**2007/2008**

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

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*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 the 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.*

## **HIGHLIGHTS**

- Turnover of the Group for the three months ended 31 October 2007 amounted to approximately HK\$1,419,000, representing a decrease of approximately 59% as compared with that in the preceding year.
- Loss attributable to shareholders of the Company for the three months ended 31 October 2007 amounted to approximately HK\$2,847,000.
- Loss per share amounted to approximately HK0.21 cents for the three months ended 31 October 2007.
- The Directors do not recommend the payment of any interim dividend for the three months ended 31 October 2007.

## RESULTS (UNAUDITED)

The board of directors (the “Board”) of China Medical and Bio Science Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 October 2007, together with the comparative unaudited figures for the corresponding period in 2006 are as follows:

		For the three months ended 31 October	
		2007	2006
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,419	3,493
Cost of sales		(263)	(2,433)
Gross profit		1,156	1,060
Other revenue		1,726	–
Selling and distribution costs		(757)	(592)
General and administrative expenses		(4,566)	(1,858)
Other operating expenses		(401)	(724)
<b>Loss from operating activities</b>		<b>(2,842)</b>	<b>(2,114)</b>
Finance costs		(5)	(380)
<b>Loss before tax</b>		<b>(2,847)</b>	<b>(2,494)</b>
Tax expense	3	–	(3)
<b>Loss for the period</b>		<b>(2,847)</b>	<b>(2,497)</b>
<b>Loss attributable to:</b>			
Shareholders of the Company		(2,847)	(2,286)
Minority interests		–	(211)
		<b>(2,847)</b>	<b>(2,497)</b>
<b>Loss per share attributable to Shareholders of the Company (in cents)</b>	4		
Basic		0.21	0.46
Diluted		N/A	N/A

*Notes:*

**1. Basis of presentation**

The principal accounting policies adopted in preparing the unaudited consolidated results conform with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to as “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and have been prepared under the historical cost convention.

The accounting policies adopted in preparing the unaudited consolidated financial statements for the three months ended 31 October 2007 are consistent with those followed in the annual report of the Company for the year ended 31 July 2007.

**2. Turnover**

The Group’s turnover represents the net invoiced value of goods sold after allowances for returns and discounts, and net of value-added tax. Turnover represents the aggregate of income from sale of feed supplements and sale of veterinary drugs.

**3. Tax expenses**

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the three months ended 31 October 2007 (2006: Nil). Last period tax represents PRC enterprise income tax charged on the estimated taxable profits of certain subsidiaries operating in the PRC and is calculated at the prevailing tax rate.

**4. 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 shareholders of the Company for the three months ended 31 October 2007 of approximately HK\$2,847,000 (2006: approximately HK\$2,286,000) and the weighted average number of 1,352,400,000 (2006: 500,000,000) ordinary shares in issue during the period under the review.

No diluted loss per share are presented for the three months ended 31 October 2007 and 2006 as the share options outstanding during these periods had an anti-dilutive effect on the basic loss per share amounts for these periods.

## 5. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 August 2006	17,992	27,104	1,446	(58,764)	(12,222)
Exchange difference arising on translation of financial statements of PRC subsidiaries	-	-	439	-	439
Net loss for the period	-	-	-	(2,286)	(2,286)
At 31 October 2006	<u>17,992</u>	<u>27,104</u>	<u>1,885</u>	<u>(61,050)</u>	<u>(14,069)</u>
At 1 August 2007	101,086	27,104	1,815	(124,663)	5,342
Exchange difference arising on translation of financial statements of overseas subsidiaries	-	-	93	-	93
Net loss for the period	-	-	-	(2,847)	(2,847)
At 31 October 2007	<u>101,086</u>	<u>27,104</u>	<u>1,908</u>	<u>(127,510)</u>	<u>2,588</u>

## DIVIDEND

The Directors do not recommend the payment of any interim dividend for the three months ended 31 October 2007 (2006: Nil).

## BUSINESS REVIEW AND OUTLOOK

### FINANCIAL AND OPERATION REVIEW

The Group recorded a turnover of HK\$1,419,000 for the three months ended 31 October 2007, representing a decrease of approximately 59% as compared to approximately HK\$3,493,000 that was recorded in the preceding year. During the three months ended 31 October 2007, the Group recorded a loss attributable to the Company's Shareholders of approximately HK\$2,847,000 (2006: approximately HK\$2,286,000). The increased loss attributable to shareholders was mainly because of the increase of expenses for expansion of feed supplements business. The production of veterinary drugs was limited due to change of government planning and GMP certification, as compared to approximately 100% contribution to the turnover of the

Group for the period 2006. During the period under review, the Group continued to invest capital in the formulation of market strategies, customer retention and training, product enhancement, application development, technologies support and establishment of a sales system, and the accumulation of human resources. Satisfactory results were obtained, and formed strong income and profit base. However, the above factors had not yet contributed significantly forthwith to the income of the Group.

### **Research and Development**

On the basis of the patent technologies in the manufacturing of livestock feed based on feed supplements, during the period under review, the Group continued to conduct research and development for the outstanding application of feed supplements in Japan, Singapore, Malaysia, Hong Kong and PRC in livestock such as pig, chicken and prawn.

### **OUTLOOK**

On 29 November 2007, the Group entered into an agreement with Chew's Agriculture Pte Ltd ("CA") vendors in Singapore for the acquisition of 70% interests in CA at a consideration of S\$8,820,000, which was equivalent to HK\$47,628,000. Of which S\$6,174,000 will be paid in cash. The balance of S\$2,646,000 will be settled with the issue of CA Consideration Shares at HK\$0.85 per share. The Consideration Shares represented approximately 1.23% of the enlarged share capital. CA is principally engaged in egg farming by deploying its specialty expertise management programme and egg distribution in Singapore.

In addition, on 29 November 2007, the Group entered into an agreement with the Kee Song Brothers Poultry Industries Pte Ltd ("KSB") vendors in Singapore for the acquisition of 70% equity interests in KSB Group at a consideration of S\$12,432,000 (approximately HK\$67,132,800). Of which, approximately S\$8,702,400 will be paid in cash, and the balance of S\$3,729,600 will be settled with the issue of KSB Consideration Shares at HK\$0.85 per share, representing 1.72% of the enlarged share capital. KSB is principally engaged in the farming and processing of poultry in Singapore.

The Group has supplied Feed Supplements and provided technical assistance to help CA Group and KSB Group in developing "YY SAKURA" egg and "YY SAKURA" chicken, which were launched into the market in second half of 2007. In view of the increasing public awareness on health food, the Directors expected that the "YY SAKURA" chicken and "YY SAKURA" egg will receive good recognition in the market. Therefore, the CA Acquisition and the KSB Group Acquisition are strategic moves of the Group to husbandry industry which will further strengthen its Feed Supplements business and allow the Group to further enhance its revenue from the feed supplement business. Accordingly, the two acquisitions provide a golden opportunity for the Group to participate in the health food industry in Singapore.

After the above acquisitions, the financial results of CA Group and KSB Group will be consolidated into the Group's financial statements. Given the historical profitable operations of CA and KSB and the net profits guaranteed by the CA Vendors and KSB Vendors for the two financial years, it is expected that the Group's profitability will be improved significantly after the two acquisitions. In addition, the Directors also expect to apply the technical expertise of egg production of CA and the production of "YY SAKURA" chicken from KSB to other husbandry enterprises in the PRC by entering into other form of cooperation arrangements. It is expected that the Group will benefit further from the technical expertise of CA and KSB.

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 in the way to grow the 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 aims 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 establishing a retrospective system for quality of livestock products, strengthening management of poultry and husbandry breeding and feeding archive, conducting whole process quality supervision in breeding and feeding, standardizing 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 very considerable huge. The Company will develop in a brand-oriented manner, which will adopt advanced patent technologies as a means to jointly establish a new standard in the culture of ecological systems with healthy and safe products. Efforts will be devoted to achieve outstanding operating results in existing markets in Japan, Singapore, Mainland China, Hong Kong and Macau.

## COMPETING INTEREST

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in any business, which competes or may compete with the business of the Group.

## Directors' and chief executives' interests in the Company

As at 31 October 2007, the interests or short position of the Directors and the chief executive 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 as at 31 October 2007
Ms. Liu Yang	Through controlled corporation (Note 1)	Shares	432,000,000 Shares	31.94%
Ms. Wong Moon Ha	Through controlled corporation (Note 2)	Shares	400,000,000 Shares	29.58%
Mr. Wong Sai Wa	Directly beneficially owned	Options (Note 3)	3,200,000 options	0.24%
Mr. Kwan Kai Cheong	Directly beneficially owned	Options (Note 3)	3,000,000 options	0.22%

### Notes:

- 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.

- The Shares were held by Concord Pharmaceutical Technology (Holdings) Limited (“CPT”), which is a wholly-owned subsidiary of Concord Business Management Limited (“CBM”), the entire issued capital of which was owned by Ms. Wong Moon Ha.
- 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 October 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.

## SHARE OPTION SCHEMES

On 23 March 2001, the Company conditionally adopted the Pre-IPO Plan and a Share Option Scheme (the “Share Option Scheme”), the principal terms of both of which are set out in the Prospectus.

### Pre-IPO Plan

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

Name or category of participant	At 1.08.2007	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	At 31.10.2007	Date of grant of share options	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 (Note a)	10.10.2001 to 22.3.2011	0.55
Mr. Kwan Kai Cheong	3,000,000	-	-	-	-	3,000,000	23.3.2001 (Note a)	10.10.2001 to 22.3.2011	0.55
	<u>6,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,200,000</u>			
Other employees									
	400,000	-	-	-	-	400,000	23.3.2001 (Note a)	10.10.2001 to 22.3.2011	0.55
	<u>6,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,600,000</u>			

*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 of Pre-IPO Plan as at 31 October 2007, would under the present capital structure of the Company, result in the issue of 6,600,000 additional share capitals of HK\$330,000 and share premium of HK\$3,300,000 (before issue expenses). During the period ended 31 October 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.

### Share Option Scheme

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 and eligible persons, 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.

The following share options were outstanding under the Share Option Scheme during the period under review:

Name or category of participant	At 1.08.2007	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	At 31.10.2007	Date of grant of share options	Exercise period of share options	Exercise price of share options
Eligible persons	-	43,000,000	-	-	-	43,000,000	23.9.2007	23.9.2007 to 22.9.2017	0.43
		<u>43,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,000,000</u>			

The exercise of the above 43,000,000 outstanding share options as at 31 October 2007, would under the present capital structure of the Company, result in the issue of 43,000,000 additional share capitals of HK\$2,150,000 and share premium of HK\$16,340,000 (before issue expenses). During the period ended 31 October 2007, none of the eligible persons of the Company had exercised any share options and no allotment or issue of shares was made pursuant to the Share Option Scheme.

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

As at the 31 October 2007, so far as was known to the Directors or chief executive 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

### (A) Substantial Shareholders

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 as at 31 October 2007
JBC Bio Tech	Corporation <i>(Note 1)</i>	Shares	432,000,000 Shares	31.94%
CPT	Corporation <i>(Note 2)</i>	Shares	400,000,000 Shares	29.58%
CBM	Through controlled corporation <i>(Note 2)</i>	Shares	400,000,000 Shares	29.58%
Ms. Wong Moon Ha	Through controlled corporation <i>(Note 2)</i>	Shares	400,000,000 Shares	29.58%

#### Notes:

- 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 Ms. Wong Moon Ha as at 31 October 2007. Accordingly, Ms. Wong Moon Ha is also deemed to be interested in the aggregate of 400,000,000 Shares in which CPT is interested. Ms. Wong Moon Ha is an executive Director 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 derivatives	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	153,904,000 Shares	11.38%
Keywise Greater China Opportunities Master Fund	Investment Manager	Shares	153,904,000 Shares	11.38%

Save as disclosed herein, as at 31 October 2007, so far as was known to the Directors or chief executive 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 which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of Group or held any option in respect of such capital.

**AUDIT COMMITTEE**

The Company set up 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 audit committee has 3 members, namely Mr. Chan Kin Hang, Mr. Ding Hanpeng and Mr. Garry Alides Willinge. The work undertaken by the audit committee is 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 of directors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

## **CODE ON CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the code of conduct for securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Throughout the period under the review, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles in the Code and complied with the code provisions set out in the Code for the three-months period ended 31 October 2007 except for Code Provisions A.2.1, and A.4.1. The Board will keep these matters under review on a periodical basis.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

During the three-months period ended 31 October 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board  
**China Medical and Bio Science Limited**  
**Liu Yang**  
*Chairman*

Hong Kong, 14 December 2007

*As at the date of this statement, the Board of the Company comprises five executive Directors, namely Ms. Liu Yang (Chairman), Ms. Wong Moon Ha, Dr. Liu Dong Hui, Mr. Wong Sai Wa and Mr. Fang Ming; two non-executive directors, namely, Mr. Kwan Kai Cheong and Dr. Tan Min; and three independent non-executive Directors, namely Mr. Chan Kin Hang, Mr. Garry Alides Willinge and Dr. Ding Hanpeng.*