

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)

THIRD QUARTERLY REPORT

2007/2008

** For identification purposes only*

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 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 China Medical and Bio Science Limited. The directors of China Medical and Bio Science Limited, 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 nine months ended 30 April 2008 amounted to approximately HK\$9,027,000, representing an increase of approximately 41.0% as compared with that in the preceding year.
- Loss attributable to shareholders for the nine months ended 30 April 2008 amounted to approximately HK\$42,331,000.
- Loss per share amounted to approximately HK3.13 cents for the nine months ended 30 April 2008.
- The Directors do not recommend the payment of any interim dividend for the nine months ended 30 April 2008.

RESULTS

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 nine months ended 30 April 2008, together with the comparative unaudited figures for the corresponding period of the preceding year are as follows:

CONSOLIDATED INCOME STATEMENT – UNAUDITED

	<i>Note</i>	For the three months ended 30 April		For the nine months ended 30 April	
		2008	2007	2008	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	1,093	962	9,027	6,403
Cost of sales		(520)	(503)	(1,855)	(4,456)
Gross profit		573	459	7,172	1,947
Other revenue		(1,145)	450	288	461
Selling and distribution expenses		(1,007)	(991)	(6,220)	(3,236)
General and administrative expenses		(9,267)	(1,596)	(22,191)	(5,268)
Other operating expenses		(6,795)	(2,626)	(14,193)	(4,082)
LOSS FROM OPERATING ACTIVITIES		(17,641)	(4,304)	(35,144)	(10,178)
Finance costs		(3,300)	(361)	(7,187)	(1,117)
LOSS BEFORE TAX		(20,941)	(4,665)	(42,331)	(11,295)
Tax expense	3	–	–	–	(3)
LOSS FOR THE PERIOD		(20,941)	(4,665)	(42,331)	(11,298)
Loss attributable to:					
Shareholders of the Company		(20,941)	(4,197)	(42,331)	(10,236)
Minority interests		–	(468)	–	(1,062)
		(20,941)	(4,665)	(42,331)	(11,298)
LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY (HK cents)	4				
– Basic		(1.55)	(0.36)	(3.13)	(1.38)
– Diluted		N/A	N/A	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 nine months ended 30 April 2008 are consistent with those followed in the annual report of the Company for the year ended 31 July 2007.

The 2007/2008 third quarterly results are unaudited but have been reviewed by the audit committee of the Company.

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.

An analysis of turnover is as follows:

	For the three months ended 30 April		For the nine months ended 31 January	
	2008	2007	2008	2007
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Turnover (unaudited)				
Sale of feed supplements	1,093	761	9,027	761
Sale of veterinary drugs	–	201	–	5,642
	<u>1,093</u>	<u>962</u>	<u>9,027</u>	<u>6,403</u>

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 nine months ended 30 April 2008 (2007: 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.

There is no material deferred tax credit recognised for the nine months ended 30 April 2008 and 2007.

4. Loss per share

The calculation of basic loss per share for the three months and nine months ended 30 April 2008 was based on the unaudited net loss attributable to shareholders of approximately HK\$20,941,000 and approximately HK\$42,331,000 respectively (three months and nine months ended 30 April 2007: approximately HK\$4,197,000 and approximately HK\$10,236,000) and the weighted average number of 1,352,400,000 for the three months and 1,352,400,000 for nine months ended 30 April 2008 (the weighted average number of three months and nine months ended 30 April 2007: 1,179,797,753 and 739,201,465 respectively) ordinary shares in issue during the period.

No diluted loss per share are presented for the three months and nine months ended 30 April 2008 and 2007 respectively as the share options outstanding, convertible bonds and warrants (for the period ended 30 April 2008) had an anti-dilutive effect on the basic loss per share amounts for these periods.

5. Reserves

	Share premium (Unaudited) HK\$'000	Convertible bonds – equity reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits/ losses (accumulated) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 August 2006	17,992	–	27,104	1,446	(58,764)	(12,222)
Placement of new shares, net of issuing expenses	82,475	–	–	–	–	82,475
Exchange difference arising on translation of financial statements of PRC subsidiaries	–	–	–	2,023	–	2,023
Net loss for the period	–	–	–	–	(10,236)	(10,236)
At 30 April 2007	<u>100,467</u>	<u>–</u>	<u>27,104</u>	<u>3,469</u>	<u>(69,000)</u>	<u>62,040</u>
At 1 August 2007	101,086	–	27,104	1,815	(124,663)	5,342
Issue of convertible bonds	–	34,440	–	–	–	34,440
Exchange difference arising on translation of financial statements of overseas subsidiaries	–	–	–	(1,399)	–	(1,399)
Net loss for the period	–	–	–	–	(42,331)	(42,331)
At 30 April 2008	<u>101,086</u>	<u>34,440</u>	<u>27,104</u>	<u>416</u>	<u>(166,994)</u>	<u>(3,948)</u>

DIVIDEND

The Directors do not recommend the payment of any interim dividend for the nine months ended 30 April 2008 (2007: Nil).

BUSINESS REVIEW AND OUTLOOK

OPERATION REVIEW

Operating Business

During the nine months period under review, the sales revenue from feed supplements and related businesses increased from HK\$761,000 as of 30 April 2007 to HK\$9,027,000 as of 30 April 2008, representing an increase of 1,086%. Such increase in sales revenue was due to the fact that the preparation work for the Group's market development has been almost completed, customers in various regional markets have been increasing, thus caused increasing in sales revenue of the Group.

Research and Development

The Group has continued with researches on the application of patent technologies in the production of feed supplements.

Outlook

The Group's principal businesses shifted from the original veterinary drugs business to feed supplements and the production and operation of end-user safe food based on the use of feed supplements.

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 the Central Government State Council's work report dated 8 March 2008, the Central Government will continue to strongly support the development of agriculture, rural areas and farmers. In 2008, the Central Government will contribute a record high RMB562.5 billion for financing of projects on agriculture, rural areas and farmers through central fiscal arrangements, representing an increase of RMB130.7 billion as compared with last year.

In addition, as concern over quality of animal feeding stuff is increasing and allergy effect of antibiotics on human body causes prohibition of use of antibiotics in animal feeding stuff, there is a huge market potential for feed supplements both in and outside China.

The establishment of wholly owned subsidiaries of the Group in Japan, Singapore, Hong Kong and PRC for the operation in feed supplements and other safe food has been essentially completed. Such subsidiaries will engage in the production and operation of feed supplements and other safe food in accordance with the comprehensive market development plan of the Group, and operational revenue generated from such production and operation of feed supplements and other safe food will contribute significantly to the income of the Group.

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 30 April 2008, 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 30 April 2008
Ms. Liu Yang	Through controlled corporation (<i>Note 1</i>)	Shares	432,000,000 Shares	31.94%
Ms. Wong Moon Ha	Through controlled corporation (<i>Note 2</i>)	Shares	400,000,000 Shares	29.58%
Mr. Wong Sai Wa	Directly beneficially owned	Options (<i>Note 3</i>)	3,200,000 options	0.24%
Mr. Kwan Kai Cheong	Directly beneficially owned	Options (<i>Note 3</i>)	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 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.
3. 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 30 April 2008, 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 30.4.2008	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 30 April 2008, 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 30 April 2008, 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 30.4.2008	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
Others	-	27,040,000	-	-	-	27,040,000	14.11.2007	14.11.2007 to 13.11.2017	0.59
		<u>70,040,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,040,000</u>			

The exercise of the above 70,040,000 outstanding share options as at 30 April 2008, would under the present capital structure of the Company, result in the issue of 70,040,000 additional share capitals of HK\$3,502,000 and share premium of HK\$16,340,000 (before issue expenses). During the period ended 30 April 2008, 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 30 April 2008, 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 30 April 2008
JBC Bio Tech	Corporation (Note 1)	Shares	432,000,000 Shares	31.94%
CPT	Corporation (Note 2)	Shares	400,000,000 Shares	29.58%
CBM	Through controlled corporation (Note 2)	Shares	400,000,000 Shares	29.58%
Ms. Wong Moon Ha	Through controlled corporation (Note 2)	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.
- 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 30 April 2008. 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	442,599,386 Shares (Note)	32.7%
Keywise Greater China Opportunities Master Fund ("Keywise")	Investment Manager	Shares	442,599,386 Shares (Note)	32.7%

Note:

Keywise is an investment fund managed by Keywise Capital Management (HK) Limited. These shares comprise (i) 220,496,000 existing shares and (ii) 151,515,151 and 70,588,235 underlying shares which would be issued upon conversion of Convertible Bonds and exercise of subscription rights attaching to Warrants respectively.

Save as disclosed herein, as at 30 April 2008, 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 members of audit committee are namely Mr. Chan Kin Hang, Mr. Garry Alides Willinge and Dr. Chen Zhuming. 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 nine-months period ended 30 April 2008 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 nine-months period ended 30 April 2008, 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, 13 June 2008

As at the date of this report, 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, Dr. Tan Min and Mr. Wong See Hong; and three independent non-executive Directors, namely Mr. Chan Kin Hang, Mr. Garry Alides Willinge and Dr. Chen Zhuming.