CHINA MEDICAL AND BIO SCIENCE LIMITED

(PROVISIONAL LIQUIDATORS APPOINTED)

中華藥業生物科學有限公司*

（已委任臨時清盤人）

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8120

ANNUAL REPORT 2008

* *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 positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of China Medical and Bio Science Limited (Provisional Liquidators Appointed) (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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PROVISIONAL LIQUIDATORS

Stephen Liu Yiu Keung
David Yen Ching Wai

EXECUTIVE DIRECTORS

Wong Sai Wa
Wong Moon Ha

INDEPENDENT NON-EXECUTIVE DIRECTOR

Chan Kin Hang

COMPANY SECRETARY AND FINANCIAL CONTROLLER

Yam Pak Chuen, Patrick

AUDITOR

PKF Hong Kong
Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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18 Westlands Road
Island East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Bufferfield Fulcrum Group Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queens' Road East
Wanchai
Hong Kong

STOCK CODE

8120

WEBSITE

www.irasia.com/listco/hk/chinamedical

FINANCIAL REVIEW

Turnover of China Medical and Bio Science Limited (Provisional Liquidators Appointed) (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 July 2008 was approximately HK$5,981,000, a drop of approximately HK$308,000 or 4.9% compared with the turnover for the previous year which was approximately HK$6,289,000. The expected increment in feed supplements business was unable to be realised due to the unsatisfactory results in the formation of the market strategies, technical support and sales system establishment.

Loss attributable to the Company's shareholders for the year ended 31 July 2008 was approximately HK$154,978,000, an increase of approximately HK$62,582,000 or 67.7% compared to the loss of the previous year which amounted to approximately HK$92,396,000. The drastic increase in loss for the year was due to the substantial increase in expenditures invested in the formulation of market strategies, customer retention and training, product enhancement, application development, technologies support and establishment of sales system, as well as the impairments on trade receivables and prepayments and deposits paid on the research and development projects.

For the year ended 31 July 2008, the loss per share was approximately 11 Hong Kong cents (2007: 10 Hong Kong cents).

SECURITIES INVESTMENT

As at 31 July 2008, the listed equity securities investment was approximately HK$50,647,000. In respect of the performance of the investment for the year ended 31 July 2008, the Group recorded a net loss of approximately HK$21,540,000, which was mainly attributable to the unrealised loss on equity-linked notes and listed shares of approximately HK$33,844,000, dividend and interest income of approximately HK$12,507,000, interest expense and exchange gain in the sum of approximately HK$486,000 and HK$283,000 respectively.

MATERIAL ACQUISITIONS AND DISPOSALS

Except for those prior-year adjustments set out in note 7 to the financial statements, the Group had no material acquisition and disposal during the year ended 31 July 2008.

FINANCIAL RESOURCES, LIQUIDITY, CAPITAL STRUCTURE AND GEARING RATIO

As at 31 July 2008, the Group did not have sufficient liquid funds and had net current liabilities of approximately HK$15,231,000 as compared to net current assets of approximately HK$16,426,000 in the preceding year. The adverse alteration on liquidity is due to an increase in irrecoverable amount on trade receivables and prepayments and deposits paid on the research and development projects.

The capital structure of the Group consists of borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The Group monitors its short and medium term liquidity requirements and arranges refinancing of the Group's borrowings when appropriate.

As at 31 July 2008, the Group's total bank and other borrowings amounted to approximately HK$47,239,000 (2007: HK$15,117,000), of which approximately HK$9,657,000 (2007: Nil) and HK$4,007,000 (2007: HK$13,460,000) were secured bank loan and unsecured bank loan respectively; and approximately HK$27,889,000 (2007: HK$1,657,000) and HK$5,686,000 (2007: Nil) were secured other loan and unsecured other loan respectively. The Group's outstanding bank and secured other loan bear interest at the prevailing market rate. The other unsecured loan bears a fixed interest rate.

The Group had non-current convertible bonds of approximately HK$74,161,000 as at 31 July 2008 (2007: Nil).

The Group's gearing ratio, which is calculated on the basis of the Group's total borrowings less cash and cash equivalents to the total assets in relation to its total capital, as at 31 July 2008 is approximately 97%. The gearing ratio as at 31 July 2007 could not be determined as the Group was in net cash position.

FOREIGN EXCHANGE AND INTEREST RATE EXPOSURE

The Group has a minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities were principally denominated in the functional currencies used by the Group entities or in United States dollars for Hong Kong dollar functional currency Group entities. The Group currently does not have a foreign currency hedging policy in respect of its foreign currency assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider using hedging instruments in respect of significant foreign currency exposure should the need arise.

When appropriate and at times of interest rate or exchange rate uncertainties or volatility, hedging instruments including swaps and forwards will be used by the Group in the management of exposure affecting interest rates and foreign exchange rate fluctuations.

CHARGES ON GROUP ASSETS

As at 31 July 2008, the following assets were pledged to secure borrowings granted to the Group:

	2008	Restated 2007
	HK$'000	HK$'000
Leasehold land (on net book value)	**8,783**	3,044
Leasehold building (on net book value)	**4,026**	–

Details of charges on group asset are set out in notes 17 and 18 to the financial statements.

CONTINGENT LIABILITIES

Except for the full provision for the winding up petition set out in note 34 to the financial statements, the Group had no material contingent liability as at 31 July 2008.

EMPLOYEE INFORMATION

As at 31 July 2008, the Group had approximately 70 employees (2007: 60) in Hong Kong, the People's Republic of China (the "PRC"), Japan and Singapore. The total remuneration to employees, including director's emoluments amounted to approximately HK$17,597,000 for the year ended 31 July 2008 (2007: HK$7,037,000). Remuneration to employees and directors are based on performance, qualification, experience and the prevailing industry practice. Other benefits to its employee in Hong Kong include share option scheme, contributions to statutory mandatory provident fund scheme and medical coverage and the employees in the PRC will be included in the statutory central pension schemes and additional requirement in the PRC.

OPERATION REVIEW

Feed supplements business

The Group's feed supplements operation had experienced a significant growth in the second year after the acquisition of feed supplements business in 2007, which is due to the accelerated presence in the global market place. At the same time, the Group invested significant amounts of money in down-stream marketing, conducting road shows and application development in perspective farms in order to introduce our products to as many prospects as possible, and as soon as possible. All these explained the high operation cost reflected in the segmental loss of such operation for the year ended 31 July 2008.

Safe food business

The major objective of the safe food operation is to visualize the result and benefit of the usage of our feed supplements in the livestock husbandry. Through the establishment of downstream pork retailing business in our brand name "YY Sakura Pork" in Guangzhou, the public awareness and recognition of the safe food with the application of products and technology were successfully achieved. The demand and the higher selling price were clearly demonstrated, and this will further promote the willingness and courage of the farm producers in the consumption of the feed supplements. However, this operation was not profitable for the year ended 31 July 2008.

Veterinary drug

The Group's veterinary drugs operation was basically ceased because of the disposal of assets in the corresponding operations in Sichuan, the details of which is set out in note 7 to the financial statements. The segmental loss in respect of such operation for the year was attributed to the impairment on the prepayments and advances.

APPOINTMENT OF PROVISIONAL LIQUIDATORS AND SUSPENSION OF TRADING

On 13 May 2008, a winding-up petition was presented and filed in the High Court of the Hong Kong Special Administrative Region (the "High Court") by Shantou Xinyuan Trading Company Limited, the petitioner of the Company. On 3 December 2008, the High Court appointed Messrs. Stephen Liu Yiu Keung and David Yen Ching Wai, both of Ernst & Young Transactions Limited, as the joint and several provisional liquidators (the "Provisional Liquidators") of the Company. Further details can be found in note 39 to the financial statements.

Trading in the shares of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 28 October 2008 and remained suspended as at the date of this report.

PROSPECT

On 28 July 2009, an exclusivity agreement was entered into amongst NEUF Capital Limited (the "Investor"), the Company and the Provisional Liquidators (please also refer to note 39 to the financial statements). The exclusivity agreement forms part of the proposed restructuring exercise. It is anticipated that the financial condition of the Group will be substantially improved upon completion of the proposed restructuring of the Group as contemplated under the resumption proposal as all liabilities arising from creditors of the Company and the creditors of its subsidiaries holding guarantees given by the Company will be compromised and discharged by schemes of arrangement in Hong Kong and the Cayman Islands, as appropriate.

The Investor is currently reviewing the Group's existing bio-livestock feed business, mainly involving the development and distribution of feed supplements and the production and operation of end-user safe food based on the use of the feed supplements, and the resumption proposal was submitted to the Stock Exchange on 30 November 2009.

The Company is confident that, with the Investor's strong support in the business and financial aspects, the Group will be able to gain a strong foothold in the bio-livestock feed business and achieve a substantial level of operations within a reasonable period of time after the resumption of trading in its shares.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Wong Sai Wa, aged 66, 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. He also completed the Stanford Executive Program in 1993. Mr. Wong has been a director of Pacific Concord Holding Limited since 1987 and was appointed a joint managing director in 1999.

Ms. Wong Moon Ha, aged 56, 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 of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Chan Kin Hang, aged 39, 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.

COMPANY SECRETARY AND FINANCIAL CONTROLLER

Mr. Yam, aged 48, is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Yam has over 25 years of experience in accounting, auditing, taxation and company secretarial services.

The Company is committed to maintaining good corporate governance and to instituting procedures to ensure integrity, transparency and quality of information disclosed thereby enhancing the value of the Company for its shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year ended 31 July 2008, with the exception of the situations listed below, the Company complied with the principles of good governance (the “Principles”) and code provision (the “Code Provision”). Appendix 15 sets out the “Code on Corporate Governance Practices” (the “Code”) of the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”).

1. Due to practical reasons, 14 days’ advanced notifications have not been given to most of the board of directors (the “Board”) meetings of the Company. Reasons have not been given in the notifications in respect of those Board meetings where it is not practical to give 14 days’ advanced notification. The directors of the Company will give 14 days’ advanced notification of regular Board meeting to give all directors of the Company an opportunity to attend and use its best endeavour to give reasonable notices for all other Board meetings (Code Provision A.1.3);

2. Ms. Liu Yang was both the chairman and the chief executive officer of the Company, who is responsible for managing the Board and the business of the Company and its subsidiaries (the “Group”) (Code Provision A.2.1);

3. Non-executive directors of the Company were not appointed for a specific term but were subject to retirement by rotation at the Company’s annual general meeting in accordance with the bye-law of the Company (Code Provision A.4.1);

4. No remuneration committee was established to review directors’ remuneration policy and other remuneration related matters. The directors of the Company will, as soon as practicable, establish a remuneration committee with specific written reference which deals clearly with its authorities and duties (Code Provision B.1.1);

5. The Company had not complied with the financial reporting and disclosure requirements set out in the GEM Listing Rules by publishing annual, interim and quarterly reports on a regular basis. The directors of the Company will use their best endeavour to present a balanced, cleared and assessable assessment of the Company’s performance, position and prospects to shareholders of the Company by publishing annual, interim and quarterly reports in accordance with the financial reporting and disclosure requirements set out in the GEM Listing Rules (Code Provision C.1.3);

6. The directors of the Company did not review the effectiveness of the system of internal control of the Group. In this regard, the directors of the Company will at least annually conduct a review of the effectiveness of the system of internal control of the Group. (Code Provision C.2.1); and

7. The directors of the Company did not maintain an on-going dialogue with shareholders of the Company. In this regard, the directors of the Company will at least annually conduct a general meeting to communicate with shareholders of the Company and encourage their participation (Principle E.1).

CODE OF CONDUCT FOR DIRECTORS CARRYING OUT SECURITIES TRANSACTIONS

As at 31 July 2008, the directors of the Company have not yet adopted a code of conduct governing securities transactions for directors. However, the directors of the Company will, as soon as practicable, adopt such code of conduct on terms not less stringent than those in the required standard set out in the GEM Listing Rules 5.48 to 5.67 to be complied by all directors of the Company.

For the year ended 31 July 2008, the Company was not aware of any non-compliance of the revised standards on securities transactions by directors of the Company as set out in the GEM Listing Rules.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and for overseeing the business of the Group. The Board has delegated authority and responsibility to the senior management for the day-to-day operations of the Group. Key matters will remain as responsibility of the Board whose approval will be required. In addition, the Board has also delegated responsibilities to various management committees. Details of those committees are set out in this corporate governance report.

The directors of the Company during the year ended 31 July 2008 were:

Executive directors:

Ms. Liu Yang (chairman and chief executive officer, resigned on 5 December 2008)
Mr. Wong Sai Wa
Ms. Wong Moon Ha
Mr. Liu Dong Hui (resigned on 5 December 2008)
Mr. Fang Ming (resigned on 5 December 2008)

Non-executive directors:

Mr. Kwan Kai Cheong (resigned on 20 May 2008)
Mr. Tan Min (resigned on 6 December 2008)
Mr. Wong See Hong (appointed on 28 February 2008 and resigned on 20 June 2008)

Independent non-executive directors:

Dr. Ding Hanpeng (resigned on 28 February 2008)
Mr. Lai Chik Fan (resigned on 9 August 2007)
Mr. Garry Alides Willinge (resigned on 24 October 2008)
Mr. Chan Kin Hang
Mr. Chen Zhu Ming (appointed on 20 May 2008 and resigned on 6 December 2008)

Details of the members of the Board are provided under the "Profiles of Directors and Senior Management" on page 8 of this annual report.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The code provisions A.2.1 requires the position of the chairman and the executive officer to be held separately by two individuals to ensure their independence, separate accountability and responsibilities. The chairman of the Company is responsible for the overall leadership of the Company and for strategies and planning of the Group. The chief executive officer of the Company is responsible for the day-to-day management of the Group's business and operation.

For the year ended 31 July 2008, Ms Liu Yang was both the chairman and chief executive officer of the Company, responsible for managing the Board and the business of the Group. Following the resignation of Ms. Liu Yang, the Company has not yet appointed anyone to fill the positions vacated by Ms. Liu.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Code Provision A.4.1 requires that non-executive directors be appointed for a specific term, subject to re-election. None of the non-executive directors of the Company were currently appointed with specific terms which are subject to re-election in accordance with code Provision A.4.1 or the memorandum and 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.

INDEPENDENCE

Independent non-executive directors of the Company are required to give an annual confirmation of their independence to the Company pursuant to Rules 5.09 of the GEM Listing Rules. This practice is being observed and the Company considers the independent non-executive director to be independent.

BOARD MEETINGS

For the year ended 31 July 2008, Board minutes are kept by the secretary of the Company (the "Secretary"), Mr. Leung Kin Lung (resigned on 31 January 2009) and are open for inspection by the directors of the Company. Every director of the Company is entitled to have access to the board papers and related materials and has unrestricted access to the advice and services of the Secretary, and has the liberty to seek external professional advice if so required.

AUDIT COMMITTEE

The main functions of an audit committee is to recommend to the Board on the appointment, reappointment and removal of the external auditors; to approve the remuneration and terms of engagement of the external auditors as well as any questions of resignation or dismissal of such auditors; to review the quarterly, interim and annual reports and accounts of the Group; and to oversee the Company's financial reporting and internal control procedures.

Since there are insufficient directors of the Company to be appointed members of an audit committee, there is no audit committee and the Company's audited financial results for the year ended 31 July 2008 have not been reviewed by an audit committee. However, the directors of the Company will, as soon as practicable, establish an audit committee pursuant to the GEM Listing Rules.

REMUNERATION COMMITTEE

A remuneration committee, with the majority of its members being independent non-executive directors of the Company, is mainly responsible for making recommendations to the Board on the remuneration system of the Company. The remuneration committee has to consult the chairman and/or the chief executive officer of the Company on their proposals relating to the remuneration of other executive directors of the Company. The remuneration committee may seek independent professional advice as it considers necessary in respect of its functions.

As the Company does not have a remuneration committee yet, the directors of the Company will, as soon as practicable, establish a remuneration committee with specific terms of reference which deals clearly with its authorities and duties.

INTERNAL CONTROL

The directors of the Company have overall responsibility for devising the Company's system for internal control and for conducting an annual review of the effectiveness of its operations. This will ensure that the directors of the Company will oversee and monitor the Group's overall financial position so that the interests of the shareholders are well protected and covered. The internal control system covers the financial, operational, compliance and risk management areas of the Group's business. However, the Board has not carried out any evaluation or assessment of the effectiveness of the Group's internal control system. The directors of the Company will, as soon as practicable, perform a comprehensive review on internal control system pursuant to the GEM Listing Rules.

AUDITOR'S REMUNERATION

During the year ended 31 July 2008, the remuneration in respect of audit and non-audit services provided by the Company's auditor, PKF Hong Kong, Certified Public Accountants, is set out below:

	2008	2007
	HK$'000	HK$'000
Services rendered		
– Audit services	**550**	250
– Non-audit services	**–**	180
	550	430

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors of the Company acknowledge their responsibilities in the preparation of the Company's financial statements for each financial year which give a true and fair view of the state of affairs of the Company and in presenting the quarterly, interim and annual financial statements, and announcements to shareholders, the directors of the Company aim at presenting a balanced, cleared and comprehensive assessment of the Company's performance, its current position and future prospects.

The respective responsibilities of the directors and auditors of the Company in respect of the preparation of the financial statements are set out in the independent auditor's report on pages 23 to 25 of this annual report.

The directors of the Company present their annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 July 2008.

APPOINTMENT OF PROVISIONAL LIQUIDATORS

On 13 May 2008, a winding-up petition was presented and filed in the High Court of the Hong Kong Special Administrative Region (the "High Court") by Shantou Xinyuan Trading Company Limited, the petitioner of the Company. On 2 December 2008, an ex-parte application was filed and served onto the Company by Keywise Greater China Opportunities Master Fund, a supporting creditor of the Company, for the appointment of provisional liquidators of the Company. On 3 December 2008, the High Court appointed Messrs. Stephen Liu Yiu Keung and David Yen Ching Wai, both of Ernst & Young Transactions Limited, as the joint and several provisional liquidators (the "Provisional Liquidators") of the Company.

Pursuant to an order of the High Court, the Provisional Liquidators would, inter alia, take into their custody and protect all the assets of the Group and manage the Group until such times as further order is made. The Provisional Liquidators are independent third parties not connected with the Company or any of the directors, chief executive and substantial shareholders of the Company or its subsidiaries or their respective associates as defined in the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules").

PRINCIPAL ACTIVITIES

The Group is principally engaged in bio-livestock feed business, mainly involving in the development and distribution of feed supplements and production and operation of end-user safe food based on the use of feed supplements. Details of the principal activities of the subsidiaries of the Company are set out in note 40 to the financial statements. There were no 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 2008 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 26 to 90.

DIVIDEND

The directors of the Company do not recommend the payment of any dividend in respect of the year ended 31 July 2008 (2007: Nil).

FINANCIAL SUMMARY

A summary of the results, assets and liabilities and minority interests of the Group for the five financial years ended 31 July 2008 is set out below:

RESULTS

	2008	Restated 2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**5,981**	6,289	54,054	121,061	171,533
Loss from operating activities	**(120,296)**	(53,503)	(3,035)	(33,953)	(30,365)
Finance costs	**(11,106)**	(3,857)	(4,743)	(10,325)	(14,555)
Share of results of an associate	**–**	–	–	1,256	1,449
Assets impairment	**(23,576)**	(36,497)	–	(25,247)	–
Loss before tax	**(154,978)**	(93,857)	(7,778)	(68,269)	(43,471)
Tax	**–**	(231)	(193)	(665)	(337)
Loss for the year	**(154,978)**	(94,088)	(7,971)	(68,934)	(43,808)
Loss attributable to					
Shareholders of the Company	**(154,978)**	(92,396)	(5,774)	(63,560)	(43,791)
Minority interests	**–**	(1,692)	(2,197)	(5,374)	(17)
	(154,978)	(94,088)	(7,971)	(68,934)	(43,808)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2008	Restated 2007	2006	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**113,620**	103,979	78,698	287,489	584,140
TOTAL LIABILITIES	**(175,647)**	(58,038)	(64,451)	(270,695)	(497,159)
MINORITY INTERESTS	**–**	–	(1,469)	(3,606)	(11,036)
	(62,027)	45,941	12,778	13,188	75,945

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 32 to the financial statements.

SHARE OPTIONS SCHEME

Details of the Company's share option schemes are set out in this report from pages 79 to 82 in note 33 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 THE COMPANY'S LISTED SECURITIES OR ITS SUBSIDIARIES' SECURITIES

During the year ended 31 July 2008, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities or the securities of the Company's subsidiaries.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 31 and 32.

DISTRIBUTABLE RESERVES

As at 31 July 2008, the Company did not have distributable reserves.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 72% of the total sales for the year within which sales to the largest customer included therein amounted to approximately 26% of total sales. During the year the Group purchased from two suppliers which also happened to be its two largest suppliers, accounting for 100% of the total purchases for the year and the purchases from the largest supplier included therein amounted to approximately 72% of the total purchases for the year.

None of the directors of the Company nor any of their associates or any shareholders (which, to the best knowledge of the directors of the Company, 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/or 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 (chairman and chief executive officer, resigned on 5 December 2008)
Mr. Wong Sai Wa
Ms. Wong Moon Ha
Mr. Liu Dong Hui (resigned on 5 December 2008)
Mr. Fang Ming (resigned on 5 December 2008)

Non-executive directors:

Mr. Kwan Kai Cheong (resigned on 20 May 2008)
Mr. Lai Chik Fan (resigned on 9 August 2007)
Mr. Tan Min (resigned on 6 December 2008)
Mr. Wong See Hong (appointed and resigned on 28 February 2008 and 20 June 2008 respectively)

Independent non-executive directors:

Dr. Ding Hanpeng (resigned on 28 February 2008)
Mr. Garry Alides Willinge (resigned on 24 October 2008)
Mr. Chan Kin Hang
Mr. Chen Zhu Ming (appointed and resigned on 20 May 2008 and 6 December 2008 respectively)

In accordance with article 116 of the Articles, 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) will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Mr. Wong Sai Wa has entered into a service contract with the Company. The service contract provides for an initial term of two years commencing on 10 April 2001 and continuing, until 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 its directors.

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

CONFIRMATION OF INDEPENDENCE

The Company has received from Mr. Chan Kin Hang, independent non-executive director of the Company, an annual confirmation of independence pursuant to the GEM Listing Rule 5.09 and considers him to be independent.

The Company has not received from Mr. Garry Alides Willinge and Mr. Chen Zhu Ming their annual confirmation of independence pursuant to the GEM Listing Rule 5.09 and the Company is unable to consider them as being independent. Both of Mr. Garry Alides Willinge and Mr. Chen Zhu Ming have already resigned as at the date of this report.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Profiles details of the directors of the Company and the senior management of the Group are set out on page 8 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or 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 SECURITIES OF THE COMPANY

As at 31 July 2008, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were 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 they have taken or deemed to have taken 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, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares and underlying shares of the Company

Name of director	Capacity and nature of interest	Shares/equity derivatives	Number of shares/equity derivatives held	Percentage of the Company's issued share capital	*Note*
Ms. Liu Yang	Through controlled corporation	Ordinary shares	432,000,000 shares	31.94%	*(1)*
Ms. Wong Moon Ha	Through controlled corporation	Ordinary shares	400,000,000 shares	29.58%	*(2)*
Mr. Wong Sai Wa	Directly beneficially owned	Share options	3,200,000 share options	0.24%	*(3)*
Mr. Kwan Kai Cheong	Directly beneficially owned	Share options	3,000,000 share options	0.22%	*(3) and (4)*

Note:

(1) The shares were held by Ms. Liu Yang through JBC Bio Technology Company Limited ("JBC Bio Tech").

(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. According to the disclosure of interest forms dated 6 September 2007, Mr. Wong Sai Chung surrendered his rights to 400,000,000 shares of the Company to Ms. Wong Moon Ha on even date. Mr. Wong Sai Chung is the brother of Mr. Wong Sai Wa and Ms. Wong Moon Ha, both of whom are executive directors of the Company.

(3) The share options are exercisable at any time from 10 October 2001 up to and including 22 March 2011 at an exercise price of HK$0.55 per share in accordance with the terms of the pre-initial public offerings share option scheme (the "Pre-IPO Plan") adopted by the Company on 23 March 2001.

(4) Mr. Kwan Kai Cheong ("Mr. Kwan") resigned on 20 May 2008 as the Non-Executive Director of the Company. Mr. Kwan did not exercise his share option until the last actual working day with the Company. Mr. Kwan's share option is considered to be lapsed automatically.

Save as disclosed herein, as at 31 July 2008, none of the directors or chief executives of the Company had short positions in the shares or underlying shares of equity derivatives of the Company and no other person was individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at general meeting of the Company and was able, as a practical matter, to direct or influence the management of the Company.

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

Name or category of participant	At 1.8.2007	Granted during the year	Exercised during the year	Lapsed during the year *(Note a)*	Cancelled during the year	At 31.7.2008	Date of grant of share options *(Note b)*	Exercise period of share options	Exercise price of share options *(Note c)* HK$
Directors									
Mr. Wong Sai Wa	3,200,000	–	–	–	–	3,200,000	23.2.2001	10.10.2001 to 22.3.2011	0.55
Mr. Kwan Kai Cheong	3,000,000	–	–	(3,000,000)	–	–	23.2.2001	10.10.2001 to 22.3.2011	0.55
	6,200,000	–	–	–	–	3,200,000			
Other employees	400,000	–	–	(400,000)	–	–	23.2.2001	10.10.2001 to 22.3.2011	0.55
	6,600,000	–	–	(3,400,000)	–	3,200,000			

Note:

(a) If the grantee is an employee of the Group, the share options shall lapse automatically upon the termination of his/her employment with the Group. The share options may be exercised up to the last actual working day of any employee of the Group.

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

(c) 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 3,200,000 outstanding share options of the Pre-IPO Plan as at 31 July 2008 would under the present capital structure of the Company, result in the issue of 3,200,000 additional ordinary shares of the Company and additional share capital amounted to HK$160,000 and share premium amounted to HK$1,600,000 (before issue expenses). During the year ended 31 July 2008, none of the directors or employees of the Company had exercised any share options and no allotment or issue of shares were made pursuant to the Pre-IPO Plan.

DIRECTORS' RIGHTS TO ACQUIRE SHARE 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 holding companies or subsidiaries a party to any arrangements which enabled 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 SHAREHOLDERS' INTERESTS AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES OF THE COMPANY

As at 31 July 2008, 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 (not being the directors and chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in ordinary shares of the Company

Substantial Shareholders

Name	Capacity and nature of interest	Shares	Number of shares/equity derivatives held	Percentage of the Company's issued share capital	*Note*
JBC Bio Tech	Corporation	Ordinary shares	432,000,000 shares	31.94%	*(1)*
CPT	Corporation	Ordinary shares	400,000,000 shares	29.58%	*(2)*
CBM	Through controlled corporation	Ordinary shares	400,000,000 shares	29.58%	*(2)*
Keywise Capital Management (HK) Limited	Investment Manager	Ordinary shares	442,599,386 shares	32.70%	*(3)*
Keywise Greater China Opportunities Master Fund ("Keywise")	Investment Manager	Ordinary shares	442,599,386 shares	32.70%	*(3)*

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 35.94% of the total issued share capital of the Company.*

(2) *CPT is a wholly-owned subsidiary of CBM and CBM is wholly owned by Ms. Wong Moon Ha, an executive director of the Company. Accordingly, CBM and Ms. Wong Moon Ha are deemed to have an interest in the 400,000,000 shares of the Company held by CPT.*

(3) *Keywise is an investment fund managed by Keywise Capital Management (HK) Limited. These shares comprise (i) 220,496,000 shares of the Company 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. Details of the convertible bonds and warrants have been set out in note 37 to the financial statements.*

Save as disclosed above, as at 31 July 2008, the directors and/or chief executives of the Company were not aware of any person other than directors and/or chief executive of the Company who had an interest or short position 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 who was interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

CONNECTED TRANSACTIONS

As detailed in note 38 to the financial statements, the Group had no related party transactions, or any constituted connected transactions under the GEM Listing Rules for the year ended 31 July 2008.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

None of the directors, the substantial shareholders 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.

SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the GEM had been suspended since 28 October 2008, and will remain suspended until further notice.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this annual report, the Company has maintained a public float as prescribed under the GEM Listing Rules.

SIGNIFICANT POST-BALANCE SHEET EVENTS

Details of the significant events which occurred after the balance sheet date are set out in note 39 to the financial statements.

CORPORATE GOVERNANCE

The Board and management of the Company are committed to maintain high standards of corporate governance. Further details are set out in the Corporate Governance Report on pages 9 to 13 of the annual report.

AUDITORS

A resolution to re-appoint the retiring auditors, Messrs. PKF Hong Kong, Certified Public Accountants, will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Wong Sai Wa
Executive Director

Hong Kong, 8 January 2010

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

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

We have audited the consolidated financial statements of China Medical and Bio Science Limited (Provisional Liquidators Appointed) (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 26 to 90, which comprise the consolidated balance sheet as at 31 July 2008, 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 CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these consolidated 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

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

Except for the limitation in the scope of our work as explained below, 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.

However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain appropriate audit evidence to provide a basis for an audit opinion.

LIMITATION OF AUDIT SCOPE

1. Included in the Group's other payables and accruals of HK$50,762,000 were recorded payables of HK$12,507,000 of which no replies to our satisfaction on the direct confirmations from the creditors were received as at the date of this report and there was no sufficient evidence. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves on the completeness of these payables stated in the consolidated balance sheet as at 31 July 2008.

2. Included in the Group's general and administrative expenses of HK$85,951,000 were legal and professional fee, and research and development expenses of HK$5,781,000 and HK$3,529,000 respectively. No sufficient evidence has been obtained by us and we were unable to satisfy ourselves that these recorded expenses were free from material misstatements.

Any adjustments that might have been found to be necessary in respect of the matters set out in points (1) and (2) above may have a consequential and significant effect on the aforementioned items and the Group's loss for the year ended 31 July 2008 and the related disclosures in the consolidated financial statements.

BASIS FOR DISCLAIMER OF OPINION

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosure made in note 2 to the consolidated financial statements which explains that on 28 July 2009, an exclusivity agreement was entered into among an investor, the Company and the Provisional Liquidators to grant the investor exclusivity for the preparation of a resumption proposal and negotiation in good faith of legally binding agreements for the implementation of the Company's restructuring proposal and resumption proposal.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring will be successfully implemented and that, following the restructuring proposal, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to implement the restructuring proposal. We consider that the disclosures are adequate. However, in view of the extent of the material uncertainty relating to the completion of the implementation of the restructuring proposal, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs regarding the material uncertainty relating to the going concern basis as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 July 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PKF
Certified Public Accountants

Hong Kong

8 January 2010

Consolidated Income Statement

For the year ended 31 July 2008

	Note	2008 HK$'000	Restated 2007 HK$'000
Turnover	9	**5,981**	6,289
Cost of sales		**(3,129)**	(4,525)
Gross profit		**2,852**	1,764
Other revenue	9	**15,984**	1,132
Selling and distribution costs		**(1,292)**	(3,392)
General, administrative and other operating expenses		**(88,519)**	(36,451)
Provision for bad and doubtful debts		**(15,477)**	(15,417)
Net unrealised fair value loss on financial assets at fair value through profit or loss and derivative financial instruments		**(33,844)**	(1,139)
Loss from operating activities	10	**(120,296)**	(53,503)
Finance costs	11	**(11,106)**	(3,857)
Impairment on			
– Property, plant and equipment and deposits paid for acquisition of property, plant and equipment		**(184)**	(29,005)
– Intangible assets		**–**	(4,183)
– Goodwill		**(23,392)**	(3,309)
Loss before tax		**(154,978)**	(93,857)
Tax	14(a)	**–**	(231)
Loss for the year		**(154,978)**	(94,088)
Loss attributable to:			
Shareholders of the Company	15	**(154,978)**	(92,396)
Minority interests		**–**	(1,692)
		(154,978)	(94,088)
Loss per share attributable to Shareholders of the Company	16		
Basic		**HK$0.11**	HK$0.10
Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 July 2008

	Note	2008 HK$'000	Restated 2007 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**24,350**	2,421
Leasehold land	18	**13,184**	4,237
Intangible assets	19	**–**	–
Goodwill	20	**–**	23,392
		37,534	30,050
CURRENT ASSETS			
Inventories	21	**352**	253
Trade receivables	22	**242**	1,323
Deposits, prepayments and other receivables	23	**12,348**	2,772
Financial assets at fair value through profit or loss	24	**50,647**	18,735
Derivative financial instruments		**–**	72
Cash, bank balances and time deposits	25	**12,497**	40,796
		76,086	63,951
Non-current assets held for sales	26	**–**	9,978
		76,086	73,929
DEDUCT:			
CURRENT LIABILITIES			
Derivative financial instruments		**–**	1,826
Bank and other borrowings	27	**37,981**	1,657
Finance lease obligations	28	**182**	78
Trade payables	29	**1,291**	1,177
Other payables and accruals		**50,762**	36,728
Amounts due to directors	30	**–**	1,581
Income tax payable		**1,101**	996
		91,317	44,043
Liabilities directly associated with non-current assets held for sales	26	**–**	13,460
		91,317	57,503
NET CURRENT (LIABILITIES)/ASSETS		**(15,231)**	16,426
TOTAL ASSETS LESS CURRENT LIABILITIES		**22,303**	46,476

As at 31 July 2008

	Note	2008 HK$'000	Restated 2007 HK$'000
DEDUCT:			
NON-CURRENT LIABILITIES			
Bank loans	27	**9,258**	–
Finance lease obligations	28	**911**	535
Convertible bonds	31	**74,161**	–
		84,330	535
NET (LIABILITIES)/ASSETS		**(62,027)**	45,941
REPRESENTING:			
CAPITAL AND RESERVES			
Share capital	32(a)	**67,620**	67,620
Reserves		**(129,647)**	(21,679)
(CAPITAL DEFICIENCY)/TOTAL EQUITY		**(62,027)**	45,941

APPROVED AND AUTHORISED FOR ISSUE BY THE BOARD OF DIRECTORS ON 8 JANUARY 2010

Director

Director

Consolidated Cash Flow Statement

For the year ended 31 July 2008

	2008 HK$'000	Restated 2007 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(154,978)**	(93,857)
Adjustments for:		
Interest expenses and finance lease charges	**11,106**	3,857
Interest income	**(12,677)**	(921)
Dividend income	**(181)**	–
Depreciation	**1,720**	1,590
Net unrealised fair value loss on financial assets at fair value through profit or loss and derivative financial instruments	**33,844**	1,139
Loss/(gain) on disposal of property, plant and equipment and non-current assets held for sales	**3**	(29)
Provision for bad and doubtful debts	**15,477**	15,417
Provision for obsolete inventories	**952**	2,907
Provision for litigation claims	**5,064**	–
Amortisation of leasehold land	**261**	48
Amortisation of intangible assets	**–**	2,568
Equity settled share based transaction	**14,364**	–
Impairment on goodwill	**23,392**	3,309
Impairment on intangible assets	**–**	4,183
Impairment on property, plant and equipment and deposits paid for acquisition of property, plant and equipment	**184**	29,005
Loss before working capital changes	**(61,469)**	(30,784)
(Increase)/decrease in inventories	**(973)**	2,725
(Increase)/decrease in trade receivables	**(3,143)**	2,729
(Increase)/decrease in deposits, prepayments and other receivables	**(19,475)**	2,839
Increase/(decrease) in trade payables	**10**	(4,294)
Increase/(decrease) in other payables and accruals	**5,375**	(6,159)
(Decrease)/increase in amounts due to directors	**(1,930)**	618
Cash used in operations	**(81,605)**	(32,326)
Interest received	**12,677**	921
Interest paid	**(2,504)**	(2,834)
NET CASH USED IN OPERATING ACTIVITIES	**(71,432)**	(34,239)

For the year ended 31 July 2008

	2008 HK$'000	Restated 2007 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received	**181**	–
Acquisition of property, plant and equipment	**(22,864)**	(2,398)
Acquisition of leasehold land	**(8,941)**	–
Proceeds from disposal of property, plant and equipment	**10,624**	754
Acquisition of a subsidiary	**–**	73
Acquisition of financial assets at fair value through profit or loss	**(67,509)**	(18,120)
NET CASH USED IN INVESTING ACTIVITIES	**(88,509)**	(19,691)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of convertible bonds	**100,000**	–
New bank loans	**9,885**	–
Other new loans	**32,889**	–
Repayment of bank loans	**(10,522)**	–
Principal repayment of finance lease obligations	**(157)**	(23)
Repayment of other loans	**(1,068)**	(8,029)
Issue of shares	**–**	101,714
NET CASH FROM FINANCING ACTIVITIES	**131,027**	93,662
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(28,914)**	39,732
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**615**	128
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**40,796**	936
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**12,497**	40,796
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Cash, bank balances and time deposits	**12,497**	40,796

Consolidated Statement of Changes in Equity

For the year ended 31 July 2008

	Attributable to shareholders of the Company									
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share option reserve HK$'000	Convertible bond equity reserve HK$'000	Warrants reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Minority interests HK$'000	Total HK$'000
At 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 new shares	18,620	83,094	–	–	–	–	–	–	–	101,714
Exchange differences arising on translation of financial statements of overseas subsidiaries										
– As previously reported	–	–	–	–	–	–	369	–	(38)	331
– Prior year adjustment	–	–	–	–	–	–	(524)	–	–	(524)
– As restated	–	–	–	–	–	–	(155)	–	(38)	(193)
Loss for the year										
– As previously reported	–	–	–	–	–	–	–	(65,899)	(1,692)	(67,591)
– Prior year adjustment	–	–	–	–	–	–	–	(26,497)	–	(26,497)
– As restated	–	–	–	–	–	–	–	(92,396)	(1,692)	(94,088)
At 31 July 2007	67,620	101,086	27,104	–	–	–	1,291	(151,160)	–	45,941
At 1 August 2007										
– As previously reported	67,620	101,086	27,104	–	–	–	1,815	(124,663)	–	72,962
– Prior year adjustment	–	–	–	–	–	–	(524)	(26,497)	–	(27,021)
– As restated	67,620	101,086	27,104	–	–	–	1,291	(151,160)	–	45,941
Share based compensation expenses	–	–	–	14,364	–	–	–	–	–	14,364
Issue of warrants	–	–	–	–	–	4,807	–	–	–	4,807

Consolidated Statement of Changes in Equity *(continued)*

For the year ended 31 July 2008

	Attributable to shareholders of the Company									
	Share capital	**Share premium**	**Capital reserve**	**Share option reserve**	**Convertible bond equity reserve**	**Warrants reserve**	**Exchange fluctuation reserve**	**Accumulated losses**	**Minority interests**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Recognition of equity component of convertible bonds	–	–	–	–	29,634	–	–	–	–	29,634
Exchange differences arising on translation of financial statements of overseas subsidiaries	–	–	–	–	–	–	(1,795)	–	–	(1,795)
Loss for the year	–	–	–	–	–	–	–	(154,978)	–	(154,978)
At 31 July 2008	**67,620**	**101,086**	**27,104**	**14,364**	**29,634**	**4,807**	**(504)**	**(306,138)**	**–**	**(62,027)**

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

1. CORPORATE INFORMATION

China Medical and Bio Science Limited (Provisional Liquidators Appointed) (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in bio-livestock feed business mainly involving the development and distribution of feed supplements and the production and operation of end-user safe food based on the use of feed supplements.

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 62/F, One Island East, 18 Westlands Road, Island East, Hong Kong.

The Company's shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and have been suspended from trading since 28 October 2008.

2. BASIS OF PREPARATION

(a) Winding-up petition and appointment of the provisional liquidators

On 13 May 2008, a winding-up petition was presented and filed in the High Court of the Hong Kong Special Administrative Region (the "High Court") by Shantou Xinyuan Trading Company Limited, the petitioner of the Company. On 2 December 2008, an ex-parte application was filed and served onto the Company by Keywise Greater China Opportunities Master Fund, a supporting creditor of the Company, for the appointment of provisional liquidators of the Company. On 3 December 2008, the High Court appointed Messrs. Stephen Liu Yiu Keung and David Yen Ching Wai, both of Ernst & Young Transactions Limited, as the joint and several provisional liquidators (the "Provisional Liquidators") of the Company.

Pursuant to an order of the High Court, the Provisional Liquidators would, inter alia, take into their custody and protect all the assets of the Group and manage the Group until such times as further order is made. The Provisional Liquidators are independent third parties not connected with the Company or any of the directors, chief executive and substantial shareholders of the Company or its subsidiaries or their respective associates as defined in the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules").

2. BASIS OF PREPARATION *(continued)*

(b) Proposed restructuring of the Group

On 5 December 2008, the Provisional Liquidators appointed Asian Capital (Corporate Finance) Limited as financial adviser to the Company (the "Financial Adviser"). Since then, the Provisional Liquidators and the Financial Adviser have been in discussion and negotiation with various potential investors with a view of restructuring the Company and submitting a viable resumption proposal to the Stock Exchange.

On 1 April 2009, an exclusivity agreement was entered into amongst Good One International Inc. ("Good One"), the Company and the Provisional Liquidators to grant Good One exclusivity for the proposed restructuring of the Group. This exclusivity agreement was subsequently terminated on 28 July 2009.

On 28 July 2009, a new exclusivity agreement (the "Exclusivity Agreement") was entered into amongst NEUF Capital Limited (the "Investor"), the Company and the Provisional Liquidators to grant the Investor exclusivity for the preparation of a resumption proposal (the "Resumption Proposal") and negotiation in a good faith of legally binding agreements for the implementation of the proposed restructuring and the Resumption Proposal. The restructuring proposal so submitted by the Investor was accepted by the Provisional Liquidators and in principle, supported by the major creditors of the Company as it was considered to be in the best interest of the Company and its stakeholders.

Pursuant to the Exclusivity Agreement, the Investor undertook that it would deposit sufficient funds of up to HK$9 million as a working capital to meet the trading and operation expenses required to maintain a viable, continuing business of the Company during the course of the proposed restructuring and after the date of the Exclusivity Agreement.

The Financial Adviser submitted the Resumption Proposal on behalf of the Company to the Stock Exchange on 30 November 2009.

The proposed restructuring, if successfully implemented, will, amongst other things, result in:

(i) a restructuring of the share capital of the Company through capital reduction, shares consolidation and the increase in share capital, and the issuance of new shares of the Company;

2. BASIS OF PREPARATION *(continued)*

(b) Proposed restructuring of the Group *(continued)*

(ii) all the creditors of the Company discharging and waiving their claims against the Company by way of schemes of arrangement in Hong Kong and the Cayman Islands (the "Schemes"), as appropriate; and

(iii) resumption of trading in the shares of the Company upon completion of the proposed restructuring subject to the restoration of sufficient public float.

Having received and considered the operations and affairs of the Group and the magnitude of the claims against the Company, the Company concluded that the proposed restructuring represents the best means available for the Company to be returned to solvency and to continue with the development and enhancement of its business.

(c) Adoption of going concern basis

The Group incurred a loss attributable to equity holders of the Company of approximately HK$154,978,000 for the year ended 31 July 2008 and as at that date, the Group had net current liabilities and net liabilities of approximately HK$15,231,000 and HK$62,027,000 respectively. The indebtedness of the Group mainly comprised short-term bank loans and other borrowings and convertible bonds, amounting to a total of approximately HK$121,400,000, of which bank loans of approximately HK$4,007,000 were overdue as at 31 July 2008. These conditions indicated the existence of a material uncertainty which cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared on a going concern basis on the basis that the proposed restructuring of the Company will be successfully completed, and that, following the restructuring, the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future.

Should the Group be unable to achieve a successful restructuring and to continue its business as a going concern, adjustments would have to be made to the financial statements to properly reflect the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

2. BASIS OF PREPARATION *(continued)*

(d) Compliance with Hong Kong Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which also includes Hong Kong Accounting Standards ("HKAS") and Interpretations approved by the HKICPA, and are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss. These consolidated financial statements also comply with the applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(a) Initial application of HKFRSs

In the current year, the Group initially applied the following HKFRSs:-

HKAS 1	Presentation of Financial Statements, Paragraphs 124A to 124C
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The initial application of these HKFRSs does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

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

The following HKFRSs in issue as at 31 July 2008 have not been applied in the preparation of the Group's financial statements for the year ended 31 July 2008 since they were not yet effective for the annual period beginning on 1 August 2007:

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
Amendments to HKAS 32 and HKAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
Amendment to HKFRS 2	Share-based Payment – Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 8	Operating Segments [1]
HK(IFRIC)-Int 12	Service Concession Arrangements [3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3]

[1] Effective for financial period commencing on or after 1 January 2009
[2] Effective for financial period commencing on or after 1 July 2009
[3] Effective for financial period commencing on or after 1 January 2008
[4] Effective for financial period commencing on or after 1 July 2008

The Group is in the process of making an assessment of what the impact of these new HKFRS is expected to be in the period of initial application.

4. 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 2008. 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 and freehold land, 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 asset, the expenditure is capitalised as an additional cost of that asset.

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

Leasehold buildings in the PRC	Over the terms of the joint venture or land use right, whichever is shorter
Other buildings	Over the term of lease or 5%
Plant and machinery	10%
Furniture, fixtures and office equipment	15 – 20%
Motor vehicles	20 – 25 %
Computer equipment	20%
Leasehold improvements	5%

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

Freehold land is stated at cost less any impairment losses and is not amortised.

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

Up-front payments to acquire leasehold land are amortised over the term of the leases on a straight-line basis.

(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 any impairment losses. Income from subsidiaries is recognised in the Company's financial statements on the basis of dividends declared by the subsidiaries.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Investments *(continued)*

All regular way purchases and sales of financial assets are recognised and derecognised on a trade date basis. 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 accumulated 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 profit or loss on disposal recognised in the consolidated income statement.

(g) Intangible assets

Intangible assets are stated at cost less aggregate amortisation and impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets *(continued)*

Amortisation is calculated to write off the costs 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 licenses	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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Revenue recognition

Revenue from the 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 accrues using the effective interest method.

(l) 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 for the year 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.

(m) 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.

(n) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of assets *(continued)*

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.

(o) Payables

Payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

(p) 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.

(q) 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) 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 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 a straight line basis over the periods of the respective leases.

(s) 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. Such translation differences are recognised in the consolidated income statement for the year in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 ("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.

The fair value of share options granted to employees measured at the grant date and adjusted for the estimated number of shares that will eventually be vested is recognised as an employee cost on a straight-line basis over the vesting period, with a corresponding increase in a capital reserve.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits/accumulated losses).

(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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Income tax *(continued)*

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).

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 a 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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) Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) 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.

5. CRITICAL JUDGMENT AND KEY ESTIMATES

Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The key assumptions concerning the future and the accounting estimates that have a significant effect on the carrying value of assets and liabilities in the balance sheet and the profit or loss items are discussed below:

(a) Going concern basis

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group being able to achieve a successful restructuring and continue its business. Details are explained in note 2(c) to the financial statements.

(b) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a 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 life of property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation of the year.

(c) Impairment on 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.

5. CRITICAL JUDGEMENT AND KEY ESTIMATES *(continued)*

(d) Provision for impairment on 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. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(e) Income tax

As at 31 July 2008, no deferred tax asset has been recognised in respect of the unutilised tax losses of HK$77,877,000 (2007: HK$23,505,000) and general provision for bad and doubtful debts of approximately HK$45,402,000 (2007: HK$29,925,000) due to the unpredictability of future taxable profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profit 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 assets may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

(f) Equity settled share-based transactions, convertible bonds and warrants

The binomial option-pricing model was applied to estimate the fair value of share options granted by the Company and the warrants detachable from the convertible bonds issued by the Company respectively. The fair value of the liability component of the Company's convertible bonds is estimated using an equivalent market interest rate for a similar bond without a conversion option.

The binomial option-pricing model requires the input of highly subjective assumptions, including the volatility of share price. The determination of the fair value of the liability component of the convertible bonds requires management's estimation. The changes in input assumptions and management's estimation can materially affect the fair value estimate.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity risk arising from its equity investments in other entities. These risks are limited by the Group's financial management policies and practices described below:

(a) Credit risk

The Group's credit risk is primarily attributable to receivables and deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Regular review and follow up actions are carried out on overdue amounts to minimise the Group's exposure to credit risk. An aging analysis of the debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with these debtors. The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance. The Group does not provide any guarantee which would expose the Group to credit risk. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from receivables and deposits are set out in notes 22 and 23 to the financial statements.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Group manages interest rate risk, when it is considered significant, by entering into appropriate swap contracts.

The Group's interest rate risk arises primarily from bank and time deposits, bank and other borrowings and finance lease obligations.

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

(c) Interest rate risk *(continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing financial instruments at the balance sheet date:

	2008	2007
	HK$'000	HK$'000
Fixed rate assets/(liabilities):		
Time deposit	**–**	31,802
Other loans	**(5,686)**	(1,657)
Variable rate assets/(liabilities):		
Cash at banks	**1,076**	7
Bank loans/Liabilities directly associated with non-current assets held for sales	**(13,664)**	(13,460)
Finance lease obligations	**(1,093)**	(613)
Other loans	**(27,889)**	–

(ii) Sensitivity analysis

As at 31 July 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss for the year and accumulated losses by approximately HK$473,000 (2007: HK$161,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

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

(d) Currency risk

The Group is exposed to currency risk primarily through bank deposits and other loans that are denominated in the currency other than the functional currency of the group entity to which they relate. The currencies giving rise to this risk are primarily in United States dollar ("USD"). As Hong Kong dollar ("HKD") is pegged to USD, the Group considers the risk of movements in exchange rates between HKD and USD to be insignificant for transactions denominated in USD.

The following table shows the details of the Group's exposure at the balance sheet date to currency risk arising from recognised assets denominated in a currency other than the functional currency of the group entity to which they relate.

	2008	2007
	HK$'000	HK$'000
Cash and cash equivalents	**33**	31,802
Other loans	**(27,889)**	–

(e) Equity price risk

The Group is exposed to equity price change arising from investments in equity securities. The board of directors manages the exposure by closely monitoring the portfolio of equity investments. The Group's listed investments are mainly listed on the Hong Kong, United States, Singapore and Japan stock exchanges and are valued at quoted market prices at the balance sheet date.

As at 31 July 2008, the Group's financial assets at fair value through profit or loss of approximately HK$50,647,000 (2007: HK$18,735,000) were exposed to market price risk.

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date. A 10 percent change is used and represents management's assessment of the reasonably possible change in equity price.

As at 31 July 2008, if the market prices of the listed investments had been 10 percent higher/lower, the Group's loss for the year would decrease/increase by approximately HK$5,065,000 (2007: HK$1,874,000).

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

(f) Fair value

All significant financial assets and liabilities are carried at amounts not materially different from their fair values as at 31 July 2008 and 2007.

7. PRIOR PERIOD ADJUSTMENTS

China Citic Bank (Chengdu Branch) (the "Bank") had taken legal action against the Company's subsidiary, Chengdu Viking Yuen Heng Pharmaceutical Co. Ltd. ("Viking Yuen Heng"), being the borrower, and 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 recover the overdue loans of RMB13,000,000 together with the overdue interest charged thereon (the "Overdue Debts"). The judgments of the Chengdu Intermediate People's Court of the PRC ("Chengdu Court") had been issued for execution on 18 April 2006 and 20 April 2006 accordingly (the "Judgments").

On 26 June 2006, the Chengdu Court approved the application of the Bank for enforcement of the Judgments by the Wenjiang District People's Court of Chengdu City of the PRC ("Wenjiang Court") and the Bank demanded the Guarantors to indemnify the debts. The factories, machineries and land owned by Viking Yuen Heng and Concord Yuen Heng (together the "Properties") were valued by professional valuers engaged by Wenjiang Court in February 2007 and July 2007 respectively to have an aggregate market value of approximately RMB13,220,000. The Properties comprised: (1) the factories then owned by Viking Yuan Heng; and (2) a piece of land of 44,000 square meter together with factories erected thereon and machineries therein then owned by Concord Yuen Heng. Viking Yuen Heng and the Guarantors did not repay the debts to the Bank. On 22 August 2007, at the application of the Bank, the Wenjiang Court granted an order to sell the Properties through public auction for an amount of RMB10,000,000 for the purpose of satisfying the Judgments. The public auction was held on 10 September 2007, at which the Properties were sold to the successful bidder of the Properties at a consideration of RMB10,000,000 (net proceeds after the deduction of related legal charges was RMB9,720,000), which was subsequently approved and confirmed by the Wenjiang Court on 18 October 2007.

The Board was only informed of the aforesaid valuation, auction and court approval until the receipt of the official notice from the court on 13 November 2007. The Company's directors' report and audited financial statements for the year ended 31 July 2007 were approved and authorised for issue on 30 October 2007, of which no corresponding adjustment on the fair value of the Properties had been recognised to reflect the impairment.

7. PRIOR PERIOD ADJUSTMENTS *(continued)*

The Board considers it is more appropriate to reflect the impairment of the Properties, together with the impairment on goodwill and intangible assets that belong to the same cash generating unit of the Properties, in the Company's financial statements for the year ended 31 July 2007. Furthermore, the Properties and the Overdue Debts were reclassified as non-current assets held for sales and liabilities directly associated with non-current assets held for sales respectively as at 31 July 2007 since the Properties' carrying amount would be recovered through a sale transaction rather than through continuing use. Details of the effect of the prior period adjustments are as follows:

	As at 31 July 2007 HK$'000
Assets	
Decrease in property, plant and equipment	23,876
Decrease in leasehold land	3,188
Decrease intangible assets	4,183
Decrease in goodwill	3,309
Decrease in deposits for acquisition of property, plant and equipment	2,443
Increase in non-current assets held for sales	9,978
Liabilities	
Decrease in bank and other loans	13,460
Increase in liabilities directly associated with non-current assets held for sales	13,460
Equity	
Increase in accumulated loss	26,497
Decrease in exchange fluctuation reserve	524

	For the year ended 31 July 2007 HK$'000
Increase in impairment provision for property, plant and equipment, intangible assets and goodwill	
Increase in loss for the year	26,497
Increase in loss per share	
– Basic (HK$)	0.03
– Diluted (HK$)	N/A

8. 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, sales and distribution of veterinary drugs;

(b) the feed supplements segment comprises the manufacture and sale of feed supplements;

(c) the safe food segment comprises the trading of livestock and "Sakura Pork" branded food fed with probiotics-based feed supplements; and

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

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.

8. **SEGMENT INFORMATION** *(continued)*

Business segments

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

	Veterinary drugs		Feed supplements		Safe food		Corporate		Eliminations		Consolidated	
		Restated		Restated		Restated		Restated		Restated		Restated
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**3,540**	761	**2,441**	–	**–**	–	**–**	–	**5,981**	6,289
Other revenue	**–**	201	**3,307**	10	**–**	–	**–**	–	**–**	–	**3,307**	211
Total revenue	**–**	5,729	**6,847**	771	**2,441**	–	**–**	–	**–**	–	**9,288**	6,500
Segment results	**(1,260)**	(26,810)	**(76,991)**	(10,664)	**(216)**	–	**(54,506)**	(16,950)	**–**	–	**(132,973)**	(54,424)
Interest income											**12,677**	921
Loss from operating activities											**(120,296)**	(53,503)
Finance costs											**(11,106)**	(3,857)
Impairment on												
– Property, plant and equipment and deposits paid for acquisition of property, plant and equipment	**(105)**	(29,005)	**–**	–	**–**	–	**(79)**	–	**–**	–	**(184)**	(29,005)
– Intangible assets	**–**	(4,183)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(4,183)
– Goodwill	**–**	–	**–**	–	**–**	–	**(23,392)**	(3,309)	**–**	–	**(23,392)**	(3,309)
Loss before tax											**(154,978)**	(93,857)
Tax	**–**	(231)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	(231)
Loss for the year											**(154,978)**	(94,088)

8. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

	Veterinary drugs		Feed supplements		Safe food		Corporate		Eliminations		Consolidated	
		Restated		Restated		Restated		Restated		Restated		Restated
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	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	**18,233**	20,004	**45,194**	19,498	**3,096**	–	**380,981**	258,132	**(333,884)**	(193,655)	**113,620**	103,979
Total assets	**18,233**	20,004	**45,194**	19,498	**3,096**	–	**380,981**	258,132	**(333,884)**	(193,655)	**113,620**	103,979
Segment liabilities	**67,976**	63,177	**54,962**	17,283	**878**	–	**385,715**	171,233	**(333,884)**	(193,655)	**175,647**	58,038
Total liabilities	**67,976**	63,177	**54,962**	17,283	**878**	–	**385,715**	171,233	**(333,884)**	(193,655)	**175,647**	58,038
Other segment information:												
Depreciation and amortisation	**47**	4,029	**1,663**	168	**2**	–	**269**	9	**–**	–	**1,981**	4,206
Capital expenditure	**–**	796	**13,067**	2,084	**368**	–	**18,918**	154	**–**	–	**32,353**	3,034

Geographical segments

	Hong Kong		PRC		Malaysia		Singapore		Japan		Consolidated	
		Restated		Restated		Restated		Restated		Restated		Restated
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from external sales	**15**	–	**3,001**	5,528	**–**	761	**2,452**	–	**513**	–	**5,981**	6,289
Segment assets	**53,730**	56,869	**41,971**	38,922	**–**	–	**8,500**	8,188	**9,419**	–	**113,620**	103,979
Capital expenditure	**19,817**	154	**1,827**	796	**–**	–	**1,243**	2,084	**9,466**	–	**32,353**	3,034

9. TURNOVER AND OTHER 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:

	2008	2007
	HK$'000	HK$'000
Sale of feed supplements	**3,540**	761
Sale of safe food	**2,441**	–
Sale of veterinary drugs	**–**	5,528
	5,981	6,289
Other revenue		
Interest income	**12,677**	921
Exchange gain	**–**	10
Gain on disposal of property, plant and equipment	**–**	29
Sundry income	**3,307**	172
	15,984	1,132
Total revenue	**21,965**	7,421

10. LOSS FROM OPERATING ACTIVITIES

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

	2008 HK$'000	2007 HK$'000
Amortisation of intangible assets	**–**	2,568
Amortisation of leasehold land	**261**	48
Auditors' remuneration	**550**	254
Depreciation	**1,720**	1,590
Sales proceeds	**(10,624)**	(754)
Less: Net book value	**10,627**	725
Loss/(gain) on disposal of property, plant and equipment and non-current assets held for sales	**3**	(29)
Minimum operating lease payments for land and buildings	**3,023**	814
Provision for obsolete inventories	**952**	2,907
Research and development expenditure	**3,765**	3,053
Staff costs (including directors' emoluments in note 12)		
Salaries, wages and other allowances	**16,852**	6,852
Pension scheme contributions	**745**	185
	17,597	7,037

11. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interest on convertible bonds	**8,602**	–
Finance lease charges	**29**	4
Interest on bank loans wholly repayable within five years	**419**	1,220
Interest on other loans	**2,056**	2,633
	11,106	3,857

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	Fees		Salaries, allowances and benefit-in-kinds		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Executive directors						
Ms. Liu Yang	**720**	379	**2,904**	1,391	**3,624**	1,770
Mr. Liu Dong Hui	**518**	253	**–**	–	**518**	253
Mr. Fang Ming	**–**	–	**1,101**	308	**1,101**	308
Ms. Wong Moon Ha	**309**	126	**–**	–	**309**	126
Mr. Wong Sai Wa	**360**	360	**1,720**	695	**2,080**	1,055
Mr. Wong Fei Fei (Note (i))	**–**	–	**–**	–	**–**	–
	1,907	1,118	**5,725**	2,394	**7,632**	3,512
Non-executive directors						
Mr. Kwan Kai Cheong (Note (ii))	**–**	–	**–**	–	**–**	–
Mr. Tan Min	**60**	–	**–**	–	**60**	–
Mr. Wong See Hong (Note (iii))	**–**	–	**–**	–	**–**	–
Mr. Lai Chik Fan (Note (iv))	**–**	–	**–**	–	**–**	–
	60	–	**–**	–	**60**	–
Independent non-executive directors						
Mr. Garry Alides Willinge	**120**	120	**–**	–	**120**	120
Mr. Chan Kin Hang	**120**	40	**–**	–	**120**	40
Dr. Ding Hanpeng (Note (v))	**120**	34	**–**	–	**120**	34
Mr. Chen Zhu Ming (Note (vi))	**24**	–	**–**	–	**24**	–
Mr. Lai Chik Fan (Note (iv))	**–**	50	**–**	–	**–**	50
Mr. Chow Wai Ming (Note (vii))	**–**	80	**–**	–	**–**	80
Mr. Ho Kwok On (Note (viii))	**–**	–	**–**	–	**–**	–
	384	324	**–**	–	**384**	324
	2,351	1,442	**5,725**	2,394	**8,076**	3,836

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

(a) Directors' emoluments *(continued)*

Notes:

(i) Resigned as an executive director on 22 January 2007.

(ii) Resigned as a non-executive director on 20 May 2008.

(iii) Appointed and resigned as a non-executive director on 28 February 2008 and 20 June 2008 respectively.

(iv) 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.

(v) Resigned as an independent non-executive director on 28 February 2008.

(vi) Appointed as an independent non-executive director on 20 May 2008.

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

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

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.

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

(b) Five highest paid individuals

The five highest paid individuals during the year included three (2007: four) directors, details of whose remuneration are set out in note 12(a) to the financial statements. Details of the remuneration of the remaining two (2007: one) highest paid non-director employees are as follows:

	2008	2007
	HK$'000	HK$'000
Salaries and allowances	**1,465**	178
Pension scheme contributions	**24**	4
	1,489	182

Each of the remuneration of the two highest paid non-director employees is below HK$1,000,000.

13. 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$745,000 (2007: HK$185,000).

14. TAX

(a) Taxation in the consolidated income statement of preceding year represented deferred tax (Note 14(b)).

No provision for Hong Kong profits tax has been made as the Group did not have any estimated assessable profits arising in Hong Kong for both years.

No provision for income taxes in the PRC and other jurisdictions has been made as the Group did not have any assessable profits arising in these jurisdictions for both years.

The Hong Kong profits tax rate decreased from 17.5% to 16.5% with effect from the year of assessment 2008/09.

The PRC corporate income tax rate decreased from 33% to 25% with effect from year 2008.

Tax expense for the year can be reconciled as follows:

	2008 **HK$'000**	Restated 2007 HK$'000
Loss before tax	**(154,978)**	(93,857)
Tax effect at the PRC statutory income tax rate of 25% (2007: 33%)	**(38,745)**	(30,973)
Tax effect of non-deductible expenses	**28,797**	12,340
Tax effect of tax exempt revenue	**(263)**	(75)
Tax effect of unrecognised general provision for bad and doubtful debts	**3,869**	5,088
Tax effect of unrecognised impairment of assets	**(7,251)**	9,571
Tax effect of unrecognised tax losses	**13,593**	4,280
Tax expense	**–**	231

14. TAX *(continued)*

(b) Movements in recognised deferred tax asset during the preceding year are as follows:-

	Decelerated depreciation allowances
	HK$'000
At 1 August 2006	(231)
Charge for the year	231
At 31 July 2007 and 31 July 2008	–

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

	2008	Restated 2007
	HK$'000	HK$'000
Unutilised tax losses	**77,877**	23,505
Provision for bad and doubtful debts	**45,402**	29,925
Impairment of assets	**–**	29,005
	123,279	82,435

The unutilised tax losses accumulated in the PRC and Japan subsidiaries would expire in five years and seven years respectively from the respective year 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.

15. LOSS ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

Loss attributable to shareholders of the Company includes a loss of HK$259,302,000 (2007: HK$10,718,000) which has been dealt with in the financial statements of the Company.

16. LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic loss per share attributable to shareholders of the Company is based on the loss attributable to the shareholders of the Company from continuing operations for the year of approximately HK$154,978,000 (2007: HK$92,396,000 as restated) and the weighted average number of 1,352,400,000 (2007: 893,930,959) ordinary shares in issue during the year.

No diluted loss per share is presented for the year ended 31 July 2008 as the conversion of the outstanding convertible bonds, warrants and share options during the year had an anti-dilutive effect on the basic loss per share.

For the year ended 31 July 2007, there were no dilutive potential shares.

17. PROPERTY, PLANT AND EQUIPMENT

	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							
– As previously reported	22,662	7,106	320	1,688	302	12,218	44,296
– Prior year adjustment							
– Transfer to non-current assets held for sales	(22,662)	(5,559)	(203)	(592)	(155)	(12,218)	(41,389)
– As restated and at 31 July 2007	–	1,547	117	1,096	147	–	2,907
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							
– As previously reported	4,012	3,136	146	563	142	–	7,999
– Prior year adjustment							
– Transfer to non-current assets held for sales	(4,012)	(2,887)	(91)	(502)	(123)	–	(7,615)
– As restated and at 31 July 2007	–	249	55	61	19	–	384
Impairment:							
Exchange adjustment and charge for the year							
– As previously reported	8,617	1,383	–	–	–	–	10,000
– Prior year adjustment	3,380	1,488	–	–	–	12,218	17,086
	11,997	2,871	–	–	–	12,218	27,086
– Prior year adjustment							
– Transfer to non-current assets held for sales	(11,997)	(2,769)	–	–	–	(12,218)	(26,984)
– As restated and at 31 July 2007	–	102	–	–	–	–	102
Net book value:							
At 31 July 2007	–	1,196	62	1,035	128	–	2,421

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

	Freehold land and building HK$'000	Leasehold buildings HK$'000	Leasehold improvements 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 2007									
– As previously reported	–	22,662	–	7,106	320	1,688	302	12,218	44,296
– Prior year adjustment									
– Transfer to non-current assets held for sales	–	(22,662)	–	(5,559)	(203)	(592)	(155)	(12,218)	(41,389)
– As restated	–	–	–	1,547	117	1,096	147	–	2,907
Exchange adjustment	26	–	46	206	33	195	7	–	513
Additions	3,440	4,098	1,303	9,676	1,520	3,077	298	–	23,412
Disposals	–	–	–	–	(4)	–	–	–	(4)
At 31 July 2008	**3,466**	**4,098**	**1,349**	**11,429**	**1,666**	**4,368**	**452**	**–**	**26,828**
Aggregate depreciation:									
At 1 August 2007									
– As previously reported	–	4,012	–	3,136	146	563	142	–	7,999
– Prior year adjustment									
– Transfer to non-current assets held for sales	–	(4,012)	–	(2,887)	(91)	(502)	(123)	–	(7,615)
– As restated	–	–	–	249	55	61	19	–	384
Exchange adjustment	–	–	4	45	9	19	3	–	80
Charge for the year	33	72	65	714	128	635	73	–	1,720
Disposals	–	–	–	–	(1)	–	–	–	(1)
At 31 July 2008	**33**	**72**	**69**	**1,008**	**191**	**715**	**95**	**–**	**2,183**
Impairment:									
At 1 August 2007									
– As previously reported	–	8,617	–	1,383	–	–	–	–	10,000
– Prior year adjustment	–	3,380	–	1,488	–	–	–	12,218	17,086
	–	11,997	–	2,871	–	–	–	12,218	27,086
– Prior year adjustment									
– Transfer to non-current assets held for sales	–	(11,997)	–	(2,769)	–	–	–	(12,218)	(26,984)
– As restated	–	–	–	102	–	–	–	–	102
Exchange adjustment	–	–	–	8	1	–	–	–	9
Charge for the year	–	–	–	166	12	3	3	–	184
At 31 July 2008	**–**	**–**	**–**	**276**	**13**	**3**	**3**	**–**	**295**
Net book value:									
At 31 July 2008	**3,433**	**4,026**	**1,280**	**10,145**	**1,462**	**3,650**	**354**	**–**	**24,350**

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

The analysis of net book value of leasehold properties is as follows:-

	2008	Restated 2007
	HK$'000	HK$'000
In Hong Kong under medium-term lease	**4,026**	–
In the PRC under medium-term lease	**–**	6,653
	4,026	6,653

As at 31 July 2008, the Group's leasehold buildings together with leasehold land (Note 18) were pledged to secure the Group's bank loans (Note 27). On 26 February 2009, the Group surrendered the vacant possession of the leasehold buildings and land to the bank (Note 39(e)).

As at 31 July 2008, the net book value of property, plant and equipment held under finance leases amounted to approximately HK$1,607,000 (2007: HK$876,000).

18. LEASEHOLD LAND

	2008 HK$'000	Restated 2007 HK$'000
Net book value at beginning of the year		
– As previously reported	**7,571**	3,004
– Prior year adjustment	**(3,188)**	–
– As restated	**4,383**	3,004
Exchange difference	**455**	309
Additions	**8,941**	–
Amortisation for the year	**(261)**	(48)
Acquisition of subsidiaries	**–**	4,306
Net book value at end of the year (2007: as previously reported)	**13,518**	7,571
Prior year adjustment – Transfer to non-current assets held for sales	**–**	(3,188)
Net book value at end of the year (2007: as restated)	**13,518**	4,383
Current portion (included in deposits, prepayments and other receivables (Note 23))	**(334)**	(146)
Non-current portion	**13,184**	4,237

The analysis of net book value of leasehold land is as follows:-

	2008 HK$'000	Restated 2007 HK$'000
In Hong Kong under medium term lease	**8,783**	–
In the People's Republic of China under medium term lease	**4,735**	4,383
	13,518	4,383

As at 31 July 2008, certain of the Group's leasehold land in Hong Kong together with the leasehold buildings (Note 17) were pledged to secure the Group's bank loans (Note 27). On 26 February 2009, the Group surrendered the vacant possession of the leasehold buildings and land to the bank (Note 39(e)).

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$3,147,000 was outstanding as at 31 July 2008 (included in other payable and accruals). Due to the change of the Group's business plan, the subsidiary entered into a supplementary agreement with the landlord pursuant to which the subsidiary would return the land to the landlord by no later than 31 December 2008 and the landlord would return the partial purchase consideration previously paid by the subsidiary upon the completion of the land title transfer. As of the balance sheet date, the land use right is still registered in the name of the subsidiary.

19. INTANGIBLE ASSETS

	Technical know-how HK$'000	Production licenses HK$'000	Total HK$'000
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
Impairment:			
At 1 August 2006			
– As previously reported	–	–	–
– Prior year adjustment	–	4,183	4,183
– As restated and at 31 July 2007	–	4,183	4,183
Net book value:			
At 31 July 2007	–	–	–
Cost:			
At 1 August 2007	12,796	7,610	20,406
Exchange adjustments	1,345	800	2,145
At 31 July 2008	**14,141**	**8,410**	**22,551**
Aggregate amortisation:			
At 1 August 2007	12,796	3,427	16,223
Exchange adjustments	1,345	87	1,432
At 31 July 2008	**14,141**	**3,514**	**17,655**
Impairment:			
At 1 August 2007			
– As previously reported	–	–	–
– Prior year adjustment	–	4,183	4,183
– As restated	–	4,183	4,183
Exchange adjustments	–	713	713
At 31 July 2008	**–**	**4,896**	**4,896**
Net book value:			
At 31 July 2008	**–**	**–**	**–**

20. GOODWILL

	HK$'000
Cost:	
At 1 August 2006	3,309
Acquisition of subsidiaries	23,392
At 31 July 2007 and 31 July 2008	**26,701**
Impairment:	
Charge for the year	
– As previously reported	–
– Prior year adjustment	3,309
– As restated and at 31 July 2007 and 1 August 2007	3,309
Charge for the year	23,392
At 31 July 2008	**26,701**
Net book value:	
At 31 July 2008	**–**
At 31 July 2007	23,392

At the balance sheet date, the goodwill is identified to the cash-generating units ("CGU") of veterinary drugs and feed supplements business. The directors are of the opinion that the carrying amount of the goodwill is not recoverable. Accordingly, full impairment has been made.

21. INVENTORIES

	2008 **HK$'000**	2007 HK$'000
Raw materials	**1**	41
Finished goods	**351**	212
	352	253

22. TRADE RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables	**28,411**	25,324
Provision for bad and doubtful debts	**(28,169)**	(24,001)
	242	1,323

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 provision, is as follows:

	2008 HK$'000	2007 HK$'000
Within 3 months	**222**	–
3 to 6 months	**–**	761
6 to 12 months	**20**	562
	242	1,323

Movements of the provision for bad and doubtful debts during the current and prior years were as follows:-

	2008 HK$'000	2007 HK$'000
At beginning of the year	**24,001**	14,508
Provided for the year	**4,168**	9,493
At end of the year	**28,169**	24,001

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Prepayments	**2,580**	807
Deposits and other receivables	**26,667**	7,743
Provision for bad and doubtful debts	**(17,233)**	(5,924)
	12,014	2,626
Current portion of leasehold lands (Note 18)	**334**	146
	12,348	2,772

Movements of the provision for bad and doubtful debts during the current and prior years were as follows:-

	2008 HK$'000	2007 HK$'000
At beginning of the year	**5,924**	–
Provided for the year	**11,309**	5,924
At end of the year	**17,233**	5,924

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 HK$'000	2007 HK$'000
Listed shares in Hong Kong, at fair value	**–**	1,541
Listed shares outside Hong Kong, at fair value	**8,476**	1,345
Equity linked notes, at fair value	**42,171**	15,849
	50,647	18,735

As at 31 July 2008, the Group's financial assets at fair value through profit or loss were pledged to secure the Group's other loans (Note 27).

25. CASH AND CASH EQUIVALENTS

	2008 HK$'000	2007 HK$'000
Cash and bank balances	**12,497**	8,994
Time deposits	**–**	31,802
	12,497	40,796

26. NON-CURRENT ASSETS HELD FOR SALES/LIABILITIES DIRECTLY ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALES

	2008 HK$'000	Restated 2007 HK$'000
Non-current assets held for sales		
– Property, plant and equipment	**–**	6,790
– Leasehold land	**–**	3,188
	–	9,978
Liabilities directly associated with non-current assets held for sales		
– Bank loans	**–**	13,460

The non-current assets held for sales and liabilities directly associated with non-current assets held for sales as at 31 July 2007 represented the Properties and the Overdue Debts, details of which are set out in note 7 to the financial statements.

27. BANK AND OTHER BORROWINGS

	2008 HK$'000	Restated 2007 HK$'000
Bank loans		
– Secured	**9,657**	–
– Unsecured	**4,007**	–
	13,664	–
Other loans		
– Secured	**27,889**	1,657
– Unsecured	**5,686**	–
	33,575	1,657
	47,239	1,657
Bank loans repayable within one year	**4,406**	–
Other loans repayable within one year	**33,575**	1,657
	37,981	1,657
Bank loans repayable		
– within the second year	**408**	–
– within the third to fifth years	**1,278**	–
– beyond the fifth year	**7,572**	–
	9,258	–
	47,239	1,657

27. BANK AND OTHER BORROWINGS *(continued)*

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

(b) The bank loans carry variable interest rate ranging from 2.3% to 9.43% per annum (2007: 8.97% to 9.43%) and the other loans carry fixed interest rate ranging from 9.6% to 24% per annum (2007: 12% to 24%).

(c) The unsecured bank loans of approximately HK$4,007,000 as at 31 July 2008 represented the remaining Overdue Debts after the repayment of the proceeds from the auction (Note 7).

(d) The other loans are secured by the Group's financial assets at fair value through profit or loss (Note 24) and bear interest at the prevailing market rate.

(e) The bank loans of approximately HK$9,657,000 are secured by the Group's (i) leasehold land (Note 18); and (ii) leasehold buildings (Note 17) respectively.

(f) Other loans included a loan of approximately HK$686,000 (2007: HK$621,000) 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**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**217**	109	**182**	78
In the second to fifth years inclusive	**870**	434	**727**	355
Over five years	**220**	190	**184**	180
	1,307	733	**1,093**	613
Less: Future finance charges	**214**	120	**–**	–
Present value of lease obligations	**1,093**	613	**1,093**	613
Less: Amount due for settlement within twelve months (shown under current liabilities)			**182**	78
Amount due for settlement after twelve months (shown under non-current liabilities)			**911**	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:

	2008	2007
	HK$'000	HK$'000
Within 3 months	**10**	–
6 to 12 months	**–**	295
Over 1 year	**1,281**	882
	1,291	1,177

30. AMOUNTS DUE TO DIRECTORS

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

31. CONVERTIBLE BONDS

On 2 November 2007, the Company issued zero coupon convertible bonds with a nominal value of HK$100,000,000 (the "Convertible Bonds") and nil-paid warrant (the "Nil-paid warrant") to a substantial shareholder. The Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company at a conversion price of HK$0.66 per share (the "Conversion Price"), subject to adjustment, on or before 2 November 2010 (the "Maturity Date").

Unless previously converted, redeemed or cancelled in accordance with the terms of the Convertible Bonds, the Company is required to redeem each Convertible Bond at 106.6% of its principal amount on the Maturity Date.

The Nil-paid warrant, which was granted for no consideration and detachable from the Convertible Bonds, carried the right to subscribe for up to 70,588,235 shares of the Company at exercise price of HK$0.85 per share on or before Maturity Date.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The fair value of the Nil-paid warrant was calculated using the binomial option-pricing model, which is assigned as equity component and is included in shareholders' equity. The residual amount is assigned as the Convertible Bonds' equity component and is included in shareholders' equity.

31. CONVERTIBLE BONDS *(continued)*

The Convertible Bonds and the Nil-paid warrants issued during the year have been split as to the liability and equity components, as follows:

	Liability component of convertible bonds HK$'000	Equity component of convertible bonds HK$'000	Equity component of warrants HK$'000	Total HK$'000
At 1 August 2006 and 1 August 2007	–	–	–	–
Nominal value of Convertible Bonds issued during the year	65,559	29,634	4,807	100,000
Finance costs	8,602	–	–	8,602
At 31 July 2008	**74,161**	**29,634**	**4,807**	**108,602**

None of the Convertible Bonds and the Nil-paid warrants were converted, exercised, redeemed or cancelled during the year ended 31 July 2008.

32. SHARE CAPITAL

(a) Shares

Ordinary shares of HK$0.05 each

	2008 Number of shares	**2008** HK$'000	2007 Number of shares	2007 HK$'000
Authorised:				
At beginning of the year	**1,500,000,000**	**75,000**	1,000,000,000	50,000
Increase	**1,500,000,000**	**75,000**	500,000,000	25,000
At end of the year	**3,000,000,000**	**150,000**	1,500,000,000	75,000
Issued and fully paid:				
At beginning of the year	**1,352,400,000**	**67,620**	500,000,000	25,000
Issue of shares for acquisition of subsidiaries	–	–	480,000,000	24,000
Issue of shares	–	–	372,400,000	18,620
At end of the year	**1,352,400,000**	**67,620**	1,352,400,000	67,620

Pursuant to an ordinary resolution passed at an extraordinary general meeting on 12 September 2007, the authorised share capital of the Company was increased to HK$150,000,000 by the creation of 1,500,000,000 ordinary shares of HK$0.05 each.

32. SHARE CAPITAL *(continued)*

(b) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

33. SHARE OPTION SCHEMES

(a) Share Option Scheme

The Company had adopted a share option scheme (the "Scheme"), the principal terms of which were summarised in the section headed "Statutory and General Information Share Option Schemes" in Appendix 5 to the Company's prospectus dated 28 March 2001. The Scheme became effective on 23 March 2001 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

By ordinary shareholders' resolutions passed at the extraordinary general meeting held on 12 September 2007, the Company had made amendments on the Scheme. The exact terms of the amendments were detailed in the circular of the Company dated 27 August 2007. Save as set out in such amendment, all other provisions of the Scheme remained unchanged.

33. SHARE OPTION SCHEMES *(continued)*

(a) Share Option Scheme *(continued)*

The following share options were granted and outstanding under the Scheme during the year:

Name or category of of participant	At 1.8.2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31.7.2008	Date of grant of share options	Exercise period of share options	Exercise price of share options
									HK$
Consultants	–	43,000,000	–	–	–	**43,000,000**	23.9.2007	23.9.2007 to 22.9.2017	0.43
Consultants	–	27,040,000	–	–	–	**27,040,000**	14.11.2007	14.11.2007 to 13.11.2017	0.59
	–	70,040,000	–	–	–	**70,040,000**			

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.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options granted is measured using the binomial option-pricing model, the assumptions of which are set out below:

Fair value at measurement date	HK$0.16-HK$0.26
Share price	HK$0.39-HK$0.59
Exercise price	HK$0.43 and HK$0.59
Expected volatility	44%-44.18%
Interest rate	3.567%-4.425%
Expected dividends yield	0%

The expected volatility was based on the historical volatility. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

33. SHARE OPTION SCHEMES *(continued)*

(a) Share Option Scheme *(continued)*

The exercise of the above 70,040,000 outstanding share options at the balance sheet date would, under the present capital structure of the Company, would result in the issue of 70,040,000 additional ordinary shares of the Company and additional share capital of HK$3,502,000 and share premium of HK$30,941,600 (before issue expenses).

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

The Group recognised approximately HK$14,364,000 share-based compensation expenses for the year ended 31 July 2008.

No option has been granted before 1 August 2007.

(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.

33. SHARE OPTION SCHEMES *(continued)*

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

(ii) *(continued)*

The following share options were outstanding and lapsed under the Pre-IPO Plan during the current years:

Name or category of of participant	At 1.8.2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	At 31.7.2008	(Note 1) Date of grant of share options	Exercise period of share options	(Note 2) Exercise price of share options HK$
Directors									
Mr. Wong Sai Wa	3,200,000	–	–	–	–	**3,200,000**	23.3.2001	10.10.2001 to 22.3.2010	0.55
Mr. Kwan Kai Cheong	3,000,000	–	–	(3,000,000)	–	**–**	23.3.2001	10.10.2001 to 22.3.2010	0.55
	6,200,000	–	–	(3,000,000)	–	**3,200,000**			
Other employees	400,000	–	–	(400,000)	–	**–**	23.3.2001	10.10.2001 to 22.3.2010	0.55
	6,600,000	–	–	(3,400,000)	–	**3,200,000**			

Notes:

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

(2) 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 3,200,000 outstanding share options at the balance sheet date would, under the present capital structure of the Company, result in the issue of 3,200,000 additional ordinary shares of the Company and additional share capital of HK$160,000 and share premium of HK$1,600,000 (before issue expenses).

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

34. LITIGATION

A winding up petition (the "Petition") was served on the Company on 13 May 2008 by 汕頭市欣源貿易有限公司 (Shantou Xinyuan Trading Company Limited) (the "Petitioner"). The Petitioner claimed that the Company was indebted to it in the amount of approximately RMB4,426,000 (the "Alleged Indebtedness") pursuant to an order of the China International Economic and Trade Arbitration Commission (the "Commission") dated 15 February 2008. The Company has made an application to the Second Immediate People's Court of Beijing (the "Beijing Court") to dismiss the order of the Commission on 14 April 2008, which has been accepted by the Beijing Court. As the order which sanctioned the Alleged Indebtedness is subject to further ruling of the Beijing Court, the Company intends to take vigorous action to defend the petition while at the same time continue to pursue the action to dismiss the order of the Commission.

The hearing for the petition was further adjourned to 12 April 2010. The Provisional Liquidators are obtaining legal opinion on the merits and validity of the Petitioner's claim.

35. PLEDGE OF ASSETS

The details of the Group's assets which were pledged to secure the banking facilities and other borrowings granted to the Group are set out in note 27 to the financial statements.

36. OPERATING LEASE ARRANGEMENTS

As at 31 July 2008, the Group had no outstanding commitments under non-cancellable operating leases for the use of land and buildings which fall due as follows:

	2008	2007
	HK$'000	HK$'000
Within one year	**1,682**	1,650
Over one year but within two years	**636**	–
Over two years but within five years	**183**	1,242
	2,501	2,892

Operating lease rentals represent rental payable by the Group for office premises. Leases are negotiated for an average term of one year with fixed monthly rentals.

37. COMMITMENTS

As at 31 July 2008, the Group had the following capital commitments:

	2008	2007
	HK$'000	HK$'000
Authorised and contracted for:		
Acquisition of plant and machinery	–	7,768

38. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	2008	2007
	HK$'000	HK$'000
Amount due to Mr. Wong Sai Chung, a beneficial shareholder of the Company, included in other payables and accruals	–	1,237

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

39. SIGNIFICANT SUBSEQUENT EVENTS

Details of significant events which took place subsequent to 31 July 2008 are set out as follows:-

(a) Winding-up petition

The winding-up petition filed by Shantou Xinyuan Trading Company Limited originally scheduled to be heard on 12 November 2008 was further adjourned to 12 April 2010. Details of the background information in relation to the winding-up petition are set out in note 34 to the financial statements.

39. SIGNIFICANT SUBSEQUENT EVENTS *(continued)*

(b) Appointment of the Provisional Liquidators

On 2 December 2008, an ex-parte application was filed and served onto the Company by Keywise Greater China Opportunities Master Fund, a supporting creditor of the Company, for the appointment of provisional liquidators of the Company. On 3 December 2008, the High Court appointed Messrs. Stephen Liu Yiu Keung and David Yen Ching Wai, both of Ernst & Young Transactions Limited, as the Provisional Liquidators of the Company.

Pursuant to an Order of the High Court, the Provisional Liquidators would, inter alia, take into their custody and protect all the assets of the Group and manage the Group until such times as further order is made. The Provisional Liquidators are independent third parties not connected with the Company or any of the directors, chief executive and substantial shareholders of the Company or its subsidiaries or their respective associates as defined in the GEM Listing Rules.

(c) Proposed restructuring of the Group

Asian Capital (Corporate Finance) Limited has been appointed by the Provisional Liquidators as the financial adviser to the Company (the "Financial Adviser") regarding the proposed restructuring of the Group since 5 December 2008.

On 1 April 2009, an exclusivity agreement was entered into amongst Good One, the Company and the Provisional Liquidators to grant Good One exclusivity for the proposed restructuring of the Group. This exclusivity agreement was subsequently terminated on 28 July 2009.

On 28 July 2009, an exclusivity agreement (the "Exclusivity Agreement") was entered into amongst the Investor, the Company and the Provisional Liquidators to grant the Investor exclusivity for the preparation of resumption proposal (the "Resumption Proposal") and negotiation in a good faith of legally binding agreements for the implementation of the proposed restructuring and the Resumption Proposal.

Pursuant to the Exclusivity Agreement, the Investor undertook in-principle to provide the funds to the Company in the form of equity to assist with the proposed restructuring. The Investor has paid a non-refundable deposit of HK$3 million and a fee contribution of HK$2 million in cleared funds after the signing of the Exclusivity Agreement to the Provisional Liquidators to cover part of the costs of the Provisional Liquidators and their professional parties for the proposed restructuring. The Investor will pay further restructuring expenses by installments to the Provisional Liquidators and their professional parties to implement the restructuring agreements within an agreed period of time.

39. SIGNIFICANT SUBSEQUENT EVENTS *(continued)*

(c) Proposed restructuring of the Group *(continued)*

On 9 September 2009, the High Court's sanction was obtained by the Provisional Liquidators to execute the working capital facility agreement and the debenture between Tony China Limited ("Tony China"), a wholly owned subsidiary of the Company, and the Investor (collectively referred as the "Agreements"). The Agreements were entered into on 21 September 2009. According to the Agreements, the Investor undertook to provide sufficient funds of up to HK$9,000,000 as working capital facility (the "Working Capital Facility") for Tony China to settle the trading and operation expenses as required to maintain a viable, continuing business of the Company during the course of proposed restructuring. The Working Capital Facility is secured by a debenture with a floating charge over the assets of Tony China in favour of the Investor. Subsequently, Xiamen Dongyu Trading Company Limited, a wholly-owned subsidiary of Tony China, was incorporated on 26 October 2009 as a wholly foreign-owned foreign enterprise in the PRC.

The Financial Adviser submitted the Resumption Proposal on behalf of the Company to the Stock Exchange on 30 November 2009.

(d) Winding-up of subsidiaries

On 27 March 2009, Yang Yang Bio-Products (S) (PTE.) LTD. (the "Singapore Subsidiary") has passed a resolution in writing pursuant to an article of association of the Singapore Subsidiary that the Singapore Subsidiary would be wound up voluntarily and a creditors' meeting would be convened. The creditor's meeting was convened on 27 April 2009 for the purpose of the presentation of a Statement of Affairs of the Singapore Subsidiary, the appointment of liquidator and the establishment of the Committee of Inspection. The liquidator was subsequently appointed on 27 April 2009.

On 26 August 2009, a liquidator was appointed to Japan Yang Yang Bio Products Company Limited ("Japan Yang Yang"), an indirect wholly-owned subsidiary of the Company, of which control has considered to be lost as at 31 July 2009 by the directors of the Company.

On 17 November 2009, the PRC Government Authority approved the liquidation of Guangdong Yang Yang Bio Products Company Limited, an indirect wholly-owned subsidiary of the Company.

(e) Surrender of the mortgaged properties to Bank of China (Hong Kong) Limited

On 15 January 2009, Bank of China (Hong Kong) Limited (the "BOCHK") issued a demand letter to China Biotechnology Limited ("CBT") demanding the outstanding mortgage loans repayment. On 26 February 2009, the Provisional Liquidators surrendered the vacant possession of the leasehold building (Note 17) and leasehold land (Note 18) to BOCHK. The mortgaged properties were disposed of after 31 July 2008 and the corresponding mortgage loans were fully settled.

39. SIGNIFICANT SUBSEQUENT EVENTS *(continued)*

(f) Change of principal place of business

The current lease for the principal place of business of the Company has been surrendered to the landlord on 31 January 2009. The principal place of business of the Company has been changed to the office of the Provisional Liquidators at 62/F, One Island East, 18 Westlands Road, Island East, Hong Kong.

40. DETAILS OF SUBSIDIARIES

(a) Particulars of the subsidiaries as at 31 July 2008 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
			Directly	Indirectly	
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 Company Limited #	PRC	US$10,399,000	–	100.00	Manufacture and distribution of veterinary drugs
Chengdu Viking Yuen Heng Pharmaceutical Company Limited *	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
JBC Bio Products Company Limited	British Virgin Islands	US$100	70.00	–	Investment holding

40. DETAILS OF 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		Principal activities
			Directly	Indirectly	
JBC Bio Products China Limited	British Virgin Islands	US$100	–	70.00	Investment holding
Zhongshan JBC Bio-Technology Company Limited #	PRC	US$2,100,000	–	70.00	Development of feed supplements
Asia Gain Investments Limited	Hong Kong	HK$1	–	100.00	Dormant
Hong Kong Bio Products Manufacturing Limited	Hong Kong	HK$10,000	–	100.00	Dormant
Yang Yang Bio-Products(S) PTE Limited (In Liquidation) (previously named as China Bio-Products(S) PTE Limited)	Singapore	SGD1,000,000	–	100.00	Distribution of feed supplements
Global Kingdom Development Limited	British Virgin Islands	US$1	100.00	–	Dormant
Asia Force Development Limited	British Virgin Islands	US$1	100.00	–	Dormant
Hong Kong Yang Yang Bio Products Company Limited	Hong Kong	HK$1	–	100.00	Distribution of feed supplements
Japan Yang Yang Bio Products Company Limited (In Liquidation)	Japan	JPY10,000	–	100.00	Distribution of feed supplements

40. DETAILS OF 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 Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
Guangdong Yang Yang Bio Products Company Limited #	PRC	RMB10,000,000	–	100.00	Distribution of feed supplements
清遠洋洋生物科技畜牧有限公司 #	PRC	RMB5,000,000	–	100.00	Trading and distribution of safe foods
吉林洋洋生物產品有限公司 #	PRC	RMB1,000,000	–	100.00	Distribution of feed supplements

Wholly-foreign-owned enterprise

* Sino-foreign joint venture enterprise

(b) As at 31 July 2008, 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.

During the year, Zhongshan JBC Bio-Technology Co. Ltd had applied for a reduction of registered capital to the corresponding governmental authority. The application was subsequently approved on 5 November 2008, and no outstanding capital existed. In respect of Chengdu Concord Yuen Heng Industrial Co. Ltd, the Group is in the process of obtaining extension for contributing the outstanding capital.

(c) On 27 March 2009, Yang Yang Bio-Products (S) (PTE.) LTD. has passed a resolution in writing for the voluntary winding-up of the Company pursuant to the article of association (Note 39(d)). The liquidator was subsequently appointed on 27 April 2009.

(d) On 26 August 2009, a liquidator was appointed to Japan Yang Yang Bio Products Company Limited.

(e) On 17 November 2009, the PRC Government Authority approved the liquidation of Guangdong Yang Yang Bio Products Company Limited.

41. BALANCE SHEET OF THE COMPANY

	2008 HK$'000	2007 HK$'000
NON-CURRENT ASSETS		
Interests in subsidiaries	**–**	27,876
Amounts due from subsidiaries	**4,372**	97,258
	4,372	125,134
CURRENT ASSETS		
Deposits, prepayments and other debtors	**264**	10,475
Cash and cash equivalents	**4**	4
	268	10,479
CURRENT LIABILITIES		
Other payables and accruals	**10,636**	4,778
Amount due to a director	**38**	533
	10,674	5,311
NET CURRENT (LIABILITIES)/ASSETS	**(10,406)**	5,168
TOTAL ASSETS LESS CURRENT LIABILITIES	**(6,034)**	130,302
LONG-TERM LIABILITIES		
Amounts due to subsidiaries	**216**	216
Convertible bonds	**74,161**	–
	74,377	216
NET (LIABILITIES)/ASSETS	**(80,411)**	130,086
REPRESENTING:		
CAPITAL AND RESERVES		
Share capital	**67,620**	67,620
Reserves	**(148,031)**	62,466
(CAPITAL DEFICIENCY)/SHAREHOLDERS' FUNDS	**(80,411)**	130,086