

Advanced Biomedical Technologies Inc.  
Form 10-Q  
September 19, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended July 31, 2012

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-53051

Advanced BioMedical Technologies, Inc.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or organization)

350 Fifth Avenue, 59th Floor  
New York, NY 10118  
(Address of principal executive offices, including zip code.)

(718) 766-7898  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of September 19, 2012, there are 56,574,850 shares of common stock outstanding.

All references in this Report on Form 10-Q to the terms “we”, “our”, “us”, the “Company”, “ABMT” and the “Registrant” refer to Advanced BioMedical Technologies, Inc. unless the context indicates another meaning.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying condensed unaudited financial statements of Advanced BioMedical Technologies, Inc., formerly known as Geostar Mineral Corporation, a Nevada corporation are condensed and, therefore, do not include all disclosures normally required by accounting principles generally accepted in the United States of America. These statements should be read in conjunction with the Company's most recent annual financial statements for the year ended October 31, 2011 included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 15, 2012. In the opinion of management, all adjustments necessary for a fair presentation have been included in the accompanying condensed financial statements and consist of only normal recurring adjustments. The results of operations presented in the accompanying condensed financial statements for the period ended July 31, 2012 are not necessarily indicative of the operating results that may be expected for the full year ending October 31, 2012.

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ADVANCED BIOMEDICAL TECHNOLOGIES, INC.

AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JULY 31, 2012  
(UNAUDITED)

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ADVANCED BIOMEDICAL TECHNOLOGIES, INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE COMPANY)

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ADVANCED BIOMEDICAL TECHNOLOGIES, INC. ("ABMT")  
AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

## ASSETS

July 31,  
2012October 31,  
2011

## CURRENT ASSETS

Cash and cash equivalents	\$ 43,442	\$ 78,781
Other receivables and prepaid expenses	20,676	21,933
Total Current Assets	64,118	100,714
PROPERTY AND EQUIPMENT, NET	141,851	103,170
DEPOSIT FOR PURCHASE OF PROPERTY AND EQUIPMENT	1,637	9,628
TOTAL ASSETS	\$ 207,606	\$ 213,512

## LIABILITIES AND STOCKHOLDERS' DEFICIT

## CURRENT LIABILITIES

Other payables and accrued expenses	\$ 48,316	\$ 44,536
Due to a stockholder	218,334	147,137
Due to related parties	1,427,858	1,026,142
Total Current Liabilities	1,694,508	1,217,815
DUE TO DIRECTORS	511,826	558,467
TOTAL LIABILITIES	2,206,334	1,776,282
COMMITMENTS AND CONTINGENCIES	—	—

## DEFICIT

## ABMT Stockholders' Deficit

Common stock, \$0.00001 par value, 100,000,000 shares authorized, 56,574,850 and 56,474,850 shares issued and outstanding as of July 31, 2012 and October 31, 2011	566	565
Additional paid-in capital	1,665,890	1,626,610
Deferred stock compensation	(15,417 )	(87,501 )
Accumulated deficit during development stage	(3,473,925 )	(2,923,483 )
Accumulated other comprehensive loss	(175,842 )	(178,961 )
Total Deficit	(1,998,728 )	(1,562,770 )
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 207,606	\$ 213,512

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The accompanying notes are an integral part of these condensed consolidated financial statements

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ADVANCED BIOMEDICAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
(UNAUDITED)

	Three months ended		Nine months ended		September 25, 2002 (Inception) through July 31, 2012
	July 31,		July 31,		
	2012	2011	2012	2011	
<b>OPERATING EXPENSES</b>					
General and administrative expenses	\$ 110,699	\$ 158,392	\$ 372,494	\$ 423,603	\$ 2,963,669
Depreciation	6,602	1,311	18,419	3,904	285,729
Research and development (Net of government grant)	43,208	7,087	73,378	7,117	212,145
Total Operating Expenses	160,509	166,790	464,291	434,624	3,461,543
<b>LOSS FROM OPERATIONS</b>	(160,509 )	(166,790 )	(464,291 )	(434,624 )	(3,461,543 )
<b>OTHER INCOME (EXPENSES)</b>					
Government grants	—	—	—	244,479	244,479
Interest income	40	24	91	60	1,786
Interest paid to a stockholder and related parties	(24,593 )	(14,890 )	(67,278 )	(44,328 )	(228,726 )
Imputed interest	(6,117 )	(6,748 )	(19,281 )	(20,369 )	(223,425 )
Other, net	300	(721 )	317	(961 )	(23,701 )
Total Other Income (Expenses), net	(30,370 )	(22,335 )	(86,151 )	178,881	(229,587 )
<b>LOSS FROM OPERATIONS BEFORE TAXES</b>	(190,879 )	(189,125 )	(550,442 )	(255,743 )	(3,691,130 )
Income tax expense	—	—	—	—	—
<b>NET LOSS</b>	(190,879 )	(189,125 )	(550,442 )	(255,743 )	(3,691,130 )
Net loss attributable to noncontrolling interests	—	—	—	—	217,205
<b>NET LOSS ATTRIBUTABLE TO ABMT COMMON STOCKHOLDERS</b>	(190,879 )	(189,125 )	(550,442 )	(255,743 )	(3,473,925 )



OTHER  
COMPREHENSIVE  
INCOME/(LOSS)

Total other comprehensive income/(loss)	23,046	(11,926 )	3,119	(46,728 )	(175,842 )
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Add: foreign currency translation income/(loss)					
---	--	--	--	--	--

attributable to noncontrolling interest	—	—	—	—	—
---	---	---	---	---	---

Foreign currency translation income/(loss)					
--	--	--	--	--	--

attributable to ABMT common stockholders	23,046	(11,926 )	3,119	(46,728 )	(175,842 )
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COMPREHENSIVE  
LOSS

ATTRIBUTABLE TO ABMT COMMON STOCKHOLDERS					
--	--	--	--	--	--

	\$ (167,833 )	\$ (201,051 )	\$ (547,323 )	\$ (302,471 )	\$ (3,649,767 )
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Net loss per share-basic and diluted	\$ (0.00 )	\$ (0.00 )	\$ (0.01 )	\$ (0.01 )	
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Weighted average number of shares outstanding during the period - basic and diluted	56,574,850	56,442,241	56,561,346	56,397,561	
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The accompanying notes are an integral part of these condensed consolidated financial statements

ADVANCED BIOMEDICAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
(UNAUDITED)

	Common Stock Number of Shares	Amount	Shares to be issued Number of Shares	Stock subscriptions Amount	Stock receivable	Additional Paid-in capital	Deferred Stock Compensation	Accumulated deficit during development stage	Accumulated other comprehensive loss	Non- controlling interest
Stock issued to founders for cash	50,510,000	\$ 505	—	\$—	\$—	\$275,002	\$—	\$—	\$—	\$21
Net loss for the period	—	—	—	—	—	—	—	(40,343 )	—	(17
Foreign currency translation loss	—	—	—	—	—	—	—	—	(225 )	10
Comprehensive loss	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2003	50,510,000	505	—	—	—	275,002	—	(40,343 )	(225 )	199
Net loss for the year	—	—	—	—	—	—	—	(65,960 )	—	(28
Foreign currency translation loss	—	—	—	—	—	—	—	—	(357 )	2
Comprehensive loss	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2004	50,510,000	505	—	—	—	275,002	—	(106,303 )	(582 )	17
Imputed interest on advances from a stockholder and related company	—	—	—	—	—	23,103	—	—	—	—

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Net loss for the year	—	—	—	—	—	—	—	(357,863 )	—	(15
Foreign currency translation loss	—	—	—	—	—	—	—	—	(12,290 )	2,0
Comprehensive loss	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2005	50,510,000	505	—	—	—	298,105	—	(464,166 )	(12,872 )	20,
Imputed interest on advances from a stockholder and related company	—	—	—	—	—	27,184	—	—	—	—
Net loss for the year	—	—	—	—	—	—	—	(172,738 )	—	(18
Foreign currency translation loss	—	—	—	—	—	—	—	—	(6,084 )	(2,
Comprehensive loss	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2006	50,510,000	505	—	—	—	325,289	—	(636,904 )	(18,956 )	—
Imputed interest on advances from a stockholder, related company and related party	—	—	—	—	—	39,021	—	—	—	—
Net loss for the year	—	—	—	—	—	—	—	(196,871 )	—	—
Foreign currency translation loss	—	—	—	—	—	—	—	—	(27,401 )	—

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Comprehensive loss	—	—	—	—	—	—	—	—	—	—
Balance at December 31, 2007	50,510,000	505	—	—	—	364,310	—	(833,775 )	(46,357 )	—
Imputed interest on advances from a stockholder and related company	—	—	—	—	—	27,764	—	—	—	—
Net loss for the period	—	—	—	—	—	—	—	(227,038 )	—	—
Foreign currency translation loss	—	—	—	—	—	—	—	—	(35,833 )	—
Comprehensive loss	—	—	—	—	—	—	—	—	—	—
Balance at October 31, 2008	50,510,000	505	—	—	—	392,074	—	(1,060,813)	(82,190 )	—
Recapitalization	5,104,000	51	—	—	—	(51 )	—	—	—	—
Stock issued for services (\$3.05 per share)	100,000	1	—	—	—	304,999	(292,292)	—	—	—
Stock issued for cash in private placement (\$1.15 per share)	5,000	—	—	—	—	5,750	—	—	—	—
Stock issued for cash in private placement (\$1.15 per share)	2,000	—	—	—	—	2,300	—	—	—	—
Contributed capital	—	—	—	—	—	26,950	—	—	—	—
Distributed to the stockholders	—	—	—	—	—	(31,409 )	—	—	—	—

Imputed interest on advances from a stockholder and related company	—	—	—	—	—	31,656	—	—	—	—
Net loss for the year	—	—	—	—	—	—	—	(558,432 )	—	—
Foreign currency translation loss	—	—	—	—	—	—	—	—	(1,856 )	—
Comprehensive loss	—	—	—	—	—	—	—	—	—	—
Balance at October 31, 2009	55,721,000	557	—	—	—	732,269	(292,292)	(1,619,245)	(84,046 )	—
Stock issued for cash in private placement (\$1.5 per share)	6,667	—	—	—	—	10,000	—	—	—	—
Stock issued for cash in private placement (\$1.5 per share)	16,667	—	—	—	—	25,000	—	—	—	—
Stock issued for cash in private placement (\$1.5 per share)	136,833	2	—	—	—	205,248	—	—	—	—
Stock to be issued for cash in private placement (\$1.0 per share)	—	—	230,000	2	(230,000)	229,998	—	—	—	—
Stock issued for services (\$1 per share)	100,000	1	—	—	—	99,999	(100,000)	—	—	—
Stock issued for services (\$1 per share)	13,683	—	—	—	—	13,683	(13,683 )	—	—	—

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Stock issued for services (\$1 per share)	150,000	2	—	—	—	149,998	(150,000)	—	—	—
Amortisation for stock issued for services	—	—	—	—	—	—	349,516	—	—	—
Imputed interest on advances from a stockholder and related company	—	—	—	—	—	28,356	—	—	—	—
Net loss for the year	—	—	—	—	—	—	—	(816,799 )	—	—
Foreign currency translation loss	—	—	—	—	—	—	—	—	(29,063 )	—
Comprehensive loss	—	—	—	—	—	—	—	—	—	—
Balance at October 31, 2010	56,144,850	562	230,000	2	(230,000)	1,494,551	(206,459)	(2,436,044)	(113,109)	—
Stock issued for cash in private placement (\$1 per share)	230,000	2	(230,000)	(2)	230,000	—	—	—	—	—
Stock issued for cash in private placement (\$1.05 per share)	100,000	1	—	—	—	104,999	(105,000)	—	—	—
Imputed interest on advances from a stockholder and related company	—	—	—	—	—	27,060	—	—	—	—
Amortisation for stock issued for services	—	—	—	—	—	—	223,958	—	—	—
	—	—	—	—	—	—	—	(487,439 )	—	—

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Net loss for the year

Foreign  
currency  
translation loss

— — — — — — — — — (65,852 ) —

Comprehensive  
loss

— — — — — — — — — — —

Balance at  
October 31,  
2011

56,474,850 \$565 \$— \$— \$— \$1,626,610 \$(87,501 ) \$(2,923,483) \$(178,961) \$—

Stock issued for  
services (\$0.2  
per share)

100,000 1 — — — 19,999 (20,000 ) — — —

Imputed interest  
on advances  
from a  
stockholder and  
related  
company

— — — — — 19,281 — — — —

Amortisation  
for stock issued  
for services

— — — — — — 92,084 — — —

Net loss for the  
period

— — — — — — — — (550,442 ) — —

Foreign  
currency  
translation loss

— — — — — — — — — 3,119 —

Comprehensive  
loss

— — — — — — — — — — —

Balance at July  
31, 2012

56,574,850 \$566 \$— \$— \$— \$1,665,890 \$(15,417 ) \$(3,473,925) \$(175,842) \$—

The accompanying notes are an integral part of these condensed consolidated financial statements

ADVANCED BIOMEDICAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	2012	Nine months ended July 31,	2011	September 25, 2002 (inception) through July 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss attributable to ABMT common stockholders	\$ (550,442 )		\$ (255,743 )	\$ (3,473,925 )
Adjustments to reconcile net loss to cash used in operating activities:				
Depreciation	18,419		3,904	285,729
Loss on disposal of fixed assets	—		—	11,884
Stock issued for services	92,084		181,043	678,266
Noncontrolling interests	—		—	(217,205 )
Imputed interest	19,281		20,369	223,425
Changes in operating assets and liabilities				
(Increase) decrease in:				
Other receivables and prepaid expenses	1,240		(9,775 )	(20,676 )
Increase (decrease) in:				
Other payables and accrued expenses	3,803		(11,791 )	48,316
Net cash used in operating activities	(415,615 )		(71,993 )	(2,464,186 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property and equipment	(74,552 )		(6,542 )	(439,464 )
Construction in progress	17,180		(10,375 )	—
Deposit for purchase of property and equipment	8,017		(14,663 )	(1,637 )
Net cash used in investing activities	(49,355 )		(31,580 )	(441,101 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Stock issued to founders	—		—	505
Proceeds from issuance of shares	—		230,000	478,300
Contribution by stockholders	—		—	519,157
Distributed to stockholders	—		—	(31,409 )
Due to a stockholder	71,050		(103,193 )	218,334
Due to directors	(46,297 )		(25,605 )	511,826
Due to related parties	404,803		37,690	1,427,858
Net cash provided by financing activities	429,556		138,892	3,124,571



EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	75	1,896	(175,842 )
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(35,339 )	37,215	43,442
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	78,781	38,614	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 43,442	\$ 75,829	\$ 43,442

The accompanying notes are an integral part of these condensed consolidated financial statements

ADVANCED BIOMEDICAL TECHNOLOGIES, INC. AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the unaudited condensed consolidated financial statements contain all adjustments consisting only of normal recurring accruals considered necessary to present fairly the Company’s financial positions as of July 31, 2012 and October 31, 2011, the consolidated results of operations for the three and nine months ended July 31, 2012 and 2011 and for the period from September 25, 2002 (inception) to July 31, 2012 and consolidated statements of cash flows for the nine months ended July 31, 2012 and 2011 and for the period from September 25, 2002 (inception) to July 31, 2012. The consolidated results for the three and nine months ended July 31, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year ending October 31, 2012. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes for the year ended October 31, 2011 appearing in the Company’s annual report on Form 10-K as filed with the Securities and Exchange Commission on February 15, 2012.

NOTE 2 ORGANIZATION

Advanced BioMedical Technologies, Inc. (fka “Geostar Mineral Corporation” or “Geostar”) (“ABMT”) was incorporated in Nevada on September 12, 2006.

Shenzhen Changhua Biomedicine Engineering Company Limited (“Shenzhen Changhua”) was incorporated in the People’s Republic of China (“PRC”) on September 25, 2002 as a limited liability company with a registered capital of \$724,017. Shenzhen Changhua is owned by two stockholders in the proportion of 70% and 30%, respectively. Shenzhen Changhua plans to develop, manufacture and market self-reinforced, re-absorbable degradable PA screws, robs and binding ties for fixation on human fractured bones. The Company is currently conducting clinical trials on its products and intends to raise additional capital to produce and market its products commercially pending the approval from the State Food and Drug Administration (“SFDA”) of the PRC on its products. The Company has no revenue since its inception and, in accordance with Accounting Standards Codification (“ASC”) Topic 915, “Development Stage Entities” (formerly Statement of Financial Accounting Standard (“SFAS”) No. 7, “Accounting and Reporting by Development Stage Enterprise”), is considered a Development Stage Company.

Masterise Holdings Limited (“Masterise”) was incorporated in the British Virgin Islands on May 31, 2007 as an investment holding company and was then owned as to 63% by the spouse of Shenzhen Changhua’s 70% majority stockholder at the time and 37% by a third party corporation.

On January 29, 2008, Masterise entered into a Share Purchase Agreement (“the Agreement”) with a stockholder of Shenzhen Changhua whereupon Masterise acquired 70% of Shenzhen Changhua for US\$64,100 in cash. The acquisition was completed on February 25, 2008. As both Masterise and Shenzhen Changhua were under common control and management, the acquisition was accounted for as a reorganization of entities under common control. Accordingly, the operations of Shenzhen Changhua were included in the consolidated financial statements as if the transactions had occurred retroactively.

On December 31, 2008, ABMT consummated a Share Exchange Agreement (“the Exchange Agreement”) with the stockholders of Masterise pursuant to which ABMT issued 50,000 shares of Common Stock to the stockholders of Masterise for 100% equity interest in Masterise.

Concurrently, on December 31, 2008, a major stockholder of ABMT also consummated an Affiliate Stock Purchase Agreement (the “Affiliate Agreement”) with thirteen individuals including all the stockholders of Masterise, pursuant to which the major stockholder sold a total of 5,001,000 shares of ABMT’s common stock for a total aggregate consideration of \$5,000, including 4,438,250 shares to the stockholders of Masterise.

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On consummation of the Exchange Agreement and the Affiliate Agreement, the 70% majority stockholder of Masterise became an 80.7% stockholder of ABMT.

On March 13, 2009, the name of the Company was changed from Geostar Mineral Corporation to Advanced Biomedical Technologies, Inc.

The merger of ABMT and Masterise was treated for accounting purposes as a capital transaction and recapitalization by Masterise (“the accounting acquirer”) and a re-organization by ABMT (“the accounting acquiree”). The financial statements have been prepared as if the re-organization had occurred retroactively.

Accordingly, these financial statements include the following:

- (1) The balance sheet consisting of the net assets of the acquirer at historical cost and the net assets of the acquiree at historical cost.
- (2) The statement of operations including the operations of the acquirer for the periods presented and the operations of the acquiree from the date of the transaction.

ABMT, Masterise and Shenzhen Changhua are hereinafter referred to as (“the Company”)

#### NOTE 3 PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the financial statements of ABMT and its wholly owned subsidiaries, Masterise and its 70% owned subsidiary, Shenzhen Changhua. The noncontrolling interests represent the noncontrolling stockholders’ 30% proportionate share of the results of Shenzhen Changhua.

All significant inter-company balances and transactions have been eliminated in consolidation.

#### NOTE 4 USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### NOTE 5 GOING CONCERN

As reflected in the accompanying unaudited condensed financial statements, the Company has an accumulated deficit of \$3,473,925 as of July 31, 2012 that includes a net loss of \$550,442 for the nine months ended July 31, 2012. As of July 31, 2012, the Company’s total current liabilities exceeded its total current assets by \$1,630,390 and the Company used cash in operations of \$415,615 for the nine months ended on that date. These factors raise substantial doubt about its ability to continue as a going concern. In view of the matters described above, recoverability of a major portion of the recorded asset amounts shown in the accompanying condensed balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company’s ability to raise additional capital, obtain financing and succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue as a going concern. The Company is actively pursuing additional funding and strategic partners, which will enable the Company to implement its business plan. Management believes that these actions as successful will allow the Company to continue its operations through the next fiscal year.

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NOTE 6 RELATED PARTY TRANSACTIONS

As of July 31, 2012 and October 31, 2011, the Company owed a stockholder \$218,334 and \$147,137, respectively which is unsecured and repayable on demand. Interest is charged at 7% per annum on the amount owed.

As of July 31, 2012 and October 31, 2011, the Company owed two related parties a total of \$1,427,858 and \$1,026,142, respectively which are unsecured and repayable on demand. Interests are charged at 7% per annum on the amounts owed.

Total interest expenses on advances from a stockholder and the related parties accrued for the three and nine months ended July 31, 2012 and 2011 and for the period from September 25, 2002 (inception) through July 31, 2012 were \$24,593, \$14,890, \$67,278, \$44,328 and \$228,726, respectively.

As of July 31, 2012 and October 31, 2011, the Company owed \$511,826 and \$558,467, respectively to three directors for advances made on an unsecured basis, repayable on demand and interest free.

Imputed interest charged at 5% per annum on the amounts owed to three directors and a related company is \$6,117, \$6,748, \$19,281, \$20,369 and \$223,425 for the three and nine months ended July 31, 2012 and 2011 and for the period from September 25, 2002 (inception) through July 31, 2012, respectively.

NOTE 7 COMMITMENTS AND CONTINGENCIES

The Company's existing rental leases do not contain significant restrictive provisions. The following is a schedule by year of future minimum lease obligations under non-cancelable rental operating leases which fall due as follows::

Year ending 31 October, 2012	\$7,691
Fiscal years ending October 31,	
2013	29,519
2014	19,289
2015 and thereafter	—
Total	\$48,808

NOTE 8 STOCKHOLDERS' EQUITY

Common stock

On December 8, 2011, the Company issued 100,000 shares of restricted common stock at \$0.2 to Dr. John Lynch, the Company's chief officer of dental technologies for services for a term of twelve months. The shares were valued at the closing price on the date of grant yielding an aggregate fair value of \$20,000. In this respect, the Company recognized \$13,333 for the nine months ended July 31, 2012 as consultancy fees included in general and administrative expenses and recorded deferred stock compensation of \$6,667 as of July 31, 2012.

For the three and nine months ended July 31, 2012 and 2011 and for the period from September 25, 2002 (inception) through July 31, 2012, the Company recognized \$31,250, \$54,792, \$92,084, \$181,043 and \$678,266, respectively as consultancy fees included in general and administrative expenses and recorded deferred stock compensation of \$15,417 and \$87,501 as of July 31, 2012 and October 31, 2011, respectively for these services.

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## NOTE 9 RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (“IFRS”). The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. The Company does not expect the adoption of ASU 2011-04 will have a material impact on the Company’s consolidated financial statements.

In June 2011 the FASB issued ASU 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of stockholders’ equity. Instead, companies must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Company will adopt ASU 2011-05 in the first quarter of fiscal year 2012. The Company does not expect that the adoption of ASU 2011-05 will have a material impact on the Company’s consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954), which requires healthcare organizations that perform services for patients for which the ultimate collection of all or a portion of the amounts billed or billable cannot be determined at the time services are rendered to present all bad debt expense associated with patient service revenue as an offset to the patient service revenue line item in the statement of operations. The ASU also requires qualitative disclosures about the Company’s policy for recognizing revenue and bad debt expense for patient service transactions and quantitative information about the effects of changes in the assessment of collectability of patient service revenue. This ASU is effective for fiscal years beginning after December 15, 2011, and will be adopted by the Company in the first quarter of 2012. Since the Company is not a health care entity, the standard does not have any impact on the Company’s consolidated financial position or results of operations.

On September 15, 2011 the FASB issued ASU 2011-08, Testing Goodwill for Impairment (the revised standard). The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing both public and nonpublic entities with the option of performing a “qualitative” assessment to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted for certain companies. The Company has assessed the potential impact the adoption of ASU 2011-08 on its consolidated results of operations and consolidated financial position and concluded that there is no impact.

In December 2011, FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in this update require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those



amendments retrospectively for all comparative periods presented. Management is currently evaluating the potential impact of ASU 2011-11 on the Company's consolidated financial statements.

In December 2011, FASB issued ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05. In order to defer only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this update supersede certain pending paragraphs in ASU 2011-05. The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by this update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-12 does not have a material impact on the Company's consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section of the report includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this annual report. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.

### Overview

The following discussion is an overview of the important factors that management focuses on in evaluating our businesses, financial condition and operating performance and should be read in conjunction with the financial statements included in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward looking statements as a result of any number of factors, including those set forth in this Quarterly Report, and in the Company's most recent Annual Report on Form 10-K filed on February 15, 2012.

The Company is subject to a number of risks similar to other companies in the medical device industry. These risks include but are not limited to rapid technological change, uncertainty of market acceptance of our products, uncertainty of regulatory approval, competition from substitute products and larger companies, the need to obtain additional financing, compliance with government regulation, protection of proprietary technology, product liability, and the dependence on key individuals.

All written and oral forward-looking statements made in connection with this Quarterly Report on Form 10-Q that are attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Given the uncertainties that surround such statements, you are cautioned not to place undue reliance on such forward-looking statements.

### Our Business

We are engaged in the business of designing, developing, manufacturing and the planned future marketing of self-reinforced, re-absorbable biodegradable internal fixation devices. Our polyamide materials, their uses and manufacturing processes are protected by Patent no. ZL97119073.9, PRC, issued by the Chinese Intellectual Property Rights Bureau. Our polyamide materials are used in producing screws, binding wires, rods and related products. These products are used in a variety of applications including orthopedic trauma, sports related medical treatment, or cartilage injuries, and reconstructive dental procedures. At this time, our company is the sole patent holder of PA technologies in China, as well as the only company currently engaged in clinical trials and marketing submission for PA devices in the PRC. Our products are biodegradable internal fixation devices which are made of a very unique material called Polyamide ("PA"). Our PA products, such as screws, binding wires, rods, suture anchors and rib-pins consist of enhanced fibers and high molecular polymers which are designed to facilitate quick healing of complex fractures in many areas of the human skeletal system. Our products offer a number of significant advantages over existing metal implants and the first generation of degradable implants (i.e. PLLA) for patients, surgeons and other customers including:

1. A notably reduced need for a secondary surgery to remove implant due to post-operative complications, therefore avoiding unnecessary risk and expense on all patient care;
2. Enhancing the performance of the materials by manufacturing them to be easily fitted to each patient, forming an exact fit;
3. Improving the biological activity of materials. Clinical trial results have shown that as PA implants degrade, they promote a progressive shift of load to the new bone creating micro-motion and thereby avoiding bone atrophy due to ‘stress shielding’;
4. Reducing the chance of post-operative infection;
5. Effectively controlling the degeneration speed, so that there will be no complications in treating repeat injuries;
6. Ease of post-operative care i.e. no distortion during x-ray imaging;
7. Simple and cost-effective to manufacture.

Our products are designed to replace the traditional internal fixation device made of stainless steel and titanium and overcome the limitations of previous generations of products such as PLA and PLLA. Our laboratory statistics show that our PA products have a higher mechanical strength, last longer in degradation ratio and are more evenly absorbed from outer layer inwards as compared with similar materials such as PLA and PLLA. Thus PA allows increased restoration time for bone healing and re-growth. The Company’s PA Degradable and Absorbable Screw (“PA Screw”) and Degradable and Absorbable Binding Wire (“PA Binding Wire”) are currently being tested in human trials under permit from China’s State Food and Drug Administration (“SFDA”).

#### SFDA Application Process for PA Screws

The Company first submitted its application for PA Screws to the SFDA in 2008. The application has been withheld by the SFDA pending additional clinical trial cases. This is due to the amended SFDA regulations, which unlike previous regulations require the applicant to specify the position on the body where the clinical trial is carried out. Our amended SFDA application has specified the ankle fracture as the body part of our clinical trial. This is because bones around this part carry most of the body weight. As of July 31, 2012, we have completed all additional clinical trials required by the SFDA. The Company is also looking forward to starting the application process for the PA Binding Wires with the SFDA by the end of 2012 provided sufficient funding is in place.

#### Process of Human Trials

As of July 31, 2012, for medical study and comparison purpose, the Company has completed a total of 83 successful clinical human trial cases, including 71 cases on ankle fractures and 57 successful PA Binding Wire trial cases. Under SFDA Regulations, a total number of 60 trial cases and 60 comparison cases must be completed before approval is considered. Currently, we have been conducting human trials at the 6 state level hospitals recognized by SFDA for clinical trials in different cities throughout China; including Nanchang, Changsha, Luoyang, Nanning and Tianjin. The cities and provinces where our clinical trial hospitals are based will be the initial target regions on our marketing plan. These regions are both densely populated and have experienced high or above medium economic growth. The clinical trials for the Company’s PA Screws have been completed with 100 percent success rate. The Company is continuously conducting clinical trials on PA Binding Wires.

The Company has also been conducting research and animal tests on Cranio-Maxillofacial Fracture (CMF) Treatment in cooperation with The First Affiliated Hospital of Guangdong Pharmaceutical University in Guangzhou, China. Under the cooperative agreement, both parties will join efforts in



utilizing the Company's bio-absorbable mini-screws and plates. CMF surgery encompasses the treatment of the face, jaws and skull, including trauma and the correction of facial skeletal deformity. Since the 1980s, titanium plates and screws have been the most commonly used fixation devices in CMF surgery. However concerns of using titanium include bone growth restriction and implant migration through the cranium in children. Also adult patients complain about feeling the metal implants, particularly in cold weather or through thin skin. We believe that utilizing our bio-absorbable mini-screws and plates in CMF surgery will eliminate the problems associated with other treatment types.

There can be no assurance that the Company will be able to obtain any further clearances or approvals, if required, to market its products for their intended uses on a timely basis, if at all. Moreover, regulatory approvals, if granted, may include significant limitations on the indicated uses for which a product may be marketed. Delays in the receipt of or the failure to obtain such clearances or approvals, the need for additional clearances or approvals, the loss of previously received clearances or approvals, unfavorable limitations or conditions of approval, or the failure to comply with existing or future regulatory requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

#### Government Regulation

Medical implant devices/products manufactured or marketed by the Company in China are subject to extensive regulations by the SFDA. Pursuant to the related laws and acts, as amended, and the regulations promulgated there under (the "SFDA Regulations"), the SFDA regulates the clinical testing, manufacture, labeling, distribution and promotion of medical devices. The SFDA also has the authority to request repair, replacement, or refund of the cost of any device manufactured or distributed by the Company.

Under the SFDA Regulations, medical devices are classified into three classes (class I, II or III), the basis of the controls deemed necessary by the SFDA to reasonably assure their safety and efficacy. Under the SFDA's regulations, class I devices are subject to general controls [for example, labeling and adherence to Good Manufacturing Practices ("GMP") requirements] and class II devices are subject to general and special controls. Generally, class III devices are those which must receive premarket approval by the SFDA to ensure their safety and efficacy (for example, life-sustaining, life-supporting and certain implantable devices, or new devices which have not been found substantially equivalent to legally marketed class I or class II devices). The Company is classified as a manufacturer of class III medical devices. Current SFDA enforcement policy prohibits the marketing of approved medical devices for unapproved uses.

Before a new device can be introduced into the market in China, the manufacturer generally must obtain SFDA marketing clearance through clinical trials. Since the Company is classified as a manufacturer of Class III medical devices, the Company must carry out all clinical trials in pre-selected SFDA approved hospitals.

Manufacturers of medical devices for marketing in China are required to adhere to GMP requirements. Enforcement of GMP requirements has increased significantly in the last several years and the SFDA has publicly stated that compliance will be more strictly scrutinized. From time to time the SFDA has made changes to the GMP and other requirements that increase the cost of compliance. Changes in existing laws or requirements or adoption of new laws or requirements could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will not incur significant costs to comply with applicable laws and requirements in the future or that applicable laws and requirements will not have a material adverse effect upon the Company's business, financial condition and results of operations.



Regulations regarding the development, manufacturing and sale of the Company's products are subject to change. The Company cannot predict the impact, if any, that such changes might have on its business, financial condition and results of operations.

## Results of Operations

The "Results of Operations" discussed in this section merely reflect the information and results of the Company for the period from September 25, 2002 (Shenzhen Changhua's date of inception) to July 31, 2012.

## Revenues

The Company is in its development stage and does not have any revenue. The management team is continuously looking for fundraising possibilities for product improvement, machinery upgrades, facility expansions, continuous research and development, and sales and marketing preparation.

Our facility is located in Shenzhen, China which is built to meet the GMP standards. Our facility covers about 865 square meters, which includes the combined facilities of offices, laboratories, and workshops. There is one production line for the PA Screw and another production line for the PA Binding Wire. The annual production capabilities of each production line are 100,000 pieces for PA Screw, and 240,000 packs for the PA Binding Wires. Both production lines, at their maximum production capacity, are capable of generating approximately \$30,000,000 in annual revenue.

Estimate current production lines in full capacity

	Output Quantity (Max.)		Price at ex-factory (\$)	Total Turnover (\$)
PA Screw	100,000	(piece)	180	18,000,000
PA Binding Wire	240,000	(pack)	50	12,000,000
			<b>Total:</b>	<b>30,000,000</b>

The Company will market its products through a hybrid sales force comprised of a managed network of independent regional distributors/sales agents (80%) and direct sales representatives (20%) in China.

There are two ways the Company will generate revenue, 1) through our nationwide and regional distributors and 2) through our direct sales channels.

## China's Marketing Analysis and Sales Strategy:

We have established long term relationships with many hospitals and national distributors in China. Ms. WANG Hui, the Company's CEO, has over 20 years' sales experience in medical distribution. She will be in charge of our sales programs. Professor LIU Shangli, our chief medical advisor, is one of the highest ranked orthopedic doctors in China as well as being highly renowned in the rest of the world. He will assist the Company in nationwide product promotion and joint projects with associated academic institutions and medical schools.

During product development and clinical trial stages we developed close relationships with many major national hospitals. We expect these relationships to boost our revenue generation following SFDA final approval. In order to better serve our customers, including hospitals, distributors, patients and the general public, the Company will set up Regional Service Offices to provide technical support, product information, and customer aid service.

China's market for PA devices depends on 3 major conditions:

- Patients
- Advanced technology level
- Performance and price of the materials

The demand for internal fixation medical devices has rapidly increased during the last decade. Total market sales have increased more than 15% each year. There are over 1 million bone fractures in patients in China requiring about 4 million bone bolts/screws each year. Research shows that in the next 10 years, China will have a booming aging population and the population in China will continue to increase. New and improved medical technology will continue to rapidly grow throughout hospitals in China, and material optimization and product pricing is expected to directly stimulate increased sales.

The Company has advantages and more opportunities over other competitors due to:

- No other similar patent registrations in China.
- We are the only company qualified and permitted to perform PA clinical trials by SFDA
- We have a timing advantage over other companies in China which would have to go through the preclinical testing for the SFDA permit on clinical trials.
- Under existing regulations by SFDA, it will take at least 3-5 years for clinical trials.

Number of Hospitals at the end of July 2011 Statistic and Census report by the Ministry of Health of the People's Republic of China.

Statistic and Census report by the Ministry of Health of the People's Republic of China  
(July 2011)

	July 2011	July 2010	Increase / (Decrease)
Total No. of Hospitals	21,266	20,432	834
Public Hospital	13,670	13,974	(304)
Private Hospital	7,596	6,458	1,138
Hospital Rating			
AAA	1,344	1,273	71
AA	6,494	6,460	34
A	5,321	5,147	174

In general, technological advancements and the marketing potential within Asia are the biggest factors in driving significant growth within the global orthopedic devices market. Another major factor that positively influences this market is the growing number of aging baby boomers with active lifestyles. This sector represents a large portion of the total population.



## Research and Development

There is substantial research and development (R&D) activity in the market indicating a favorable growth trend. While revenues for active lifestyle participants registered a compound annual growth rate (CAGR) of 17.4 percent for the period 2002-2006; R&D expenditure for the same period recorded a higher growth of 18.4 percent. Increasing R&D expenditure is considered a key indicator of the future direction of the orthopedic market as it points to sustained technological development and innovation.

The Company believes that Asia holds tremendous growth potential for orthopedic device manufacturers due to its fundamental population advantage. Asia accounts for more than 50 percent of the population in the world, but its share of the global orthopedic devices market is comparatively low at approximately 10 percent. Within the region, Japan contributes to a majority of market revenues, indicating large potential for growth in relatively under-penetrated countries such as China and India.

The Company has developed six proprietary re-absorbable polymer fixation implant product lines, including screws, pins, tacks, rods and binding wires, which provide an alternative to metal implants and overcome the limitations of first generation re-absorbable fixation devices. The Company's product range will ultimately cover the full gamut of components featuring self-reinforced, re-absorbable, biodegradable PA macromolecule polymer materials for implantation, including human orthopedic and dental applications, as well as veterinary applications. We expect research and development expenses to grow as we continue to invest in basic and advanced research, clinical trials, product development and in our intellectual property.

## U.S. Government Grant

In April 2011, the Company received approval of one grant totalling \$244,479.25 awarded to the Company under the U.S. Government's Qualifying Therapeutic Discovery Project, a program created as part of the Patient Protection and Affordable Care Act of 2010. The grant is to support the ongoing development of bio-absorbable internal fixation devices, the Company's novel treatment for orthopaedic trauma. The grant was received in May 2011 in full.

The Qualifying Therapeutic Discovery Project grants are provided under new section 48D of the Internal Revenue Code (IRC), enacted as part of the Patient Protection and Affordable Care Act of 2010 (P.L. 111-148). The IRS, in conjunction with the Department of Health and Human Services, approved applications for projects that showed significant potential to produce new and cost-saving therapies, support jobs and increase U.S. competitiveness under the Qualifying Therapeutic Discovery Project program. Only projects that show a reasonable potential to meet these goals were certified as eligible for the credit or grant.

## Facility and Laboratory Renovation

As of July 31, 2012, the Company has completed the renovation works at its GMP certified facilities in Shenzhen, China. The facilities were renovated to meet the newly adopted "SFDA Sterilized Medical Devices and Medical Implants Regulation". The completed renovation has been approved by the SFDA Guangzhou Medical Device Inspection Center. The Company's facilities now meet the new SFDA standard and exceed the GMP requirements in certain areas.

The completed renovation includes:

1. Upgraded existing laboratory to higher level sterilized laboratory to meet the requirement of GMP standard - 100 - 10,000 of <5uM micro-dust per cube meter. Additional 16% capacity has been added to the central air control system.



2. Upgraded water supply system which will provide the entire modification area with purified water for production, fully compliant with the new SFDA's guideline.
3. Re-arranged part of the facilities to increase the production capacity.

#### Finance Costs

As of July 31, 2012 and October 31, 2011, a stockholder and two related parties had loaned a total of \$1,646,192 and \$1,173,279, respectively to the Company as unsecured loans repayable on demand and interest is charged at 7% per annum on the amount due. Total interest expenses on advances from a stockholder and the related parties accrued for the three and nine months ended July 31, 2012 and 2011 and for the period from September 25, 2002 (inception) through July 31, 2012 were \$24,593, \$14,890, \$67,278, \$44,328 and \$228,726, respectively.

As of July 31, 2012 and October 31, 2011, the Company owed \$511,826 and \$558,467, respectively to the directors for advances made on an unsecured basis, repayable on demand. Total imputed interest expenses on advances from directors and a related company, calculated at 5% per annum, recorded as additional paid-in capital amounted to \$6,117, \$6,748, \$19,281, \$20,369 and \$223,425 for the three and nine months ended July 31, 2012 and 2011 and for the period from September 25, 2002 (inception) through July 31, 2012, respectively.

#### Net Loss

The net loss for the three and nine months ended July 31, 2012 and 2011 and for the period from September 25, 2002 (inception) through July 31, 2012 were \$190,879, \$189,125, \$550,442, \$255,743 and \$3,691,130, respectively. We do not have any revenue from inception to July 31, 2012 but have to incur operating expenses for the upkeep of the Company and the clinical trials.

#### Liquidity and Capital Resources

We had a working capital deficiency of \$1,630,390 and \$1,117,101 as of July 31, 2012 and October 31, 2011, respectively. Our working capital deficit is due to the fact that we are in the application process for the SFDA permit to produce, market or sell in China. We had no revenues during the period and that our sole source of financing are loans from our related parties and stockholders. Meanwhile, we have been conducting clinical trials for PA Binding Wire.

#### Cash Flows

##### Net Cash Used in Operating Activities

Net cash used in operating activities was \$415,615 and \$71,993 in the nine months ended July 31, 2012 and 2011, respectively. This amount was attributable primarily to the net loss after adjustment for non-cash items, such as depreciation, stock issued for services, imputed interest on advances from directors, and others like changes in other receivables and prepaid expenses, other payables and accrued expenses.

##### Net Cash Used in Investing Activities

We recorded \$49,355 and \$31,580 net cash used in investing activities in the nine months ended July 31, 2012 and 2011, respectively. This amount reflected purchases of property and equipment, primarily for research and development to our facilities.

#### Net Cash Provided by Financing Activities

Net cash provided by financing activities in the nine months ended July 31, 2012 and 2011 was \$429,556 and \$138,892, respectively, which represented advances from a stockholder and related parties, loan repayment to directors and a stockholder, and proceeds from issuance of shares for private placement.

#### Operating Capital and Capital Expenditure Requirements

Our ability to continue as a going concern and support the commercialization of current products is dependent upon our ability to obtain additional financing in the near term. We anticipate that such funding will be in the form of equity financing from sales of our common stock. However, there is no assurance that we will be able to raise sufficient funding from the sale of our common stock to fund our business plan should we decide to proceed. We anticipate continuing to rely on advances from our related parties and stockholders in order to continue to fund our business operations.

We believe that our existing cash, cash equivalents at July 31, 2012, will be insufficient to meet our cash needs. The management is actively pursuing additional funding and strategic partners, which will enable the Company to implement our business plan, business strategy, to continue research and development, clinical trials or further development that may arise.

We intend to spend more to support the commercialization of current products and on research and development activities, including new products development, regulatory and compliance, clinical studies, and the enhancement and protection of our intellectual property portfolio.

#### OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

#### CRITICAL ACCOUNTING POLICIES

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including but not limited to those related to income taxes and impairment of long-lived assets. We base our estimates on historical experience and on various other assumptions and factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Based on our ongoing review, we plan to adjust to our judgments and estimates where facts and circumstances dictate. Actual results could differ from our estimates.

We believe the following critical accounting policies are important to the portrayal of our financial condition and results and require our management's most difficult, subjective or complex judgments, often because of the need to make estimates about the effect of matters that are inherently uncertain.

##### 1. Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to expense as incurred.



Depreciation is provided on a straight-line basis, less estimated residual value over the assets estimated useful lives. The estimated useful lives of the assets are 5 years.

2. Long-lived assets

In accordance with FASB Codification Topic 360 (ASC Topic 360), “Accounting for the impairment or disposal of Long-Lived Assets”, long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets. The Company reviews long-lived assets to determine that carrying values are not impaired.

3. Fair value of financial instruments

FASB Codification Topic 825 (ASC Topic 825), “Disclosure About Fair Value of Financial Instruments,” requires certain disclosures regarding the fair value of financial instruments. The carrying amounts of other receivables and prepaid expenses, due from related parties, other payables and accrued liabilities and due to related parties approximate their fair values because of the short-term nature of the instruments. The management of the Company is of the opinion that the Company is not exposed to significant interest or credit risks arising from these financial statements.

4. Government grants

Government grants are recognized when there is reasonable assurance that the Company complies with any conditions attached to them and the grants will be received.

5. Income taxes

The Company accounts for income taxes under the FASB Codification Topic 740-10-25 (“ASC 740-10-25”). Under ASC 740-10-25, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740-10-25, the effect on deferred tax assets and liabilities of a change in tax rates is recognized as income in the period included the enactment date.

6. Research and Development

Research and development costs related to both present and future products are expensed as incurred.

7. Foreign currency translation

The financial statements of the Company’s subsidiary denominated in currencies other than US dollars are translated into US dollars using the closing rate method. The balance sheet items are translated into US dollars using the exchange rates at the respective balance sheet dates. The capital and various reserves are translated at historical exchange rates prevailing at the time of the transactions while income and expenses items are translated at the average exchange rate for the year. All exchange differences are recorded within equity.



## RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU generally represent clarification of Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards (“IFRS”). The amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. Early application is not permitted. The Company does not expect the adoption of ASU 2011-04 will have a material impact on the Company’s consolidated financial statements.

In June 2011 the FASB issued ASU 2011-05, Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of stockholders’ equity. Instead, companies must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Company will adopt ASU 2011-05 in the first quarter of fiscal year 2012. The Company does not expect that the adoption of ASU 2011-05 will have a material impact on the Company’s consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, Health Care Entities (Topic 954), which requires healthcare organizations that perform services for patients for which the ultimate collection of all or a portion of the amounts billed or billable cannot be determined at the time services are rendered to present all bad debt expense associated with patient service revenue as an offset to the patient service revenue line item in the statement of operations. The ASU also requires qualitative disclosures about the Company’s policy for recognizing revenue and bad debt expense for patient service transactions and quantitative information about the effects of changes in the assessment of collectability of patient service revenue. This ASU is effective for fiscal years beginning after December 15, 2011, and will be adopted by the Company in the first quarter of 2012.