CHINA MEDICAL SCIENCE LIMITED

中華藥業有限公司*

(Incorporated in the Cayman Islands with limited liability)

SECOND QUARTERLY REPORT

2005/2006

* *For identification purposes only*

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

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

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This report, for which the directors of CHINA MEDICAL SCIENCE LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to CHINA MEDICAL SCIENCE LIMITED. The directors of CHINA MEDICAL SCIENCE LIMITED, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover of the Group for the six months ended 31 January 2006 amounted to approximately HK$47,633,000, representing a decrease of approximately 43.1% as compared with that in the preceding year.

- Loss attributable to shareholders for the six months ended 31 January 2006 amounted to approximately HK$4,568,000.

- Loss per share amounted to approximately HK0.91 cents for the six months ended 31 January 2006.

- The Directors do not recommend the payment of any interim dividend for the six months ended 31 January 2006.

- The disposal of Sichuan Shule was completed in December 2005.

RESULTS

The board of directors (the "Board") of China Medical Science Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 31 January 2006, together with the comparative unaudited figures for the corresponding period of the preceding year are as follows:

Consolidated Income Statement – Unaudited

	Note	For the three months ended 31 January 2006 HK$'000	For the three months ended 31 January 2005 HK$'000 (Restated)	For the six months ended 31 January 2006 HK$'000	For the six months ended 31 January 2005 HK$'000 (Restated)
Turnover					
Continuing operations	2	**3,690**	7,879	**10,433**	15,442
Discontinued operations	2	**8,135**	29,650	**37,200**	68,211
		11,825	37,529	**47,633**	83,653
Cost of sales		**(9,442)**	(31,119)	**(32,727)**	(65,110)
Gross profit		**2,383**	6,410	**14,906**	18,543
Other revenue	2	**(21)**	557	**789**	1,364
Selling and distribution costs		**(1,734)**	(1,458)	**(7,073)**	(7,540)
General and administrative expenses		**(1,700)**	(4,608)	**(7,435)**	(10,893)
Other operating expenses		**(2,938)**	(2,211)	**(3,664)**	(3,679)
Profit/(loss) on disposal of subsidiaries	4	**1,032**	(19,479)	**1,032**	(19,479)
LOSS FROM OPERATING ACTIVITIES	5	**(2,978)**	(20,789)	**(1,445)**	(21,684)
Finance costs		**(516)**	(4,541)	**(3,851)**	(9,119)
Share of result of an associate		**–**	1,332	**–**	1,914
PROFIT/(LOSS) BEFORE TAX					
Continuing operations		**(3,954)**	(502)	**(5,039)**	(287)
Discontinued operations		**460**	(23,496)	**(257)**	(28,602)
		(3,494)	(23,998)	**(5,296)**	(28,889)
Tax expense	6				
Continuing operations		**–**	–	**–**	–
Discontinued operations		**(50)**	(17)	**(170)**	(101)
		(50)	(17)	**(170)**	(101)
LOSS AFTER TAX		**(3,544)**	(24,015)	**(5,466)**	(28,990)
Attributable to:					
Equity holders of the Company		**(3,134)**	(22,361)	**(4,568)**	(27,208)
Minority interests		**(410)**	(1,654)	**(898)**	(1,782)
		(3,544)	(24,015)	**(5,466)**	(28,990)
LOSS PER SHARE	7				
– Basic		**(0.63) cents**	(4.47) cents	**(0.91) cents**	(5.44) cents
– Diluted		**N/A**	N/A	**N/A**	N/A

Consolidated Balance Sheet

	Note	**As at 31 January 2006 HK$'000 (Unaudited)**	As at 31 July 2005 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Fixed assets	8	**29,910**	106,044
Intangible assets		**7,591**	8,949
Goodwill:			
Goodwill		**3,309**	3,309
Negative goodwill		–	(4,746)
Long term investments		–	2,826
Deferred tax asset		**244**	244
		41,054	116,626
CURRENT ASSETS			
Inventories		**7,172**	14,326
Trade receivables	9	**16,501**	98,397
Deposits, prepayment and other receivables	9	**5,026**	39,626
Pledged deposits		–	15,232
Cash and cash equivalents		**642**	3,282
		29,341	170,863
TOTAL ASSETS		**70,395**	287,489
EQUITY AND LIABILITIES			
Share capital	10	**25,000**	25,000
Reserves		**(11,486)**	(11,812)
		13,514	13,188
Minority interests		**3,452**	3,606
TOTAL EQUITY		**16,966**	16,794
NON-CURRENT LIABILITIES			
Deferred income		–	2,614
Deferred tax liability		–	303
TOTAL NON-CURRENT LIABILITIES		–	2,917
CURRENT LIABILITIES			
Bank and other borrowings		**12,510**	131,606
Notes payable		–	24,189
Trade payables	11	**5,132**	49,556
Other payables and accruals		**34,099**	57,141
Deferred income		–	991
Amounts due to directors		**766**	3,158
Tax payable		**922**	1,137
TOTAL CURRENT LIABILITIES		**53,429**	267,778
TOTAL LIABILITIES		**53,429**	270,695
TOTAL EQUITY AND LIABILITIES		**70,395**	287,489

Condensed Consolidated Cash Flow Statement (Unaudited)

	For the six months ended 31 January 2006 HK$'000	For the six months ended 31 January 2005 *HK$'000* (Restated)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		
Continuing operations	**(1,002)**	(10,422)
Discontinued operations	**(20,972)**	(11,389)
Total	**(21,974)**	(21,811)
NET CASH INFLOW FROM INVESTING ACTIVITIES		
Continuing operations	**3,295**	1,626
Discontinued operations	**8,738**	2,797
Total	**12,033**	4,423
NET CASH INFLOW/(OUTFLOW) FROM FINANCING		
Continuing operations	**(5,004)**	(24,103)
Discontinued operations	**12,301**	11,020
Total	**7,297**	(13,083)
DECREASE IN CASH AND CASH EQUIVALENTS	**(2,644)**	(30,471)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**4**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**3,282**	43,569
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**642**	13,098

Consolidated Statement of Change in Equity (Unaudited)

	Share Capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Total *HK$'000*
At 1 August 2004	25,000	17,992	27,104	25	5,824	75,945
Net loss for the period	–	–	–	–	(27,208)	(27,208)
At 31 January 2005	25,000	17,992	27,104	25	(21,384)	48,737
At 1 August 2005	25,000	17,992	27,104	828	(57,736)	13,188
Effects of change in accounting policies	–	–	–	–	4,746	4,746
As restated	25,000	17,992	27,104	828	(52,990)	17,934
Exchange difference arising on translation of financial statements of PRC subsidiaries	–	–	–	148	–	148
Net loss for the period	–	–	–	–	(4,568)	(4,568)
At 31 January 2006	**25,000**	**17,992**	**27,104**	**976**	**(57,558)**	**13,514**

Notes:

1. **Basis of presentation**

The principal accounting policies adopted in preparing the unaudited consolidated results conform with the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for current or prior accounting periods are prepared and presented.

HKAS 1 Presentation of Financial Statements and HKAS 27 Consolidated and Separate Financial Statements

The adoption of HKAS 1 and HKAS 27 affects certain presentation and disclosure of the accounts. According to HKAS 1 and HKAS 27, minority interests at the balance sheet are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit and loss for the period between minority interests and the equity holders of the Company.

HKFRS 3 Business Combinations

The adoption of HKFRS 3 has resulted in a change in accounting policy for goodwill and negative goodwill. In prior years, goodwill was amortised on a straight line basis over a period of not exceeding 20 years and assessed for the impairment at each balance sheet date. Negative goodwill was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted.

In accordance with the provision of HKFRS 3, the Group ceased amortisation of goodwill from 1 August 2005 onwards and goodwill will be tested for impairment at least annually or in the financial year in which the acquisition takes place. The Group has derecognised all negative goodwill previously presented as a deduction from assets with a corresponding increase to retained earnings.

HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKFRS 5 affects certain presentation and disclosure of the accounts. The HKFRS 5 changes the timing of the classification of an operation as discontinued. In accordance with HKFRS 5, the Company classifies an operation as discontinued at the date as the Group has disposed of the operation.

2. Turnover and revenue

The Group's turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of turnover and other revenue is as follows:

	For the three months ended 31 January		For the six months ended 31 January	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
Turnover				
Continuing operations				
Sale of veterinary drugs	**3,690**	7,879	**10,433**	15,442
	3,690	7,879	**10,433**	15,442
Discontinued operations				
Sale of human drugs	**8,135**	27,993	**37,200**	63,880
Sale of packaging materials	**–**	1,657	**–**	4,331
	8,135	29,650	**37,200**	68,211
	11,825	37,529	**47,633**	83,653
Other revenue				
Interest income	**31**	25	**31**	428
Sundry income	**(52)**	359	**758**	589
Negative goodwill recognized	**–**	173	**–**	347
	(21)	557	**789**	1,364

3. Segment information

An analysis of the Group's turnover and contribution to operating results by business segments is as follows:

	Discontinued operations				Continuing operations							
	Human Drugs		Packaging Materials		Veterinary Drugs		Corporate		Elimination		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**37,200**	63,880	**–**	4,331	**10,433**	15,442	**–**	–	**–**	–	**47,633**	83,653
Intersegment sales	**1,630**	7,524	**–**	710	**–**	–	**–**	–	**(1,630)**	(8,234)	**–**	–
Other revenue	**352**	553	**–**	–	**406**	36	**–**	703	**–**	(356)	**758**	936
Total	**39,182**	71,957	**–**	5,041	**10,839**	15,478	**–**	703	**(1,630)**	(8,590)	**48,391**	84,589
Segment results	**3,004**	9,216	**–**	(25,057)	**(3,040)**	1,546	**(1,440)**	(7,817)	**–**	–	**(1,476)**	(22,112)
Interest income											**31**	428
Loss from operating activities											**(1,445)**	(21,684)
Finance costs											**(3,851)**	(9,119)
Share of result of an associate	**–**	1,914									**–**	1,914
Loss before tax											**(5,296)**	(28,889)
Tax expenses	**(170)**	(101)									**(170)**	(101)
Loss after tax											**(5,466)**	(28,990)
Attributable to:												
Equity holders of the Company											**(4,568)**	(27,208)
Minority interests											**(898)**	(1,782)
											(5,466)	(28,990)

4. Discontinued operations

On 20 May 2005, Chengdu Viking Yuen Heng, an indirectly 91% owned subsidiary of the Company has entered into the Equity Interest Transfer Agreement with an independent third party for the disposal of the 51.05% equity interest in Sichuan Shule together with its subsidiary for a consideration of RMB1.00. The transfer of the 51.05% equity interest to the purchaser was approved by 樂山產權交易中心 (Leshan Assets Transfer Centre) on 1 September 2005. The change of the legal representative of Sichuan Shule was completed on 7 December 2005 with the issue of the new business licence for Sichuan Shule by the State Administration for Industry and Commerce. Accordingly, the transfer of the entire interest of the Company in Sichuan Shule was completed and the Group disposed of the remaining portion of human drugs business.

The turnover, other revenue, expenses and result of the human drugs segment, included in the Group's unaudited consolidated income statement for the six months ended 31 January 2006 and 31 January 2005 respectively are as follows:

	Human Drugs	
	2006	2005
	HK$'000	*HK$'000*
Turnover	**37,200**	63,880
Cost of sales	**(26,001)**	(51,267)
Gross profit	**11,199**	12,613
Other revenue	**380**	893
Profit on disposal of discontinued operation	**1,032**	10,241
Selling and distribution costs	**(4,816)**	(5,191)
General and administrative expenses	**(4,633)**	(6,486)
Other operating expenses	**(130)**	(1,805)
Profit from operating activities	**3,032**	10,265
Finance costs	**(3,289)**	(5,907)
Share of result of an associate	**–**	1,914
(Loss)/profit before tax	**(257)**	6,272
Tax expense	**(170)**	(101)
(Loss)/profit before minority interests	**(427)**	6,171
Minority interests	**730**	(623)
Net profit attributable to shareholders	**303**	5,548

5. **Loss from operating activities**

The Group's loss from operating activities is arrived at after charging/(crediting):

	For the three months ended 31 January		**For the six months ended 31 January**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
Cost of inventories sold	**9,442**	31,119	**32,727**	65,110
Depreciation of fixed assets	**1,021**	3,561	**3,335**	7,724
Amortisation of intangible assets	**700**	834	**1,399**	1,851
Interest income	**(31)**	(25)	**(31)**	(428)

6. **Tax expenses**

No provision for Hong Kong profits tax has been made, as the Group had no assessable profits arising in Hong Kong for the six months ended 31 January 2006 (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

There is no material deferred tax credit recognised for the six months ended 31 January 2006 and 2005.

7. **Loss per share**

The calculation of basic loss per share for the three months and six months ended 31 January 2006 was based on the unaudited net loss attributable to shareholders of approximately HK$3,134,000 and approximately HK$4,568,000 respectively (three months and six months ended 31 January 2005: approximately HK$22,361,000 and approximately HK$27,208,000) and the weighted average number of 500,000,000 for the three months and six months ended 31 January 2006 (three months and six months ended 31 January 2005: 500,000,000) ordinary shares in issue during the period.

No diluted loss per share are presented for the three months and six months ended 31 January 2006 and 2005 respectively as there were no dilutive potential shares.

8. **Fixed assets**

Apart from the disposal of Sichuan Shule causing the decrease of fixed assets, the Group during the period under review spent approximately HK$1,573,000 on the acquisition of plant and equipment.

9. Trade and deposits, prepayments and other receivables

	31 January 2006 HK$'000 (Unaudited)	31 July 2005 *HK$'000* (Audited)
Trade receivables	**16,501**	98,397
Deposits, prepayments and other receivables	**5,026**	39,626
	21,527	138,023

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 to six months and on discretion 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 based on payment due date and net of provision, is as follows:

	31 January 2006 HK$'000 (Unaudited)	31 July 2005 *HK$'000* (Audited)
Within 3 months	**4,011**	62,984
3 to 6 months	**6,465**	27,848
6 to 12 months	**6,025**	6,533
Over 1 year	**–**	1,032
	16,501	98,397

10. Share capital

	No. of shares		Nominal value	
	At 31 January 2006 '000	At 31 July 2005 *'000*	**At 31 January 2006 HK$'000**	At 31 July 2005 *HK$'000*
Authorised:				
Ordinary share of HK$0.05 each	**1,000,000**	1,000,000	**50,000**	50,000
Issued and fully paid:				
Ordinary share of HK$0.05 each	**500,000**	500,000	**25,000**	25,000

11. Trade payables

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

	31 January 2006 HK$'000 (Unaudited)	31 July 2005 HK$'000 (Audited)
Within 3 months	**1,621**	15,602
3 to 6 months	**1,455**	2,159
6 to 12 months	**394**	11,802
Over 1 year	**1,662**	19,993
	5,132	49,556

DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 31 January 2006 (2005: Nil).

BUSINESS REVIEW AND OUTLOOK

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK$47,633,000 for the six months ended 31 January 2006, representing a decrease of approximately 43.1% as compared to approximately HK$83,653,000 that was recorded in the preceding year. The decrease in turnover was mainly due to the disposal of medical cap and human drugs businesses. The loss after tax for the six months ended 31 January 2006 was approximately HK$5,466,000 (2005: approximately HK$28,990,000). The higher amount of loss after tax last year was mainly due to (a) inclusion of one-off provision of approximately HK$19,479,000 for the loss on the disposal of medical cap and human drugs businesses last year; and (b) losses incurred by medical cap and human drug businesses before its disposal in December 2004.

Following the completion of the disposal of Sichuan Shule, the Group is no longer required to consolidate the results and balance sheets of Sichuan Shule and its subsidiary. Accordingly, there are reductions of the balance for most of the balance sheet items.

Segment information

The Group presented its segment information based on nature of its operations and the products it provided.

Liquidity, financial resources and capital structure

The Group generally financed its operation through internally generated cashflows and banking facilities provided by its principal bankers in the PRC. As at 31 January 2006, the aggregate borrowings were approximately HK$12,510,000 (31 July 2005: approximately HK$131,606,000). The reduction of approximately 90.5% in aggregate borrowings for the period under review was as a result of disposal of medical cap and human drugs businesses. As at 31 January 2006, the amount of banking facilities available and utilized was approximately HK$12,510,000 (31 July 2005: approximately HK$144,849,000). The Group's outstanding bank and other loans bear interest at the prevailing market rate.

In connection with the overdue bank borrowings of RMB13,000,000 (equivalent to approximately HK$12,510,000), the Group has already discussed with the bank regarding possible refinancing of the existing banking facilities. Based on the current discussions with the bank, it is believed that it is possible for the Group to reach an agreement with the bank regarding the outstanding amount. In the event if the Group is required to repay the outstanding amount, the Group could repay the outstanding amount by obtaining banking facilities from other banking institutions. As and when required, a piece of land owned by the Group could be pledged to the bank as security to support the existing banking facilities.

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

Gearing ratio

The gearing ratio as at 31 January 2006 (total borrowing, including notes payable, less cash and cash equivalents and pledged bank deposits to total assets) was approximately 16.9% (31 July 2005: approximately 47.8%). The improvement in gearing ratio is mainly attributable to the disposal of medicine cap and human drugs businesses.

Foreign exchange and interest rate exposure

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

Charges on group asset

As at 31 January 2006, the Group did not pledge any of the leasehold land and buildings situated in the PRC (31 July 2005: approximately HK$52,183,000), plant and machinery (31 July 2005: approximately HK$25,517,000) and bank and time deposit (31 July 2005: approximately HK$15,232,000) to secure general banking facilities granted to the Group.

Contingent liabilities

As at 31 January 2006, the Group did not have any significant contingent liabilities (31 July 2005: nil).

Commitments

At 31 January 2006, the Group had outstanding capital commitment of approximately HK$2,800,000 (31 July 2005: approximately HK$14,027,000).

Future plan for investment

Except as disclosed in the financial statements, as at 31 January 2006, the Group did not have future plan for material investment and capital assets.

Material acquisitions/disposals

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

Employee information

As at 31 January 2006, the Group (excluding Sichuan Shule Group) had 218 employees (2005: 385) in Hong Kong and PRC. The total remuneration to employees, including director's emoluments amounted to approximately HK$2,720,000 (2005: approximately HK$3,318,000). The Group remunerates its employees based on their performance, qualification, experience and the prevailing industry practice. Other benefits include contributions to statutory mandatory provident fund scheme, medical coverage to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

OPERATION REVIEW

– Veterinary drug and animal vaccines

During the six months period under review, the turnover from Chengdu Viking Yuen Heng amounted to approximately HK$10,134,000, representing a decrease of approximately 33.2% when compared with that of the corresponding period last year. During the period under review, the Group continued to face intense price competition from the non-GMP compliance manufacturers and the performance was also impacted by unstable contributions from the business from the original equipment manufacturer.

Consistent with marketing program "Thousand County Project", the company during the period placed efforts to strengthen its distribution network. To ensure more comprehensive sales network in the PRC, the company adjusted its overall sales and marketing strategies by instituting the regional sales management system across the principal county and also enhanced the technical know-how of the sales force.

– Human drugs

In view of focusing the development in a more promising veterinary pharmaceutical market, the Group had disposed of the human drugs business.

Research and Development

Currently Chengdu Viking Yuan Heng have a variety of veterinary drugs in the research and development pipeline. Chengdu Viking Yuen Heng, during the period under review, continued to work with Sichuan Agriculture University and Southwestern Agriculture University for developing of new products.

For the veterinary drug, about 5 products had obtained pharmaceutical registration during the period under review, namely Antondini Injection 10ml, Dexamethason Sodium Phosphate Injection 1ml : 2mg, Dexamethasone Sodium Phosphate Injection 1ml : 1mg, Antondini Injection 5ml and Dexamethasone Sodium Phosphate Injection 1ml : 5mg.

OUTLOOK

With the completion of the disposal of the businesses of human drugs segment and packaging material segment, the Group completes its restructuring and focuses its resources exclusively in the more profitable business segment. The disposal assists the Group to streamline and consolidate its operations as well as to preserve resources to focus on taking advantage of the enormous potential of the veterinary pharmaceutical businesses. The Group remains optimistic in its future growth and will continue to develop business through strategic alliances and joint ventures (if suitable opportunities arise), which are in line with the core business of the Group.

COMPETING INTEREST

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

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

As at 31 January 2006, the interests or short positions of the directors and chief executives in the shares, underlying shares and 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 of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 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*
Mr. Wong Sai Wa	Directly beneficially owned	Share options	3,200,000 share options	0.64%	(a)
Mr. Kwan Kai Cheong	Directly beneficially owned	Share options	3,000,000 share options	0.60%	(a)

Notes:

(a) Pursuant to the terms of the Company's Pre-IPO Share Option Scheme (the "Pre-IPO Plan") adopted by the Company on 23 March 2001, the Company has granted the above options to the directors to subscribe for shares in the Company at any time from 10 October 2001 up to and including 22 March 2011 at an exercise price of HK$0.55 per share. The exercise period of the Pre-IPO Plan is set out under the paragraph headed "Share Option Schemes" below. Details of the Pre-IPO Plan are set out in the Prospectus.

Save as disclosed herein, as at 31 January 2006, none of the directors or chief executives of the Company has short positions in the shares or underlying shares of equity derivatives of the Company.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEMES

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

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

Name or category of participant	At 1.08.2005	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	At 31.01.2006	Date of grant of share options *(Note a)*	Exercise period of share options	Exercise price of share options *(Note b)* HK$
Directors									
Mr. Wong Sai Wa	3,200,000	–	–	–	–	3,200,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
Mr. Kwan Kai Cheong	3,000,000	–	–	–	–	3,000,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
	6,200,000	–	–	–	–	6,200,000			
Other employees	400,000	–	–	–	–	400,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
	6,600,000	–	–	–	–	6,600,000			

Notes:

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

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

The exercise of the above 6,600,000 outstanding share options as at 31 January 2006, would under the present capital structure of the Company, result in the issue of 6,600,000 additional share capitals of HK$330,000 and share premium of HK$3,300,000 (before issue expenses). During the period ended 31 January 2006, none of the directors or employees of the Company had exercised any share options and no allotment or issue of shares was made pursuant to the Pre-IPO Plan.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 January 2006, the following persons (not being the directors and chief executives of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under Section 336 of the SFO as follows:

Long positions in ordinary shares and underlying shares of the Company

Name	Capacity and nature of interest	Shares/ equity derivatives	Number of shares/equity derivatives held	Percentage of the Company's issued share capital	*Note*
Concord Pharmaceutical Technology (Holdings) Limited ("CPT")	Corporation	Ordinary shares	400,000,000 shares	80%	(a)
Concord Business Management Limited ("CBM")	Through controlled corporation	Ordinary shares	400,000,000 shares	80%	(a)
Mr. Wong Sai Chung	Through controlled corporation	Ordinary shares	400,000,000 shares	80%	(a)

Notes:

(c) CPT is a wholly-owned subsidiary of CBM. As at 31 January 2006, the entire issued share capital of CBM was owned by Mr. Wong Sai Chung. Accordingly, CBM and Mr. Wong Sai Chung is deemed to have interests in the 400,000,000 shares of the Company held by CPT.

(d) Convertible Note in the principal amount of HK$26,740,760 issued by the Company to CPT on 23 March 2001 has been repaid by the Company to CPT in full on 22 December 2004.

Save as disclosed above, as at 31 January 2006, the directors or chief executives of the Company were not aware of any other person (other than directors or chief executives 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.

AUDIT COMMITTEE

The Company set up an audit committee on 23 March 2001 with written terms of reference in compliance with the requirements as set out in Rules 5.28, 5.29 and 5.33 of the GEM Listing Rules. The audit committee has 3 members, namely Mr. Chow Wai Ming, Mr. Garry Alides Willinge and Mr. Lai Chik Fan. The work undertaken by the audit committee are to review the Company's annual report and financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the board of directors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

COMPLIANCE WITH BOARD PRACTICE AND PROCEDURES

During the period under review, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Code has become effective for accounting periods commencing on or after 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 July 2006.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 31 January 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
China Medical Science Limited
Wong Sai Wa
Chairman

Hong Kong, 15 March, 2006

As at the date of this report, the Board comprises three executive directors, namely Mr. Wong Sai Wa, Mr. Kwan Kai Cheong and Mr. Wong Fei Fei; and three independent non-executive directors, namely Mr. Chow Wai Ming, Mr. Garry Alides Willinge and Mr. Lai Chik Fan.