

CHINA MEDICAL SCIENCE LIMITED

中華藥業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8120)

SECOND QUARTERLY REPORT

2006/2007

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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 2007 amounted to approximately HK\$5,441,000, representing a decrease of approximately 88.6% as compared with that in the preceding year.
- Loss attributable to shareholders for the six months ended 31 January 2007 amounted to approximately HK\$6,039,000.
- Loss per share amounted to approximately HK1.15 cents for the six months ended 31 January 2007.
- The Directors do not recommend the payment of any interim dividend for the six months ended 31 January 2007.
- The acquisition of 70% interest in JBC Group was completed in January 2007.

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 2007, together with the comparative unaudited figures for the corresponding period of the preceding year are as follows:

CONSOLIDATED INCOME STATEMENT – UNAUDITED

		For the three months ended 31 January		For the six months ended 31 January	
		2007	2006	2007	2006
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover					
Continuing operations	2	1,948	3,690	5,441	10,433
Discontinued operations	4	–	8,135	–	37,200
		<hr/>	<hr/>	<hr/>	<hr/>
		1,948	11,825	5,441	47,633
Cost of sales		(1,520)	(9,442)	(3,953)	(32,727)
		<hr/>	<hr/>	<hr/>	<hr/>
Gross profit		428	2,383	1,488	14,906
Other revenue	2	11	(21)	11	789
Selling and distribution expenses		(1,653)	(1,734)	(2,245)	(7,073)
General and administrative expenses		(1,814)	(1,700)	(3,672)	(7,435)
Other operating expenses		(732)	(2,938)	(1,456)	(3,664)
Profit/(loss) on disposal of subsidiaries		–	1,032	–	1,032
		<hr/>	<hr/>	<hr/>	<hr/>
LOSS FROM OPERATING ACTIVITIES	5	(3,760)	(2,978)	(5,874)	(1,445)
Finance costs		(376)	(516)	(756)	(3,851)
		<hr/>	<hr/>	<hr/>	<hr/>
PROFIT/(LOSS) BEFORE TAX		(4,136)	(3,954)	(6,630)	(5,039)
Continuing operations		(4,136)	(3,954)	(6,630)	(5,039)
Discontinued operations		–	460	–	(257)
		<hr/>	<hr/>	<hr/>	<hr/>

	<i>Note</i>	For the three months ended 31 January		For the six months ended 31 January	
		2007	2006	2007	2006
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax expense	6	(4,136)	(3,494)	(6,630)	(5,296)
Continuing operations		–	–	(3)	–
Discontinued operations		–	(50)	–	(170)
PROFIT/(LOSS) FOR THE PERIOD					
Continuing operations		(4,136)	(3,954)	(6,633)	(5,039)
Discontinued operations		–	410	–	(427)
		<u>(4,136)</u>	<u>(3,544)</u>	<u>(6,633)</u>	<u>(5,466)</u>
Attributable to:					
Shareholders of the Company		(3,753)	(3,134)	(6,039)	(4,568)
Minority interests		(383)	(410)	(594)	(898)
		<u>(4,136)</u>	<u>(3,544)</u>	<u>(6,633)</u>	<u>(5,466)</u>
EARNINGS/(LOSS) PER SHARE 7					
ATTRIBUTABLE TO					
SHAREHOLDERS OF THE					
COMPANY (HK Cents)					
– Basic					
Continuing operations		(0.68)	(0.70)	(1.15)	(0.84)
Discontinued operations		–	0.07	–	(0.07)
		<u>(0.68)</u>	<u>(0.63)</u>	<u>(1.15)</u>	<u>(0.91)</u>
– Diluted					
Continuing operations		N/A	N/A	N/A	N/A
Discontinued operations		N/A	N/A	N/A	N/A
		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

		31 January 2007	31 July 2006
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>	(Unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	35,763	33,430
Prepaid lease payment		7,529	2,945
Intangible assets		5,183	6,314
Goodwill	9	25,857	3,309
Deposits for acquisition of property, plant & equipment		2,799	2,443
Deferred tax asset		227	231
		<hr/>	<hr/>
		77,358	48,672
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		4,013	5,488
Trade receivables	10	10,634	12,345
Deposits, prepayments and other receivables	10	14,131	11,257
Cash & cash equivalents		307	936
		<hr/>	<hr/>
		29,085	30,026
		<hr/>	<hr/>
CURRENT LIABILITIES			
Bank and other borrowings		(22,766)	(22,055)
Trade payables	12	(1,606)	(5,107)
Other payables and accruals		(46,275)	(35,461)
Amount due to directors		(799)	(889)
Income tax payable		(968)	(939)
		<hr/>	<hr/>
		(72,414)	(64,451)
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(43,329)	(34,425)
		<hr/>	<hr/>
NET ASSETS		<u>34,029</u>	<u>14,247</u>

	31 January 2007	31 July 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>	(audited)
REPRESENTING:		
CAPITAL AND RESERVES		
Share capital	<i>11</i> 49,000	25,000
Reserves	(16,615)	(12,222)
	<hr/>	<hr/>
Equity attributable to Shareholders of the Company	32,385	12,778
Minority interests	1,644	1,469
	<hr/>	<hr/>
TOTAL EQUITY	34,029	14,247
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	For the six months ended 31 January 2007 <i>HK\$'000</i>	For the six months ended 31 January 2006 <i>HK\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		
Continuing operations	2,487	(1,002)
Discontinued operations	–	(20,972)
Total	2,487	(21,974)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		
Continuing operations	(3,834)	3,295
Discontinued operations	–	8,738
Total	(3,834)	12,033
NET CASH INFLOW/(OUTFLOW) FROM FINANCING		
Continuing operations	711	(5,004)
Discontinued operations	–	12,301
Total	711	7,297
DECREASE IN CASH AND CASH EQUIVALENTS	(636)	(2,644)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	7	4
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	936	3,282
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>307</u>	<u>642</u>

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY (UNAUDITED)

	Share Capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits/ accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>25,000</u>	<u>17,992</u>	<u>27,104</u>	<u>976</u>	<u>(57,558)</u>	<u>13,514</u>
At 1 August 2006	25,000	17,992	27,104	1,446	(58,764)	12,778
Issued of share capital in January 2007 of 480,000,000 shares at HK\$0.05 each	24,000	–	–	–	–	24,000
Exchange difference arising on translation of financial statements of PRC subsidiaries	–	–	–	1,646	–	1,646
Net loss for the period	–	–	–	–	(6,039)	(6,039)
	<u>49,000</u>	<u>17,992</u>	<u>27,104</u>	<u>3,092</u>	<u>(64,803)</u>	<u>32,385</u>

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 and have been prepared under the historical cost convention.

The accounting policies adopted in preparing the unaudited consolidated financial statements for the six months ended 31 January 2007 are consistent with those followed in the annual report of the Company for the year ended 31 July 2006.

2. Turnover

The Group’s turnover represents the net invoiced value of goods sold after allowances for returns and discounts, and net of value-added tax.

An analysis of turnover is as follows:

	For the three months ended 31 January		For the six months ended 31 January	
	2007	2006	2007	2006
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Turnover				
Continuing operations				
Sale of veterinary drugs	1,948	3,690	5,441	10,433
Discontinued operations				
Sale of human drugs	–	8,135	–	37,200
	<u>1,948</u>	<u>11,825</u>	<u>5,441</u>	<u>47,633</u>
Other revenue				
Interest income	1	31	1	31
Sundry income	10	(52)	10	758
	<u>11</u>	<u>(21)</u>	<u>11</u>	<u>789</u>

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		Corporate		Elimination		Consolidated	
	Human Drugs		Veterinary Drugs							
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	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	5,441	10,433	-	-	-	-	5,441	47,633
Intersegment sales	-	1,630	-	-	-	-	-	(1,630)	-	-
Other revenue	-	352	10	406	-	-	-	-	10	758
	<u>-</u>	<u>39,182</u>	<u>5,451</u>	<u>10,839</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,630)</u>	<u>5,451</u>	<u>48,391</u>
Total	-	39,182	5,451	10,839	-	-	-	(1,630)	5,451	48,391
Segment results	<u>-</u>	<u>3,004</u>	<u>(2,763)</u>	<u>(3,040)</u>	<u>(3,112)</u>	<u>(1,440)</u>	<u>-</u>	<u>-</u>	<u>(5,875)</u>	<u>(1,476)</u>
Interest income									1	31
Loss from operating activities									(5,874)	(1,445)
Finance costs									(756)	(3,851)
Loss before tax									(6,630)	(5,296)
Tax expense		(170)	(3)						(3)	(170)
Loss after tax									<u>(6,633)</u>	<u>(5,466)</u>
Attributable:										
Equity Holders of the Company									(6,039)	(4,568)
Minority interest									(594)	(898)
									<u>(6,633)</u>	<u>(5,466)</u>

4. Discontinued operations

On 20 May 2005, Chengdu Viking Yuen Heng Pharmaceutical Co., Ltd., an indirectly 91% owned subsidiary of the Company entered into an equity interest transfer agreement with an independent third party for the disposal of the 51.05% equity interest in Sichuan Shule for a consideration of RMB1. Upon completion of the disposal of Sichuan Shule and its subsidiary, the Group discontinued its development, production, sales and distribution of human drugs business.

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	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	1,520	9,442	3,953	32,727
Depreciation of fixed assets	381	1,021	767	3,335
Amortisation of intangible assets	566	700	1,131	1,399
Interest income	(1)	(31)	(1)	(31)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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 2007 (2006: Nil). Current tax represents PRC enterprise income tax charged on the estimated taxable profits of certain subsidiaries operating in the PRC and is calculated at the prevailing tax rate.

There is no material deferred tax credit recognised for the six months ended 31 January 2007 and 2006.

7. Earnings/(Loss) per share

The calculation of basic loss per share for the three months and six months ended 31 January 2007 was based on the unaudited net loss attributable to shareholders of approximately HK\$3,753,000 and approximately HK\$6,039,000 respectively (three months and six months ended 31 January 2006: approximately HK\$3,134,000 and approximately HK\$4,568,000) and the weighted average number of 552,173,913 for the three months and 526,086,957 for six months ended 31 January 2007 (three months and six months ended 31 January 2006: 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 2007 and 2006 respectively as there were no dilutive potential shares.

8. Fixed assets

The Group during the period under review spent approximately HK\$884,000 on the acquisition of plant and equipment.

9. Acquisition of subsidiaries

On 22 January 2007, the Group has completed the acquisition of 70% of JBC Bio Products Company Limited and its subsidiaries ("JBC Group") by issuing 480,000,000 shares at HK\$0.05 each as consideration resulted in HK\$22,548,000 goodwill.

10. Trade and deposits, prepayments and other receivables

	31 January 2007 <i>HK\$'000</i> (Unaudited)	31 July 2006 <i>HK\$'000</i> (Audited)
Trade receivables	10,634	12,345
Deposits, prepayments and other receivables	14,072	11,198
	<u>24,706</u>	<u>23,543</u>

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 2007 <i>HK\$'000</i> (Unaudited)	31 July 2006 <i>HK\$'000</i> (Audited)
Within 3 months	4,091	3,528
3 to 6 months	3,194	3,244
6 to 12 months	2,909	5,374
Over 1 year	440	199
	<u>10,634</u>	<u>12,345</u>

11. Share capital

	No. of shares		Nominal value	
	At 31 January 2007 '000	At 31 July 2006 '000	At 31 January 2007 HK\$'000	At 31 July 2006 HK\$'000
Authorised:				
Ordinary share of HK\$0.05 each				
As at 31 July 2006	1,000,000	1,000,000	50,000	50,000
Increase of 500,000,000 authorized share capital during the period at HK\$0.05 each	500,000	–	25,000	–
	<u>1,500,000</u>	<u>1,000,000</u>	<u>75,000</u>	<u>50,000</u>
Issued and fully paid:				
Ordinary share of HK\$0.05 each				
As at 31 July 2006	500,000	500,000	25,000	25,000
Issue of 480,000,000 shares during the period at HK\$0.05 each	480,000	–	24,000	–
	<u>980,000</u>	<u>500,000</u>	<u>49,000</u>	<u>25,000</u>

12. Trade payables

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

	31 January 2007 HK\$'000 (Unaudited)	31 July 2006 HK\$'000 (Audited)
Within 3 months	463	984
3 to 6 months	211	1,179
6 to 12 months	347	1,195
Over 1 year	585	1,749
	<u>1,606</u>	<u>5,107</u>

DIVIDEND

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

BUSINESS REVIEW AND OUTLOOK

OPERATION REVIEW

Continuing operations

Veterinary drug industry and animal vaccines: During the half year under review, the sale of veterinary drugs decreased to HK\$5,441,000 in 2007 from HK\$10,433,000 on 31 January 2006, representing a decrease of approximately 47.8%. The decrease was mainly due to the continuing severe price competition from non-GMP compliance manufacturers during the half year and fluctuation in contributions from our OEM business. In addition, the Group continued to allocate various resources to upgrade our production facilities in preparation for GMP certification also contributed to such decrease.

Feed supplements: During the half year under review, since the business acquisition for feed supplements was only completed on 22 January 2007, feed supplements had no contribute to the Group's business during the period under review.

Research and development

Besides those having been registered, there are various veterinary drugs in the process of research and development. In addition, after acquiring the feed supplements business, the Group has obtained new patent technologies relating to manufacturing livestock feed based on feed supplements. The Group continues to work in cooperation with Southwest Agriculture University and Sichuan Agriculture University for the development of new products.

Outlook

After completion of acquisition of 70% equity interest in JBC Bio Products Company Limited on 22 January 2007, the Group's principal businesses will include feed supplements, biotic vaccines and infusion and injection stuff. After acquisition of 70% shares of JBC Bio Products Company Limited, the Group's original sales and distribution network and customer base of veterinary business will form the base for its new business of feed supplements and create good synergies between different businesses.

Both the feed supplements and the veterinary businesses continue to benefit from the rural reforms adopted by the Central People's Government of the PRC (the "Central Government"). According to Central Government State Council's "No. 1 Document" dated 29 January 2007 – "Certain Opinions on Actively Developing Modern Agriculture and Improving Construction of Socialist New Villages (關於積極發展現代農業扎實推進社會主義新農村建設的若干意見)" and the document of "Guofa (2007) No 4" – "State Council's Opinions on Promoting Sustainable and Healthy Development of Husbandry Industry (國務院關於促進畜牧業持續健康發展的意見)", the Central Government will continue to strongly support the development of agriculture, rural areas and farmers (collectively call "三農"), and the Central Government will contribute 391.7 billion yuan for financing of agriculture, rural areas and farmers, an increase of 52 billion yuan when comparing to last year, principally for: (1) improving agriculture's sustainable development and encouraging development of recycling and ecological agriculture, and accelerating development of organic agriculture in suitable places; (2) speeding up change of the way to grow of husbandry industry, actively developing healthy breeding and feeding, establishing modern husbandry industry system and strengthening safe feed management to control product quality safety of husbandry industry from its source; (3) strictly adhering to rely on science and technology, encouraging scientific and technological innovation, promoting use of suitable advanced technologies, speeding up the transformation of scientific and technological achievements to boost industry upgrade and enhance the competitiveness of husbandry industry; (4) strengthening supervision quality safety in production of livestock products. The Group is aimed to establish comprehensive quality standards of livestock products, strengthen quality management, optimize inspection approaches and enhance inspecting and monitoring quality of livestock products. The Group also pursued to establish a retrospective system for quality of livestock products, strengthen management of poultry and husbandry breeding and feeding archive, Conduct whole-process quality supervision in breeding and feeding, standardize usage of feed, feed supplements and veterinary drugs and actively developing production of pollution free, green and organic livestock products.

In addition, there are growing concerns on the quality of animal feeds and the ban of using antibiotics in animal feeds due to bacterial resistance and allergenic effects in humans. The market potential for the existing feed supplements and veterinary business businesses in the PRC and other regions outside the PRC are encouraging.

In early March 2007, 260,000,000 subscription shares were issued and allotted by the Company and the details as stated in the circular issued by the Company dated 12 February 2007.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$5,441,000 for the six months ended 31 January 2007, representing a decrease of approximately 88.6% as compared to approximately HK\$47,633,000 that was recorded in the preceding year. The decrease in turnover was mainly due to the disposal of human drugs businesses. The loss after tax for the six months ended 31 January 2007 was approximately HK\$6,633,000 (2006: approximately HK\$5,466,000).

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 2007, the aggregate bank borrowings (excluding other borrowing) were approximately HK\$13,075,000 (31 July 2006: approximately HK\$12,686,000). As at 31 January 2007, the amount of banking facilities available and utilized was approximately HK\$13,075,000 (31 July 2006: approximately HK\$12,686,000). The Group's outstanding bank and other loans bear interest at the prevailing market rate.

The Group continues to adopt a conservative approach towards its treasury policy with all bank deposits in either Hong Kong Dollars, or 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 2007 (total borrowing, including notes payable, less cash and cash equivalents and pledged bank deposits to total assets) was approximately 21.1% (31 July 2006: approximately 26.8%). The improvement in gearing ratio is mainly attributable to the acquisition of 70% of JBC Group.

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 2007, the Group pledge of the property, plant and equipment, production licensing & deposits for acquisition of property plant & equipment HK\$25,431,000 (31 July 2006: approximately HK\$22,314,000) to secure other borrowings granted to the Group.

Contingent liabilities

As at 31 January 2007, the Group did not have any significant contingent liabilities (31 July 2006: nil).

Commitments

At 31 January 2007, the Group had outstanding capital commitment of approximately HK\$6,886,000 (31 July 2006: approximately HK\$6,809,000).

Future plan for investment

Except as disclosed in the financial statements, as at 31 January 2007, 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 2007, the Group had 130 employees (2006: 218) in Hong Kong and PRC. The total remuneration to employees, including director's emoluments amounted to approximately HK\$983,100 (2006: approximately HK\$2,720,000). 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.

COMPETING INTEREST

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

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

As 31 January 2007, the interests or short position of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV (including interests or short positions which is taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Name of the Director	Capacity and nature of interest	Shares/equity derivatives	Number/amount of Shares/equity derivatives held (Long position)	Percentage of the Company's issued share capital
Ms. Liu Yang	Through controlled corporation (<i>Note 1</i>)	Shares	480,000,000 Shares	48.98%
Mr. Wong Sai Wa	Directly beneficially owned	Options (<i>Note 2</i>)	3,200,000 options	0.33%
Mr. Kwan Kai Cheong	Directly beneficially owned	Options (<i>Note 2</i>)	3,000,000 options	0.31%

Notes:

1. Ms. Liu Yang is deemed to be interested in the 480,000,000 Shares held by JBC Bio Technology Company Limited by virtue of her 90% interest in JBC Bio Technology Company Limited.
2. The options are exercisable at any time during the period from 10 October 2001 up to and including 22 March 2011 at an exercisable price of HK\$0.55 per Share in accordance with the terms of the pre-initial public offerings share option scheme adopted by the Company on 23 March 2001.

Save as disclosed herein, as at 31 January 2007, none of Directors or chief executives of the Company had any interests or short position in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which was taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange; or were required to be disclosed under the Takeovers Code.

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	Granted At 1.08.2006	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	At 31.1.2007	Date of grant of share options <i>(Note a)</i>	Exercise period of share options	Exercise price of share options <i>(Note b)</i> 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
	<u>6,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,200,000</u>			
Other employees	400,000	-	-	-	-	400,000	23.3.2001	10.10.2001 to 22.3.2011	0.55
	<u>6,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,600,000</u>			

Notes:

- (a) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- (b) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The exercise of the above 6,600,000 outstanding share options as at 31 January 2007, would under the present capital structure of the Company, result in the issue of 6,600,000 additional share capitals of HK\$330,000 and share premium of HK\$3,300,000 (before issue expenses). During the period ended 31 January 2007, none of the directors or employees of the Company had exercised any share options and no allotment or issue of shares was made pursuant to the Pre-IPO Plan.

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' INTEREST IN THE COMPANY

As at 31 January 2007, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital:

Name	Capacity and nature of interest	Shares/equity derivatives	Number/amount of Shares/equity derivatives held (Long position)	Percentage of the Company's issued share capital
JBC Bio Technology Company Limited	Corporation (<i>Note 1</i>)	Shares	480,000,000 Shares	48.98%
Concord Pharmaceutical Technology (Holdings) Limited ("CPT")	Corporation (<i>Note 2</i>)	Shares	140,000,000 Shares	14.29%
Concord Business Management Limited ("CBM")	Through controlled corporation (<i>Note 2</i>)	Shares	140,000,000 Shares	14.29%
Wong Sai Chung	Through controlled corporation (<i>Note 2</i>)	Shares	140,000,000 Shares	14.29%

Notes:

1. The 480,000,000 Shares held in the name of JBC Bio Technology Company Limited are duplication of the 480,000,000 Shares held by Ms. Liu Yang, an executive Director and the Chairman of the Board.
2. CPT is a wholly-owned subsidiary of CBM. Accordingly, CBM is deemed to have an interest in the 140,000,000 shares held by CPT. CBM was wholly owned by Mr. Wong Sai Chung as at 31 January 2007. Accordingly, Mr. Wong Sai Chung is also deemed to be interested in the aggregate of 140,000,000 Shares in which CPT is interested. Mr. Wong Sai Chung resigned as an executive Director and chairman of the Company in April 2005. Mr. Wong Sai Chung is the brother of Mr. Wong Sai Wa and Ms. Wong Moon Ha, both executive Directors of the Company.

Save as disclosed herein, as at 31 January 2007, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, no other persons (not being a Director or chief executive of the Company) had, or deemed to have, any interest or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of Group or held any option in respect of such capital.

GEM LISTING RULES REQUIREMENTS

Rule 5.05(1) of the GEM Listing Rules requires that every board of directors of a listed issuer must include at least three independent non-executive directors, while Rule 5.05(2) of the GEM Listing Rules requires that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. Upon resignation of Mr. Ho Kwok On as an independent non-executive Director with effect from 24 January 2007, the Company is still in compliance with Rule 5.05(2) as one of the remaining two independent non-executive Directors, namely Mr. Chow Wai Ming, has financial management expertise. In particular, Mr. Chow Wai Ming has over 20 years of investment banking experience in one of the largest investment banks and fund managers in Europe. The Company is yet to appoint one independent non-executive Director to comply with the requirement under Rule 5.05(1) of the GEM Listing Rules. The Company is currently identifying suitable candidate for such appointment. The Company will, in accordance with Rule 5.06 of the GEM Listing Rules, appoint the additional independent non-executive Director to meet the minimum number required under Rule 5.05(1) within three months after failing to meet such requirement. Further announcement will be made in accordance with the GEM Listing Rules in this regard.

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 2 members, namely Mr. Chow Wai Ming, Mr. Garry Alides Willinge. 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.

CODE ON CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

CODE ON CORPORATE GOVERNANCE PRACTICES

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

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

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

Hong Kong, 16 March 2007

As at the date of this report, the Board comprises five executive Directors, namely Ms. Liu Yang (Chairman), Ms. Wong Moon Ha, Dr. Liu Dong Hui, Mr. Wong Sai Wa and Dr. Tan Min; two non-executive Directors, namely Mr. Kwan Kai Cheong and Mr. Lai Chik Fan; and two independent non-executive Directors, namely Mr. Chow Wai Ming and Mr. Garry Alides Willinge.