



新 醫 藥 控 股 有 限 公 司
NEW CHINESE MEDICINE HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)



HALF-YEAR REPORT 2002

<http://www.newchinesemedic.com>

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

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2002

The board of Directors (the "Board") of New Chinese Medicine Holdings Limited (the "Company") is pleased to report the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three months and six months ended 30 September 2002, together with the unaudited comparative figures for the corresponding period last year as follows:

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Six months ended 30 September	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	4	4,161	8,232	10,139	15,809
Cost of sales		(2,625)	(3,131)	(5,968)	(6,767)
Gross profit		1,536	5,101	4,171	9,042
Other revenues		14	620	44	1,129
Medicine research and development costs		(147)	(247)	(246)	(702)
Administrative expenses		(4,052)	(2,378)	(8,238)	(5,271)
Website development costs		(218)	(169)	(286)	(242)
(Loss) profit from operations	6	(2,867)	2,927	(4,555)	3,956
Finance costs		–	(755)	(1)	(899)
Share of results of a jointly controlled entity		–	–	(1)	–
(Loss) profit before taxation		(2,867)	2,172	(4,557)	3,057
Taxation	7	–	(242)	–	(242)
(Loss) profit before minority interests		(2,867)	1,930	(4,557)	2,815
Minority interests		68	–	137	–
(Loss) profit for the period		(2,799)	1,930	(4,420)	2,815
Dividend	8	(586)	(8,000)	(586)	(8,000)
(Loss) earnings per share	9				
– Basic (cent)		(0.60)	0.48	(0.94)	0.70
– Diluted (cent)		(0.57)	N/A	(0.91)	N/A



CONSOLIDATED BALANCE SHEET

As at 30 September 2002

		(Unaudited) 30 September 2002 HK\$'000	(Audited) 31 March 2002 HK\$'000
	Notes		
Non-current Assets			
Property, plant and equipment	10	1,090	1,020
Interest in a jointly controlled entity		14	14
Deposit for formation of a new company		–	1,121
Deposit for management contract of a retail outlet		200	200
		1,304	2,355
Current Assets			
Inventories		459	382
Amount due from a director		–	345
Debtors, deposits and prepayments	11	16,346	15,978
Tax recoverable		846	497
Bank balances and cash		30,110	22,740
		47,761	39,942
Current Liabilities			
Creditors and accrued charges	12	2,307	3,992
Bank borrowings	13	–	61
Amount due to a director	14	13,417	–
		15,724	4,053
Net Current Assets		32,037	35,889
Total Assets Less Current Liabilities		33,341	38,244
Minority Interests		55	–
Net Assets		33,286	38,244
Capital and Reserves			
Share capital	15	46,900	46,900
Reserves	16	(13,614)	(8,656)
Shareholders' Funds		33,286	38,244

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 September 2002*

	(Unaudited)	
	Six months ended	
	30 September	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity at the beginning of the period	38,244	18,179
Net gain not recognised in the income statement		
– exchange differences on translation of financial statements of overseas operations	48	–
(Loss) profit for the period	(4,420)	2,815
Dividend	(586)	(8,000)
Total equity at the end of the period	33,286	12,994

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2002*

	(Unaudited)	
	Six months ended	
	30 September	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (used in) from operating activities	(6,565)	7,475
Net cash from (used in) investing activities	265	(8,051)
Net cash from (used in) financing activities	13,731	(96)
Net increase/(decrease) in cash and cash equivalents	7,431	(672)
Cash and cash equivalents at the beginning of the period	22,679	(261)
Cash and cash equivalents at the end of the period	30,110	(933)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 October 2000 under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group on 6 August 2001. The shares of the Company have been listed on GEM since 7 March 2002. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. Details of the Group Reorganisation are set out in the prospectus dated 25 February 2002 issued by the Company.

The unaudited consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. Principal accounting policies

The unaudited financial statements have been prepared under the historical cost convention.

The accounting policies used in the preparation of the unaudited half-year results are consistent with those used in the annual accounts for the year ended 31 March 2002, except that the Group has adopted the following new and revised SSAPs issued by HKSA, which became effective on 1 January 2002.

SSAP 1 (Revised)	Presentation of Financial Statements
SSAP 11 (Revised)	Foreign Currency Translation
SSAP 15 (Revised)	Cash Flow Statements
SSAP 34	Employee Benefits

The adoption of SSAP 1 (Revised) results in the presentation of the statement of changes in equity.

In accordance with SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as financing and investing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. The condensed consolidated cash flow statement for the six months ended 30 September 2001 has been presented on a consistent basis.

Except for the above, the adoption of these new and revised SSAPs has no material effect on the results of the Group.

3. Prior period adjustments and re-classifications

In the process of compiling the unaudited consolidated financial statements for the six months ended 30 September 2002, the Company discovered some accounting entries were wrongly posted to the first quarter accounts for the three months ended 30 June 2002. Some adjustments and re-classifications were therefore made to costs of sales, administrative expenses and finance costs. The following comparison table highlights the net effect of these adjustments and re-classifications on the consolidated income statement for the three months ended 30 June 2002.

	(Results previously reported-unaudited) three months ended 30 June 2002 <i>HK\$'000</i>	(Adjusted results-unaudited) three months ended 30 June 2002 <i>HK\$'000</i>	Variance <i>HK\$'000</i>
Turnover	5,978	5,978	0
Cost of sales	(2,392)	(3,343)	951
Gross profit	3,586	2,635	951
Other revenues	30	30	0
Medicine research and development costs	(99)	(99)	0
Administrative expenses	(3,003)	(4,186)	1,183
Website development costs	(68)	(68)	0
Profit (loss) from operations	446	(1,688)	2,134
Finance costs	(6)	(1)	(5)
Share of results of a jointly controlled entity	(1)	(1)	0
Profit (loss) before taxation	439	(1,690)	2,129
Taxation	–	–	–
Profit (loss) before minority interests	439	(1,690)	2,129
Minority interests	69	69	0
Profit (loss) for the period	508	(1,621)	2,129
Dividend	–	–	–
Earnings (loss) per share			
– Basic (<i>cent</i>)	0.11	(0.35)	
– Diluted (<i>cent</i>)	0.10	(0.33)	

4. Turnover

Turnover represents the net amounts received and receivable for goods sold during the reporting period.



5. Segment information

The principal activities of the Group are sale of Chinese medicine through retail and E-commerce divisions. These activities are the basis on which the Group reports its primary segment information. An analysis of the Group's turnover and segment results by business segment is as follows:

Income statement for the six months ended 30 September 2002

	Retail HK\$'000	E-Commerce HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	10,042	97	–	10,139
Inter-segment sales (Note)	7	–	(7)	–
Total revenue	10,049	97	(7)	10,139

Note: Inter-segment sales are charged at cost.

RESULT				
Segment result	1,009	(5,608)	–	(4,599)
Interest and other income				44
Loss from operations				(4,555)
Finance costs				(1)
Share of result of a jointly controlled entity				(1)
Loss before taxation				(4,557)
Taxation				–
Loss after taxation				(4,557)

Income statement for the six months ended 30 September 2001

	Retail HK\$'000	E-Commerce HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	15,578	231	–	15,809
Inter-segment sales (Note)	16	–	(16)	–
Total revenue	15,594	231	(16)	15,809

Note: Inter-segment sales are charged at cost.

RESULT				
Segment result	6,667	(3,840)	–	2,827
Interest and other income				1,129
Profit from operations				3,956
Finance costs				(899)
Profit before taxation				3,057
Taxation				(242)
Profit after taxation				2,815

6. (Loss) profit from operations

	(Unaudited) Six months ended 30 September 2002		2001 HK\$'000	
(Loss) profit from operations has been arrived at after charging:				
Depreciation and amortisation		200		174

7. Taxation

	(Unaudited) Three months ended 30 September 2002		(Unaudited) Six months ended 30 September 2002		2001 HK\$'000	
The charge comprises:						
Hong Kong Profits Tax	-	242	-	242		

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the period.

No provision for Hong Kong profit tax has been made as the Group had no assessable profit in Hong Kong for the six months ended 30 September 2002.

8. Dividend

On 7 August 2002, a dividend of HK0.125 cent per share (2001: HK\$Nil) was paid to shareholders as the final dividend for 2002.

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2002. During the period ended 30 September 2001, a subsidiary of the Group paid a special dividend of HK\$8,000,000 to its then shareholder prior to the Group Reorganisation.

9. (Loss) earnings per share

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	Three months ended 30 September 2002		Six months ended 30 September 2002		2001 HK\$'000	
(Loss) earnings						
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	(2,799)	1,930	(4,420)	2,815		
Number of shares						
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	469,000,000	400,000,000	469,000,000	400,000,000		
Effect of dilutive potential shares in respect of share options	18,847,826	N/A	18,108,696	N/A		
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	487,847,826	N/A	487,108,696	N/A		

No diluted earnings per share is presented for 2001 as there was no dilutive potential ordinary shares in existence then.



10. Property, plant and equipment

During the six months ended 30 September 2002, the Group acquired leasehold improvements, computer equipment and system and furniture, fixture and equipment at a cost of HK\$270,000.

11. Debtors, deposits and prepayments

The credit terms of the trade debtors were cash on delivery. Accordingly, the Group did not have trade debtors at the balance sheet date and no ageing analysis provided.

12. Creditors and accrued charges

The credit terms of the trade creditors range from 30 to 60 days.

The following is aged analysis of the account payable at the balance sheet date:

	(Unaudited) 30 September 2002 HK\$'000	(Audited) 31 March 2002 HK\$'000
0 to 30 days	54	158
31 to 60 days	-	-
61 to 90 days	-	-
> 90 days	-	35
Accrued charges other payables	<u>2,253</u>	<u>3,799</u>
	<u>2,307</u>	<u>3,992</u>

13. Bank borrowings

During the six months ended 30 September 2002, the Group repaid all the bank borrowings.

14. Amount due to a director

The amount represented a short-term advance from a director in anticipation of funding a proposed acquisition of a business. The amount was unsecured, interest free and was fully repaid on 7 October 2002.

15. Share capital

	Number of shares	Value HK\$'000
Ordinary share of HK\$0.1 each		
Authorised:		
At 31 March 2002 and 30 September 2002	2,000,000,000	200,000
Issued and fully paid:		
At 31 March 2002 and 30 September 2002	469,000,000	46,900

16. Movement in reserves

	Share premium HK\$'000	Special reserve HK\$'000	Exchange equalisation reserve HK\$'000	Accumulated profit HK\$'000	Total HK\$'000
The Group					
At 1 April 2001	–	–	–	18,179	18,179
Profit for the period	–	–	–	2,815	2,815
Dividend	–	–	–	(8,000)	(8,000)
At 30 September 2001	–	–	–	12,994	12,994
Special reserve arising from the Group Reorganisation	–	(39,998)	–	–	(39,998)
Premium arising on initial public offer	34,500	–	–	–	34,500
Share issue expenses	(15,491)	–	–	–	(15,491)
Loss for the period	–	–	–	(661)	(661)
At 31 March 2002	19,009	(39,998)	–	12,333	(8,656)
Translation of financial statements of overseas operations	–	–	48	–	48
Loss for the period	–	–	–	(4,420)	(4,420)
Dividend	–	–	–	(586)	(586)
At 30 September 2002	19,009	(39,998)	48	7,327	(13,614)

17. Related party transactions

During the reporting period, the Group entered into the following transactions with related parties:

Name of related party	Nature of transaction	Notes	(Unaudited) Six months ended 30 September	
			2002	2001
			HK\$'000	HK\$'000
Fairco Investments Limited	Rental paid	1, 2	450	450
Ms. Leung Oi Wah	Interest income	3	–	710
Sichuan Institute of New Medicine ("SRI")	Medicine research and development costs	4	–	702

Notes:

- The transaction was determined based on the terms agreed by the companies concerned.
- The director, Mr. Wong Cheah Foo, has a beneficial interest in this company.
- Interest income for the period ended 30 September 2001 was determined based on interest rate of 5.45% per annum on balance with Ms. Leung Oi Wah, a director of the Company.
- SRI is a substantial shareholder of the Company.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the Group continued to follow its business plans to (1) expand its distribution network; (2) enlarge its customer base; (3) enlarge its product lines; and (4) expand its research and development capability.

The Group has been actively pursuing its plan to establish distribution outlets in Hangzhou, Beijing and Xian to capture the booming tourist market in the PRC and to reduce the reliance on the Group's retail outlet in Hong Kong. The Hangzhou outlet was soft opened in October 2002 and the Group is now marketing the Hangzhou outlet to different tour agencies. Apart from targeting at its customary Japanese tourists, these outlets will also target foreign tourists from Southeast Asia and the United States and local tourists from the PRC.

The Group entered into a letter of intent with a research institute in Beijing in September 2002 with respect to the opening of a distribution outlet in Beijing. During the reporting period, the Group visited and evaluated a number of sites for the Beijing outlet and these site locations were subsequently rejected by the Group. The research institute in Beijing is currently assisting the Group to identify and evaluate different site options for the Beijing outlet. The Group aims to open the Beijing outlet before the first quarter of 2003 and the Xian outlet in 2003. With the opening of the PRC distribution outlets, it will create an additional source of income to the Group.

For the overseas markets development, the Group continued to seek suitable business partners in different countries during the period under review. In April 2002, the Group entered into a distribution agreement with a Canadian health food distributor. The Canadian distributor is responsible for marketing and distributing the Group's new health supplement products in Canada. This move marked a cornerstone in the Group's penetration into the North American market. The Group also continued its discussions with a US nutritional supplement company with a view to distributing the Group's new health supplement products through this company's sales channels in the United States. With increasing health consciousness and the ageing population in the North America, we believe that the North American market will offer the Group strong market potential for its new health supplement products.

Over the years, the Group has successfully built up its brand name, Kanpoyakudo (漢方藥堂), and its customer base in the Japanese market. In order to encourage repeated purchases via the Group's health portal, www.newchinesemedic.com and solicit referrals from its existing customers, the Group has been actively pursuing its plan to establish a number of membership centres in Japan to strengthen the brand loyalty. The Group's first Japan membership centre was opened in Tokyo in September 2002. We plan to open one more membership centre in Japan before the first half of 2003. With the opening of the membership centres in Japan, it is expected that both the Internet sales and the number of referrals from club members will rise in the years ahead.

The Group is also committed to developing and searching new proprietary Chinese medicine and health supplement products to expand its product range. In December 2001, the Group successfully developed 8 new health supplement products. These 8 health supplement products are currently sold in the Group's retail outlet in Hong Kong. The Group also plans to distribute these 8 health supplement products to the North American market.

In addition to marketing to Japanese club members, the Group also plans to market and distribute health supplement products in Japan through large local Japanese distributors or large local health food chain stores. In this regard, the Group is currently working on a project to develop a total of 9 health supplement products for the Japanese local market. These 9 health supplement products are similar to the 8 health supplement products developed in December 2001, and they are intended for those affected by diabetes, hyperlipidemia, hypertension, obesity, pollnosis, constipation and strengthening the liver and stomach and anti-ageing. The research and development progress on these 9 health supplement products is satisfactory, and 5 products are close to complete. We expect the research and development on these 9 health supplement products to be finished in the first quarter of 2003.

During the reporting period, the Group successfully developed a new health supplement product series for the Hong Kong market using *Saussurea* (天山雪蓮) as major ingredient. The *Saussurea* series is consisted of 4 products which are intended for regulating menstruation, pelvic inflammation, rheumatic arthritis and anti-ageing. The Group is currently conduct pre-launch preparation such as packaging design and marketing plans for the *Saussurea* (天山雪蓮) series. In addition to the Group's retail outlet in Hong Kong, we also plan to distribute the *Saussurea* (天山雪蓮) series all over Hong Kong through large drug store chains and individual pharmaceutical stores with media support such as advertising on TV, cable, MTR, buses and trams, magazines and newspapers. The advertising campaign is now re-scheduled to January 2003. We believe that with successful introduction of new products to the market, the Group is not only well positioned to satisfy different customer needs and compete against its competitors in the Chinese medicine and health supplement markets, but also to further enhance its income base.

For the six months ended 30 September 2002, the Group continued to enter into discussions with a number of universities and research institutes in the PRC with a view to expanding the Group's research and development capabilities and conducting joint research projects with these universities and research institutes. In August 2002, the Group entered into a joint research agreement with Chengdu University of Traditional Chinese Medicine ("成都中醫藥大學") ("CUTCM") with a view of forming a research and development platform in Chengdu to research, develop and market modernised Chinese medicine and health supplement products. The Group plans to develop a new health supplement product series targeting children and teenagers with CUTCM.

In October 2002, the Group entered into a sale and purchase agreement in relation to a proposed acquisition of a business. An announcement will be made shortly to disclose the details of this proposed acquisition.

FINANCIAL REVIEW

For the six months ended 30 September 2002, the Group recorded a turnover of about HK\$10.1 million from the sale of 14 proprietary Chinese medicine. About 95.5% of the turnover were contributed by the Group's retail outlet in Hong Kong. The Group's outlet sales for the period was about HK\$9.7 million representing a decrease of about 30.9% from the same period last year. The economic downturn in Japan, and the temporary loss of confidence in Chinese medicine related products among some Japanese generated by bad publicity linked to a number of death and illness incidents in Japan caused by the use of some imported weight-loss products from China were the major factors causing both the number of Japanese tourists and the average spending per customer to drop. The number of Japanese tourists visited the Group's retail outlet in Hong Kong dropped from 32,903 from 42,431 in the same period last year. The average spending per customer from the outlet sales also decreased to HK\$294 from the same period last year's HK\$329.



While the temporary loss of confidence in Chinese medicine related products in Japan may continue to affect the Group's sales in the coming few months, we expect that the impact will gradually disappear when the bad publicity of these Chinese weight-loss products start to fade.

In line with the decrease of the sales turnover, the gross profit of the Group for the reporting period also decreased to about HK\$4.2 million, representing a decrease of about 53.9% compared to the same period last year. The gross profit margin also decreased to about 41.1% from 57.2% in the same period last year. The decrease of gross profit margin was mainly caused by the structure of the commission arrangements with the Japanese tour agencies. Under the commission arrangements with the Japanese tour agencies, a portion of the commission was paid either on a fixed amount per visitor visiting the outlet or on a percentage of the purchase amount of the visitors visiting the outlet. As the former arrangement accounted for a large portion of the total commission and when the sales turnover drops, the gross profit margin will also decrease as the commission paid to the Japanese tour agencies does not change in the same proportion.

Loss attributable to the shareholders for the six months ended 30 September 2002 was about HK\$4.4 million.

Liquidity, financial resources and capital resources

For the six months ended 30 September 2002, the Group's primary sources of funds were cash provided by the operating activities and balance of cash proceeds from the issue of new shares pursuant to the listing exercise of the Company in March 2002. As at 30 September 2002, the Group had total assets of about HK\$49.1 million (31 March 2002: HK\$42.3 million) which were financed by current liabilities of HK\$15.7 million (31 March 2002: HK\$4.1 million) and shareholders' funds of about HK\$33.3 million (31 March 2002: HK\$38.2 million). The current assets amounted to about HK\$47.8 million (31 March 2002: HK\$39.9 million). As at 30 September 2002, the Group had no bank borrowings and had no long-term debt. The current assets to current liabilities was about 3.0 (31 March 2002: 9.9).

The gearing ratio, defined as the ratio between total borrowing and shareholders' funds, was nil (31 March 2002: 0.16%).

Foreign currency risk

The Group has foreign currency risk as a significant portion of the Group's turnover is denominated in the Japanese Yen. Fluctuation of the exchange rates of Hong Kong dollars against the Japanese Yen could affect the Group's results of operations.

The Group closely monitors its foreign currency exposure by converting the Japanese Yen received from the customers as soon as practicable and does not hold position on Japanese Yen.

Charges on Group assets

As at 30 September 2002, none of the Group's assets was pledged as security for liabilities (as at 31 March 2002: Nil).

Material acquisitions and disposals of subsidiaries and affiliated companies

In October 2002, the Group entered into a sale and purchase agreement in relation to a proposed acquisition of a business. An announcement will be made shortly to disclose the details of this proposed acquisition.

Save for the above and a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Group did not make any material acquisitions or disposals of subsidiaries and affiliated companies during the period ended 30 September 2002.

Contingent liabilities

As at 30 September 2002, the Group had no contingent liabilities (as at 31 March 2002: Nil).

PROSPECTS

During the first half-year of 2002, the Group faced many challenges. The economic downturn in Japan affected the number of Japanese tourists visiting the Group's retail outlet in Hong Kong, and the death and illness incidents in Japan caused by the use of some imported weight-loss products from China also caused temporary loss of confidence in Chinese medicine related products among some Japanese. With most of the existing business coming from Japanese tourists visiting the Group's retail outlet in Hong Kong, the Group's revenues for the six months ended 30 September 2002 were significantly affected. While the temporary loss of confidence in Chinese medicine related products in Japan may continue to affect the Group's sales in the coming few months, we expect that the impact will gradually disappear when the bad publicity of these Chinese weight-loss products start to fade.

The Group has been actively implementing its business plans to reduce the reliance on the Group's retail outlet in Hong Kong and to develop additional income sources. With the opening of the Hangzhou outlet targeting foreign and local PRC tourists, the opening of the membership centre in Tokyo, and the launch of new health supplement product line in Japan and Hong Kong, we believe that the Group is well positioned to enlarge its customer and revenue base and to achieve a higher return for its shareholders.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2002, the Group employed a total of 69 staff. Remuneration is determined by reference to market terms, the performance, qualifications and experience of each individual employee. Discretionary bonus based on individual performance and profit of the Group will be paid to employees as recognition of and reward for their contribution. Other benefits include share option scheme for eligible employees.



COMPARISON OF BUSINESS OBJECTIVE WITH THE ACTUAL BUSINESS PROGRESS

Set out below is a comparison between the Group's actual business progress up to 30 September 2002 and its business objectives as stated in the prospectus of the Company dated 25 February 2002:

I. TO EXPAND RESEARCH AND DEVELOPMENT CAPABILITY AND PRODUCT LINES ON CHINESE MEDICINE AND HEALTH SUPPLEMENT PRODUCTS

Proposed project progress

Actual project progress

Research and development on Chinese medicine products

Conduct research and development projects

Commenced projects to enhance the Group's 14 Chinese medicine products and to develop two new products (one intended for allergic rhinitis and one for menopause). Finished the formulation and literature research.

Launch new Chinese medicine products

Delayed as the research and development has not yet finished.

Research and development on health supplement products

Conduct research and development projects

Research and development on a new health supplement product line, the Saussurea (天山雪蓮) series, has finished. The Saussurea (天山雪蓮) series consists of 4 products which are indicated for regulating menstruation, pelvic inflammation, rheumatic arthritis and anti-ageing. These 4 products are ready for mass production.

Commenced a project to develop 9 health supplement products for the Japanese local market. These 9 products are intended for those affected by diabetes, hyperlipidemia, hypertension, obesity, pollinosis, constipation and strengthening the liver and stomach and anti-ageing. Safety tests on these 9 products have been finished in Japan Food Analysis Centre.

Launch health supplement products

8 health supplement products were launched in the Group's retail outlet in Hong Kong.

Plan to distribute the Saussurea (天山雪蓮) series all over Hong Kong through large drug store chains and individual pharmaceutical stores with media support such as advertising on TV, cable, MTR, buses and trams, magazines and newspapers. The advertising campaign is now re-scheduled to January 2003.

I. TO EXPAND RESEARCH AND DEVELOPMENT CAPABILITY AND PRODUCT LINES ON CHINESE MEDICINE AND HEALTH SUPPLEMENT PRODUCTS

Proposed project progress	Actual project progress
<i>Joint research and development</i>	
Discuss with Hong Kong/overseas research institutes	Postponed because the Group wanted to focus on finalising its current negotiations with some well established research institute in the PRC before commencing new discussions with Hong Kong/overseas research institutes.
Enter into join research cooperative arrangement	Entered into a joint research agreement with Chengdu University of Traditional Chinese Medicine (成都中醫藥大學) with a view of forming a research and development platform in Chengdu to research, develop and market modernised Chinese medicine and health supplement products.
Conduct research and development projects	The Group is reviewing a proposal of developing a new health supplement product series targeting children and teenagers with Chengdu University of Traditional Chinese Medicine (成都中醫藥大學).

II. TO PURSUE GEOGRAPHICAL EXPANSION OF DISTRIBUTION NETWORK IN THE PRC AND OF THE CUSTOMER BASE

Proposed project progress	Actual project progress
<i>PRC distribution outlets</i>	
Establish distribution outlets in Beijing and Hangzhou	The Hangzhou outlet was soft opened in October 2002. Entered into a letter of intent with a research institute in Beijing in September 2002 with respect to the opening of a distribution outlet in Beijing. The research institute in Beijing is currently assisting the Group to identify and evaluate different site options for the Beijing outlet. The Group aims to open the Beijing outlet before the first quarter of 2003.
Market the PRC distribution outlets to tour agencies	Commenced to market the Hangzhou outlet to tour agencies.
Identify site location for the outlet in Xian	The Group is still evaluating different site options and aims to open the Xian outlet in 2003.
<i>E-customer referral programme</i>	
Establish overseas membership centers in Japan	The first Japan membership centre was opened in Tokyo in September 2002.
Launch membership promotional campaigns	Postponed due to some recent bad publicity linked to a number of death and illness incidents in Japan caused by the use of some imported weight-loss products from China.



II. TO PURSUE GEOGRAPHICAL EXPANSION OF DISTRIBUTION NETWORK IN THE PRC AND OF THE CUSTOMER BASE

Proposed project progress

Actual project progress

Expansion to overseas markets

Discuss with US distributors, wholesalers and/or large chain stores

Commenced discussions with a US nutritional supplement company regarding distributing the Group's products through this company's sale channel in the United States.

Enter into agreements with US distributors, wholesalers and/or large chain stores

Entered into a distribution agreement with a Canadian health food distributor to distribute the Group's health supplement products in Canada. No agreement has been reached with any US distributor.

Conduct feasibility studies on distributing products to Australia and New Zealand

The feasibility study is finished.

Discuss with distributors, wholesalers and/or large chain stores in Australia and New Zealand

Commenced discussions with a New Zealand distributor in April 2002 and the Group continued to look for other suitable business partners in these two countries.

Health Portal

Review the software and hardware support and upgrade the computer system and enhance features on the portal

Review completed and a backup computer server was built to protect data and images files.

Translate the portal content into Korean

Postponed as no qualified translator has been identified to conduct the project.

"Medicine Street"

Continue to construct "Medicine Street"

Continued to construct Phase II of the "Medicine Street".

Add new products to "Medicine Street"

Delayed because the "Medicine Street" was still under construction. Will resume activities upon completion of the "Medicine Street".

Promote "Medicine Street" to the PRC pharmaceutical manufacturers through other portals, exhibitions, newsletters and other traditional media

Will resume activities upon completion of the "Medicine Street".

Promote "Medicine Street" to the international pharmaceutical manufacturers through other portals, exhibitions, newsletters and other traditional media

Will resume activities upon completion of the "Medicine Street".

Continue to identify and enter into on-line distribution agreements with pharmaceutical manufacturers

Will resume activities upon completion of the "Medicine Street".

Continue to establish b2b sales and marketing team

Will resume activities upon completion of the "Medicine Street".

III. TO EXTEND BUSINESS INTO E-COMMERCE AND TO UTILISE THE INTERNET AS MARKETING MEDIUM

Proposed project progress	Actual project progress
<i>Provision of information on Chinese medicine and health supplement products</i>	
Continue to update information in the Group's portal	Continued to update information and the number of pages increased from 6,900 to over 9,600.
<i>E-education platform</i>	
Construct of the e-education platform	Suspended because a local university has started similar on-line education on Chinese medicine. The Group is currently evaluating the impacts.
Finalise course structure and materials	Suspended because a local university has started similar on-line education on Chinese medicine. The Group is currently evaluating the impacts.

Use of proceeds from placing and public offer

During the period from 7 March 2002 (date of listing) to 30 September 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus dated 25 February 2002 issued by the Company:

	<i>Notes</i>	Intended Funding HK\$'000	Actual Funding HK\$'000
Expansion of R&D capability and product lines on Chinese medicine and health supplement products	1	2,370	496
Expansion of distribution network in the PRC, and its customer base development of "e-customer referral programme", and development of overseas markets	2	7,125	4,146
Health portal enhancement, e-commerce development and provision of on-line education	3	1,550	814
Expansion of Hong Kong office		–	165
General working capital		500	500
Total		11,545	6,121

Reasons for difference usage of proceeds and forecast usage

- After the bombing of the World Trade Centre in New York, the U.S., the Group slowed down its investment plan in the expansion of research and development capability and product lines. The Group expects the investment in this area will increase when the Group commences to launch the advertising campaign on the Saussurea (天山雪蓮) series in January 2003.
- HK\$3 million was budgeted for the opening of the Beijing outlet. Due to the delay in the opening of the Beijing outlet, this amount has not been spent.
- Due to the delay in the construction of the "Medicine Street" and suspension of the E-education platform, the budgeted amount for the promotion of the "Medicine Street" and for the construction of the E-education platform have not been utilised.



OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register required to be maintained by the Company pursuant to Section 29 of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") were as follows:

Director	Type of Interest	Interest in the Company's share capital	Number of shares
Leung Oi Wah	Corporate (<i>note 1</i>)	42.81%	200,800,641
Chan Wai Ming, Billy	Personal	1.71%	8,000,000
Gao Junqing	Other (<i>note 2</i>)	0.55%	2,600,000
Lin Daquan	Other (<i>note 2</i>)	0.55%	2,600,000

Notes:

- These shares are registered in the name of Great Fair Limited ("Great Fair") and Wealth Way Limited ("Wealth Way"). Great Fair and Wealth Way are wholly owned by Leung Oi Wah.
- These shares are registered in the name of Sichuan Research Institute of New Medicine (the "SRI"). Gao Junqing and Lin Daquan each owned 5% in the SRI respectively.

Save as disclosed above, none of the directors or their associates had any interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

PRE-IPO SHARE OPTION SCHEME

On 1 February 2002, the Company adopted a share option scheme (the "Pre-IPO Share Option Scheme"), under which 8 individuals, including 3 directors of the Company, 4 employees and a legal advisor of the Group, have been granted by the Company options to subscribe for an aggregate of 25,500,000 shares in the Company at an exercise price of HK\$0.30 on 18 February 2002.

The following table discloses details of options outstanding under the Pre-IPO Share Option Scheme and movements during the period:

Categories of grantees	Date of Grant	Exercise price HK\$	Outstanding at beginning of period	Granted during period	Exercised during period	Cancelled during period	Lapsed during period	Outstanding at end of period
Directors								
Wong Cheah Foo	18/02/02	0.3	4,500,000	-	-	-	-	4,500,000
Leung Oi Wah	18/02/02	0.3	4,500,000	-	-	-	-	4,500,000
Chan Wai Ming, Billy	18/02/02	0.3	4,500,000	-	-	-	-	4,500,000
Employees	18/02/02	0.3	9,600,000	-	-	-	-	9,600,000
Legal advisor to the Group	18/02/02	0.3	2,400,000	-	-	-	-	2,400,000
Total			25,500,000	-	-	-	-	25,500,000

Under the terms of the options granted under the Pre-IPO Share Option Scheme, these options (other than the options granted to Mr. Wong Tak Fu, a legal advisor of the Group who can exercise the options granted within a period commencing from 7 March 2002 and expiring on 17 February 2005) can only be exercised by the grantees in the following manner:

Exercisable period	Number of shares that can be exercised under the Pre-IPO Share Option Scheme (excluding the options granted to Mr. Wong Tak Fu)
7 September 2002 – 17 February 2005	7,700,000
7 March 2003 – 17 February 2005	7,700,000
7 March 2004 – 17 February 2005	7,700,000

No share options under the Pre-IPO Share Scheme were exercised during the reporting period.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Share Option Scheme”), under which the Board may, at its discretion, invite any full-time or part-time employee of the Company or any member of the Group, including any director of any member of the Group and any adviser or consultant (in areas of technical, financial or corporate managerial) of the Company or any of its subsidiaries to take up options to subscribe for the share in the Company. The Share Option Scheme will remain valid for a period of 10 years commencing 1 February 2002.

No share options have been granted by the Company under the Share Option Scheme up to the date of this announcement.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the Directors’ Interests In Securities and the Pre-IPO Share Option Scheme above, at no time during the reporting period was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI ordinance shows that, the following shareholders had an interest of 10% or more of the issued share capital of the Company:

Name of shareholder	Number of shares held	
	Direct interest	Approximate percentage of shareholding
Great Fair Limited (<i>note 1</i>)	89,435,440	19.07%
Wealth Way Limited (<i>note 1</i>)	111,365,201	23.74%
Sichuan Research Institute of New Medicine (“SRI”) (<i>note 2</i>)	52,000,000	11.09%
Technique Enterprises Limited (<i>note 3</i>)	49,019,607	10.45%

Notes:

- Great Fair Limited and Wealth Way Limited are wholly owned by Leung Oi Wah, the vice chairlady and the founder of the Group.
- SRI is beneficially owned by Gao Junqing, Lin Daquan, Gao Yang, Yang Cifen, Wang Yuanping, Gao Feng, Qu Yong, Yan Xiaofeng, Guo Junying, Lin Tao and Wang Li as to about 5%, 5%, 10%, 5%, 5%, 10%, 10%, 10%, 20%, 10% and 10% respectively.
- Technique Enterprises Limited is wholly owned by Cheung Chui who is an independent third party.



SPONSOR INTERESTS

To the best knowledge of the Company's sponsor, Kingston Corporate Finance Limited ("Kingston"), neither Kingston nor its directors, employees or associates (as referred to Note 3 Rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the Company or any other company in the Group (including options or right to subscribe for such securities) as at 30 September 2002.

Pursuant to the agreement dated 7 March 2002 entered into between the Company and Kingston, Kingston will act as the Company's continuing sponsor for a period commencing from 7 March 2002 to 31 March 2004.

COMPETING INTERESTS

During the reporting period and up to the date of this announcement, the SRI is considered to be a substantial shareholder of the Company and has interest in a business which might potentially compete with the business of the Group.

The SRI is a research-oriented organisation located in Sichuan, the PRC and is principally engaged in (1) the provision of research and development services on Chinese medicine and health supplement products; and (2) the research and development and distribution of medical equipment. In order to develop the Group's products continuously, the Group has been engaging the SRI to support its research and development projects since October 1994. The provision of research and development services on Chinese medicine and health supplement products by the SRI may compete with the business of the Group. Therefore, pursuant to a research and management agreement dated 2 November 2000 as revised and supplemented by a supplemental agreement dated 11 January 2002 entered into with the SRI, the SRI agreed to work exclusively for the Group in respect of research and development services for Chinese medicine and health supplement products and the SRI will not develop its own Chinese medicine and health supplement products or take up any other external jobs or assignments without obtaining prior approval from the Company. The Group also has the first right of refusal for the purchase of the intellectual property rights of any new Chinese medicine and health supplement products developed by the SRI on SRI's own funding. Based on the above, the directors consider that so far as the Group is concerned, competition from the SRI is remote and unlikely.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had interest in any business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

An audit committee was established on 1 February 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee has three members comprising two non-executive directors, namely, Mr. Junya Kabeya and Ms. Wan Choi Ha and the Chairman of the Group, Mr. Wong Cheah Foo.

The Group's unaudited consolidated results for the six months ended 30 September 2002 have been reviewed by the audit committee.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 September 2002, the Group has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OF REDEMPTION OF SHARES

During the six months ended 30 September 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

Wong Cheah Foo
Chairman

Hong Kong, 14 November 2002