



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



FIRST QUARTERLY REPORT 2003/04
<http://www.newchinesemedic.com>

CHARACTERISTICS OF THE GROWTH ENTERPRISES MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2003

The board of Directors (the "Board") of New Chinese Medicine Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the three months ended 30 June 2003, together with the unaudited comparative figures for the corresponding period last year as follows:

	Notes	(Unaudited) Three months ended 30 June	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	415	5,978
Cost of sales		(85)	(3,343)
Gross profit		330	2,635
Other income		502	30
Distribution and marketing expenses		(126)	(5)
Administrative expenses		(1,372)	(4,181)
Other operating expenses		(1,158)	(167)
Loss from operations	3	(1,824)	(1,688)
Finance costs		(4)	(1)
Share of results of a jointly controlled entity		(1)	(1)
Loss before taxation		(1,829)	(1,690)
Taxation	4	-	-
Loss after taxation		(1,829)	(1,690)
Minority interests		116	69
Loss for the period		(1,713)	(1,621)
Dividend	5	-	-
Loss per share	6		
– Basic (cent)		(0.37)	(0.35)
– Diluted (cent)		N/A	(0.33)



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

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

The financial statements have been prepared and in accordance with accounting principles generally accepted in Hong Kong.

2. Turnover

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

3. Loss from operations

	(Unaudited)	
	Three months ended	
	30 June	
	2003	2002
	HK\$'000	HK\$'000

Loss from operations has been arrived at after charging:

Depreciation of property, plant and equipment	233	200
Amortisation of technical know-how	1,158	-

4. Taxation

No provision for Hong Kong profit tax has been made in the financial statements as the Group incurred a tax loss for the period under review.

5. Dividend

The directors do not recommend the payment of any interim dividend for the three months ended 30 June 2003 (three months ended 30 June 2002: Nil).

6. Loss per share

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

	Three months ended	
	30 June	
	2003	2002
	HK\$'000	HK\$'000
Loss for the purpose of basic and diluted loss per share – net loss for the period	(1,713)	(1,621)
Weighted average number of shares for the purpose of basic loss per share	469,000,000	469,000,000
Effect of dilutive potential shares in respect of share options	N/A	17,184,783
Weighted average number of shares for the purpose of diluted loss per share	N/A	486,184,783

No diluted loss per share has been presented for three months ended 30 June 2003 as the exercise price of the Company's share options was higher than the average market price for shares for that period.

7. Movement in reserves

	Share premium HK\$'000	Special reserve HK\$'000	Exchange equalisation reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 April 2002	19,009	(39,998)	–	12,333	(8,656)
Loss for the period	–	–	–	(1,621)	(1,621)
At 30 June 2002	19,009	(39,998)	–	10,712	(10,277)
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	–	–	103	–	103
Loss for the period	–	–	–	(26,026)	(26,026)
Dividend paid	–	–	–	(586)	(586)
At 31 March 2003	19,009	(39,998)	103	(15,900)	(36,786)
Loss for the period	–	–	–	(1,713)	(1,713)
At 30 June 2003	19,009	(39,998)	103	(17,613)	(38,499)



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is based in Hong Kong and is engaged in the marketing and distribution of proprietary Chinese medicine. The Group is also engaged in the research and development and the manufacture of proprietary Chinese medicine. A substantial part of the Group's marketing and distribution business focuses on Japanese tourists traveling on packaged tours to Hong Kong that are arranged by inbound Japanese tour operators.

As disclosed in the Group's 2003 annual report, the economic downturn in Japan, and 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, the outbreak of war and the outbreak of severe acute respiratory syndromes ("SARS"), has led to a drastic fall in the number of Japanese tourists visiting Hong Kong. These events in turn have had adverse impact on the Group's turnover for the financial year ended 31 March 2003 and for the three months ending 30 June 2003.

PROSPECTS

Although the U.S. government declared that the Iraq war was over on 1 May 2003, it was followed by the outbreak of SARS which has more profound social and economic impact to Hong Kong, especially in the sectors of tourism, air transportation, retailing and catering industries. The Group had made an report on the GEM website on 24 June 2003 pursuant to paragraph 17.10 of the GEM Listing Rules of the Stock Exchange to warn the Company's shareholders and public investors to exercise caution when dealing in the Company's shares.

The Board has responded to the abrupt disruption to its business by controlling cost on expenditures such as reducing the staff cost and enhancing the Group's distribution activities on the other, although such measures may not immediately become apparent in the short term.

As the World Health Organization ("WHO") had withdrawn its travel advisory against non-essential travel to Hong Kong. In view that Hong Kong has been removed from the list of areas with local transmission of SARS, the Board expects that the Hong Kong tourism industry will revive soon in the coming months. The Company is also currently exploring new sales channels such as arrangement with Japanese tour groups to distribute our products on their tour buses traveling in Hong Kong and planning to launch new medicine and health supplement products as to stimulate more revenue to the Group in future. However, it is not possible to foresee the development of the outbreak of SARS and how long the outbreak of SARS will disrupt the Company's operations.

The Group is well poised to take advantage of China's entry to the World Trade Organization to expand business. The Group is also planning to explore other potential markets to reduce reliance currently placed on the Hong Kong tourism market. In view of the huge market potential, the Group is currently seeking suitable PRC business partners or investors to develop the PRC domestic Chinese medicine market.

FINANCIAL REVIEW

For the three months ended 30 June 2003, the Group recorded a turnover of about HK\$415,000. The Group's retail outlet in Hong Kong was closed from April 2003 to middle of July 2003 following the outbreak of SARS. Comparing with same period last year, about 93% of the Group's turnover was contributed by the Group's retail outlet in Hong Kong in same period last year. About 75% of the Group's turnover was contributed by our two newly launched Saussurea series products, YUKINOBI (雪之美) and YUKIJOBI (雪淨美) in February 2003, all over Hong Kong through Watsons, a large drug store chain. 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, the declaration of war on Iraq by the U.S. government on 20 March 2003 and the general concern of the fatal disease – SARS that was first found in Hong Kong on 10 March 2003 were the major factors causing both the number of Japanese tourists and the average spending per customer to drop. Japanese tourists coming to Hong Kong has shrunk significantly since mid-March 2003.

In line with the decrease of the sales turnover, the gross profit of the Group for the period also decreased to about HK\$330,000, representing a decrease of about 88% compared to same period last year. However, the gross profit margin increased to about 80% from 44% in same period last year. The increase of gross profit margin mainly caused by the sales of two newly launched Saussurea series products, which provide huge gross profit margins.

Loss attributable to the shareholders for the period amounted to approximately HK\$1,713,000.

Material acquisitions and disposals of subsidiaries and affiliated companies

In June 2003, the Group entered into an agreement with an independent third party to acquire the medicine formulae of five health supplement products ("Acquisition") for a total consideration of HK\$9,000,000 which will be satisfied by way of allotment and issue of 90,000,000 new shares of the Company at HK\$0.10 each to the vendor. The Acquisition constitutes a very substantial acquisition pursuant to Chapter 19 of GEM Listing Rules, details of which are set out in the reports of the Company published on 17 July 2003, 31 July 2003 and 8 August 2003. The Group is preparing the circular in respect of the Acquisition.



OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("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 they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules were as follows:

Director	Type of Interest	Interest in the Company's share capital	Number of shares
Leung Oi Wah	Corporate (note 1)	42.82%	200,800,641
Gao Junqing	Other (note 2)	0.34%	1,600,000
Lin Daquan	Other (note 2)	0.34%	1,600,000

Notes:

1. 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.
2. 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, as at 30 June 2003, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (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 they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

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 2 directors and 1 ex-director of the Company, 3 employees and 1 ex-employee 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 at the end of the period:

Categories of grantees	Date of Grant	Exercise price HK\$	Outstanding at the end of the period
Directors			
Wong Cheah Foo	18/02/02	0.3	4,500,000
Leung Oi Wah	18/02/02	0.3	4,500,000
Employees	18/02/02	0.3	9,600,000
Legal advisor to the Group	18/02/02	0.3	2,400,000
Total			21,000,000

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:

Number of shares that can be exercised under the Pre-IPO Share Option Scheme (excluding the Exercisable period options granted to Mr. Wong Tak Fu)

Exercisable period	Number of shares that can be exercised under the Pre-IPO Share Option Scheme (excluding the options granted to legal advisor to the Group)
7 September 2002 – 17 February 2005	6,200,000
7 March 2003 – 17 February 2005	6,200,000
7 March 2004 – 17 February 2005	6,200,000

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 report.

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 June 2003, the interests and short positions of persons, other than a director or chief executive of the Company, in the shares and 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 is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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 (<i>note 2</i>)	32,000,000	6.82%
Technique Enterprises Limited (<i>note 3</i>)	49,019,607	10.45%

Notes:

1. Great Fair Limited and Wealth Way Limited are wholly owned by Leung Oi Wah, the vice chairlady and the founder of the Group.
2. 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.
3. Technique Enterprises Limited is wholly owned by Cheung Chui who is an independent third party.

Save as disclosed above, as at 30 June 2003, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

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 June 2003.

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 report, 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 Mr. Tsoi Chi Yin and the Chairman of the Group, Mr. Wong Cheah Foo.

The Group's unaudited consolidated results for the three months ended 30 June 2003 have been reviewed by the audit committee.

BOARD PRACTICES AND PROCEDURES

During the three months ended 30 June 2003, 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 three months ended 30 June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

Leung Oi Wah
Director

Hong Kong, 14 August 2003