



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 2004

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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 2004*

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 ended 30 June 2004, together with the unaudited comparative figures for the corresponding period last year as follows:

	<i>Notes</i>	(Unaudited)	
		Three months ended	
		30 June	
		2004	2003
		HK\$'000	<i>HK\$'000</i>
Turnover	2	65	415
Cost of sales		(4)	(85)
Gross profit		61	330
Other income		312	502
Distribution and marketing expenses		(122)	(126)
Administrative expenses		(845)	(1,372)
Other operating expenses		–	(1,158)
Loss from operations	3	(594)	(1,824)
Finance costs		(76)	(4)
Share of results of a jointly controlled entity		–	(1)
Loss before taxation		(670)	(1,829)
Taxation	4	–	–
Loss after taxation		(670)	(1,829)
Minority interests		–	116
Loss for the period		(670)	(1,713)
Dividend	5	–	–
Loss per share	6		
– Basic (<i>cent</i>)		(0.14)	(0.37)
– Diluted (<i>cent</i>)		N/A	N/A

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	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>

Loss from operations has been arrived
at after charging:

Depreciation of property, plant and equipment	67	233
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 2004 (three months ended 30 June 2003: Nil).

6. Loss per share

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

	Three months ended	
	2004	2003
	HK\$'000	HK\$'000
Loss for the purpose of basic and diluted loss per share – net loss for the period	(670)	(1,713)
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	N/A
Weighted average number of shares for the purpose of diluted loss per share	N/A	N/A

No diluted loss per share has been presented for three months ended 30 June 2004 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	Special reserve	Exchange equalisation reserve	Accumulated profits (losses)	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 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)
At 1 April 2004	19,009	(39,998)	341	(39,787)	(60,435)
Loss for the period	–	–	–	(670)	(670)
At 30 June 2004	19,009	(39,998)	341	(40,457)	(61,105)

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group is undergoing a restructure of its retail outlet in face of the shift in tourist market. This is reflected in the operating results for the first quarter of the current financial year to 30 June 2004. While this is happening, the Group has exercised tight control over its operating expenses. The Group has taken more time to observe and evaluate the market situation before committing further resources to the operation development.

Prospects

The Group will continue to develop the retail outlet operation in Hong Kong, riding on its expertise and experiences in health care and medical products, as implemented in the tourism trade industry. The Group will extend the product range to match the demand of independent Chinese travellers from mainland China.

The Group has been working to develop the distribution network in licensed health care and medical products. Based on the latest development schedule, we can expect contribution to revenue in the second half of the current financial year.

Financial review

The turnover of the Group, amounted to HK\$65,000, was principally from the local retail operation (2003: HK\$415,000). Net loss attributable to the shareholders was approximately HK\$670,000 (2003: HK\$1,713,000).

The gross profit margin was higher than that in the previous year as the cost of the stock had been written-off in the previous financial year.

On 23 July 2004, the Company obtained confirmation from the Grand Court of the Cayman Islands on reduction of the nominal value of its share capital from HK\$0.10 to HK\$0.01. This can provide greater flexibility to the Company in pricing future capital raising exercises when suitable opportunities arise and in accordance with the GEM Listing Rules.

In the meantime, the Group relies on the working capital provided by a long-term loan from an independent third party and operating income that we can expect to improve upon restructure of the retail outlet operation.

OTHER INFORMATION

Directors' and Chief Executives' Interests in Securities

As at 30 June 2004, 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 5.46 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 (<i>note 1</i>)	42.82%	200,800,641
Gao Junqing	Other (<i>note 2</i>)	0.34%	1,600,000
Lin Daquan	Other (<i>note 2</i>)	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 2004, 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 5.46 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, 4 ex-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 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
Legal advisor to the Group	18/02/02	0.3	2,400,000
Total			11,400,000

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	3,000,000
7 March 2003 – 17 February 2005	3,000,000
7 March 2004 – 17 February 2005	3,000,000

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 2004, the interests and short positions of persons, other than a director or chief executive officer 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%
Technique Enterprises Limited (<i>note 2</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. Technique Enterprises Limited is wholly owned by Cheung Chui who is an independent third party.

Save as disclosed above, as at 30 June 2004, the directors or chief executive officer 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.

During the reporting period and up to the date of this announcement, 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.

COMPETING INTERESTS

As at 30 June 2004, none of the directors, the management shareholders of the company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause a significant competition 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 the relevant GEM Listing Rules. The audit committee has three members comprising two independent 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 2004 have been reviewed by the audit committee.

BOARD PRACTICES AND PROCEDURES

During the three months ended 30 June 2004, the Group has complied with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

PURCHASE, SALE OF REDEMPTION OF SHARES

During the three months ended 30 June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

Leung Oi Wah
Director

Hong Kong, 10 August 2004

At the time of this report, the Board comprises of (i) five executive Directors, namely Messrs. Wong Cheah Foo, Leung Oi Wah, Kam Yiu Ming Wilfred, Gao Junqing and Lin Daquan; and, (ii) two independent non-executive Directors, namely Messrs. Junya Kabeya and Tsoi Chi Yin.