



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



Interim Report 2004/05

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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 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 six months ended 30 September 2004, together with the unaudited comparative figures for the corresponding period in last year as follows:

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Six months ended 30 September	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	98	105	163	520
Cost of sales		(29)	(27)	(33)	(112)
Gross Profit		69	78	130	408
Other income		–	18	312	520
Distribution and marketing expenses		(95)	(20)	(217)	(146)
Administrative expenses		(151)	(2,766)	(1,103)	(4,138)
Other operating expenses		(509)	(1,159)	509	(2,317)
Loss from operations	4	(686)	(3,849)	(1,387)	(5,673)
Finance costs		(84)	(5)	(10)	(9)
Share of results of a jointly controlled entity		–	–	–	(1)
Loss before taxation		(770)	(3,854)	(1,397)	(5,683)
Taxation	5	–	–	–	–
Loss after taxation		(770)	(3,854)	(1,397)	(5,683)
Minority Interests		–	61	–	177
Loss for the period		(770)	(3,793)	(1,397)	(5,506)
Dividend	6	–	–	–	–
Loss per share	7				
– Basic (cent)		(0.16)	(0.81)	(0.29)	(1.17)
– Diluted (cent)		N/A	N/A	N/A	N/A



CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2004

		(Unaudited) 30 September 2004 HK\$'000	(Audited) 31 March 2004 HK\$'000
Non-current Assets			
Property, plant and equipment		210	333
		210	333
Current Assets			
Amounts due from directors		35	35
Debtors, deposits and prepayments	8	522	1,612
Tax recoverable		–	329
Bank balances and cash		118	215
		675	2,191
Current Liabilities			
Creditors and accrued charges	9	4,059	7,432
Amounts due to directors	10	1,756	2,016
Amounts due to related companies	10	2,075	262
Taxation payable		6	6
Loan payable		8,112	–
Bank overdrafts		–	43
		16,008	9,759
Net Current Assets (Liabilities)		(15,333)	(7,568)
Non-current Liabilities Loan payable		–	6,300
		(15,123)	(13,535)
Capital and Reserves			
Share capital	11	4,690	46,900
Reserves		(19,813)	(60,435)
		(15,123)	(13,535)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/MOVEMENT IN RESERVES

For the six months ended 30 September 2004

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 April 2003	46,900	19,009	(39,998)	103	(15,900)	10,114
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	-	-	-	(11)	-	(11)
Net loss for the period	-	-	-	-	(5,506)	(5,506)
At 30 September 2003	46,900	19,009	(39,998)	92	(21,406)	4,597
At 1 April 2004	46,900	19,009	(39,998)	341	(39,787)	(13,535)
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	-	-	-	(191)	-	(191)
Net loss for the period	-	-	-	-	(1,397)	(1,397)
Reduction on issued Share capital on 23 July 2004	(42,210)	-	-	-	-	(42,210)
Credit from reduction of share capital set off against accumulated losses	-	-	-	-	22,805	22,805
Balance on credit from reduction of share capital to cancel the Special Reserve	-	-	19,405	-	-	19,405
At 30 September 2004	4,690	19,009	(20,593)	150	(18,379)	(15,213)



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2004

	(Unaudited) Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Net cash used in operating activities	(1,909)	(1,967)
Net cash from investing activities	–	394
Net cash from financing activities	1,812	1,366
Net (decrease) in cash and cash equivalents	(97)	(207)
Cash and cash equivalents at beginning of the period	215	667
Cash and cash equivalents at end of the period	118	460

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The interim financial statements have been prepared under historical cost convention and in accordance with accounting principles general accepted in Hong Kong, Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

2. Turnover

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

3. Segment information

The Group's turnover for the period was derived mainly from sales operation in Hong Kong.

4. Loss from operations

	(Unaudited) Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation of property, plant and equipment	126	205
Amortisation of technical know-how	–	2,317

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Depreciation of property, plant and equipment	126	205
Amortisation of technical know-how	–	2,317

5. 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.

6. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2004 (six months ended 30 September 2003: Nil).

7. **Loss per share**

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

	Three months ended		Six months ended	
	30 September		30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss				
Loss for the purpose of basic and diluted loss per share – net loss for the period	(962)	(3,793)	(1,397)	(5,506)
Weighted average number of shares for the purpose of loss per share	469,000,000	469,000,000	469,000,000	469,000,000
Effect of dilutive potential shares in respect of share options	N/A	N/A	N/A	N/A
Weighted average number of shares for the purpose of diluted loss per share	N/A	N/A	N/A	N/A

8. **Debtors, deposits and prepayment**

The sales to the majority of customers were with terms of cash on delivery. Other debtors represent prepayment and deposits paid, net of provisions.

The following is an aged analysis of debtors, deposits and prepayments as at 30 September 2004:

	(Unaudited) 30 September 2004 HK\$'000	(Audited) 31 March 2004 HK\$'000
Trade debtors	–	–
Prepayment and deposits, net of provisions	522	1,612
	522	1,612

9. **Creditors and accrued charges**

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

The following is an aged analysis of creditors and accrued charges as at 30 September 2004:

	(Unaudited) 30 September 2004 HK\$'000	(Audited) 31 March 2004 HK\$'000
Trade creditors	–	–
Accrued charges and other payables	4,059	7,432
	4,059	7,432



10. Amounts due to directors/related companies

The amounts are unsecured, interest-free and will not be demanded for repayment within twelve months from the balance sheet.

11. Share capital

	Number of shares	Value HK\$'000
Ordinary share of HK\$0.01 each		
Authorised:		
At 31 March 2004 and 30 September 2004	2,000,000,000	20,000
Issued and fully paid:		
At 31 March 2004	469,000,000	46,900
At 30 September 2004	469,000,000	4,690

The shareholders of the Company approved by special resolution at the Extraordinary General Meeting of the Company on 10 May 2004 of the reduction on the nominal value of the issued Share Capital from HK\$0.10 each to HK\$0.01 each. The Company complied with the conditions imposed by the Grand Court of the Cayman Islands and a Court order was issued on 23 July 2004 confirming on the reduction of Share Capital of the Company. The GEM Listing Committee granted the listing of the new shares arising from the capital reduction for trading of the new shares to start on 29 July 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's retail outlet with focus on marketing of the proprietary Chinese medicine and health supplements went through a quiet period. Overall, the number of Japanese visitors, our major customer sector over the years, was still below expectation. The Group made plan to expand on the market sector and product base, and the progress during the period was satisfactory.

The Group kept up with the development on distribution network and there were constructive discussions during the period to create a critical mass for effective marketing efforts.

The Group continued to exercise tight control over its operating expenses and loss on operation during the period was reduced, compared to that in the last year.

Financial review

The turnover of the Group in the period amounted to HK\$163,000 (2003: HK\$520,000). Net loss attributable to the shareholders was approximately HK\$1,590,000 (2003: HK\$5,506,000).

The reduction in issued Share Capital of HK\$42,210,000 was used to reduce the accumulated losses of approximately HK\$22,805,000 as at 31 December 2003. The balance of the credit of HK\$19,405,000 was used cancel off part of the Special Reserve. It is now more flexible for the Group to consider future capital raising exercises when circumstances arise.

During the six months ended 30 September 2004, the Group financed its operations mainly with the loan facilities arranged on 5 March 2004.

Prospects

With the effort over the past months, the Group has successfully restructured the retail outlet operation in Hong Kong to cater for both the Japanese and mainland Chinese visitors in late October 2004. The Group expects improved level of customers and business volume for the rest of this year.

The Group will continue to develop the distribution network on licensed health care and medical products.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 September 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

Note:

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 September 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-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 end of 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 announcement.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the Directors' and Chief Executives' 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 2004, 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%
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 September 2004, 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.

COMPETING INTERESTS

As at 30 September 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 GEM Listing Rules. The audit committee has three members comprising all independent non-executive directors, namely, Mr. Junya Kabeya, Mr. Chu Kar Wing and Mr. Loke Hoi Lam.

The Group's unaudited consolidated results for the six months ended 30 September 2004 have been reviewed by the audit committee.

BOARD PRACTICES AND PROCEDURES

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

PURCHASE, SALE OF REDEMPTION OF SHARES

During the six months ended 30 September 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, 9 November 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) three independent non-executive Directors, namely Messrs. Junya Kabeya, Chu Kar Wing and Loke Hoi Lam.