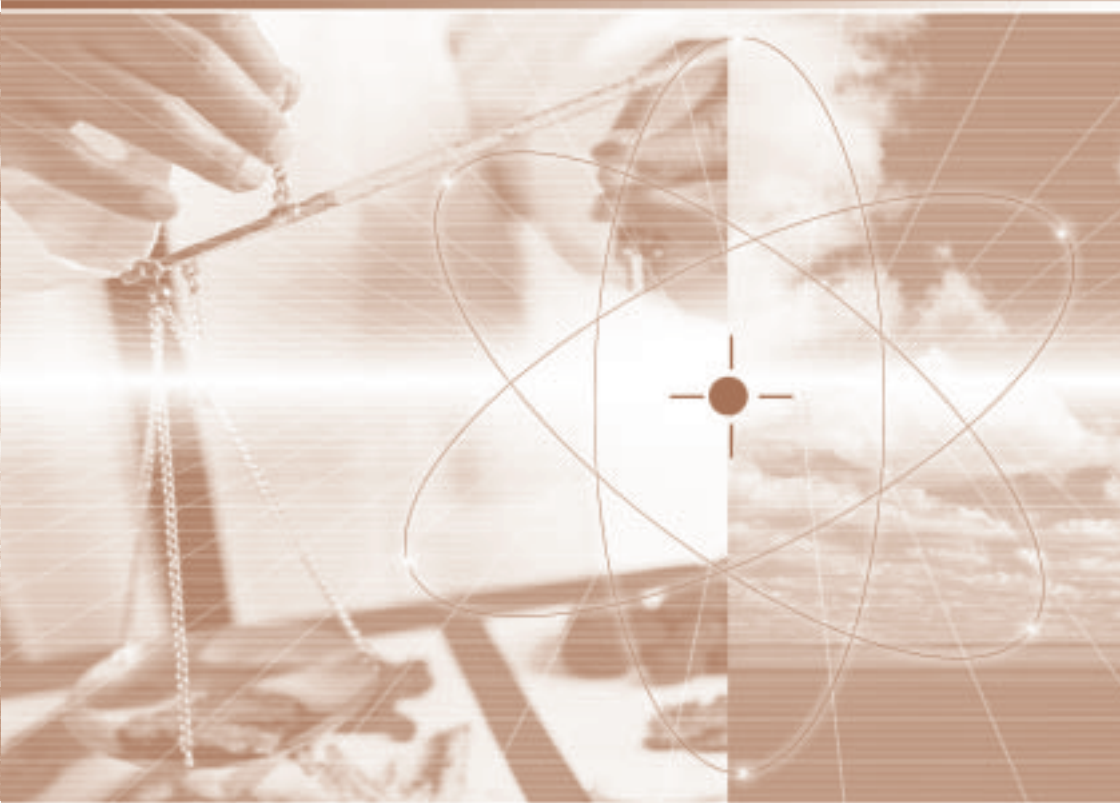




新 醫 藥 控 股 有 限 公 司  
NEW CHINESE MEDICINE HOLDINGS LIMITED  
(incorporated in the Cayman Islands with limited liability)



Third Quarterly Report 2004/05

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristic of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from on or in reliance upon the whole or any part of the contents of this report.*

*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 nine months ended 31 December 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 nine months ended 31 December 2004, together with the unaudited comparative figures for the corresponding period in last year as follows:

	Notes	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
		2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	339	195	502	715
Cost of sales		(58)	(76)	(91)	(188)
Gross Profit		281	119	411	527
Other income		1,192	3,508	1,504	4,028
Distribution and marketing expenses		(329)	–	(546)	(146)
Administrative expenses		(711)	(1,788)	(1,814)	(5,926)
Allowance for doubtful debt		–	(2,060)	–	(2,060)
Other operating expenses		(1,302)	(1,158)	(1,811)	(3,475)
Loss from operations		(869)	(1,379)	(2,256)	(7,052)
Finance costs		(256)	(8)	(266)	(17)
Share of results of a jointly controlled entity		–	–	–	(1)
Loss before taxation		(1,125)	(1,387)	(2,522)	(7,070)
Taxation	4	–	–	–	–
Loss after taxation		(1,125)	(1,387)	(2,522)	(7,070)
Minority Interests		335	(12)	335	165
Loss for the period		(790)	(1,399)	(2,187)	(6,905)
Dividend	5	–	–	–	–
Loss per share	6				
– Basic (cent)		(0.17)	(0.30)	(0.47)	(1.47)
– Diluted (cent)		N/A	N/A	N/A	N/A

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. Basis of preparation**

The financial statements have been prepared under historical cost convention and in accordance with accounting principles general accepted in Hong Kong, 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 from sales operation in Hong Kong.

**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 dividend for the nine months ended 31 December 2004 (nine months ended 31 Decembr 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		Nine months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the purpose of basic and diluted loss per share				
– net loss for the period	(790)	(1,399)	(2,187)	(6,905)
Weighted average number of shares for the purpose of basic 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

No diluted loss per share has been presented because the effect is anti-dilutive.

## 7. Movement in reserves

	Share premium HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 April 2003	19,009	(39,998)	103	(15,900)	(36,786)
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	-	-	-	(6,905)	(6,905)
At 31 December 2003	19,009	(39,998)	92	(22,805)	(43,702)
At 1 April 2004	19,009	(39,998)	341	(39,787)	(60,435)
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	-	-	-	(2,187)	(2,187)
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 31 December 2004	19,009	(20,593)	150	(19,169)	(20,603)

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Business review**

The Group's retail outlet managed to expand on the market sector with Japanese and mainland Chinese visitors. The Group now carries health supplements and skin care products, complimenting the existing proprietary Chinese medicine products. To meet the demand of the PRC visitors, the retail outlet also provides digital equipments from licensed operation. The improvement on the business activities during the period was encouraging.

The Group has 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\$502,000 (2003: HK\$715,000). Net loss attributable to the shareholders was approximately HK\$2,187,000 (2003: HK\$6,905,000).

The improved business activities have generated additional cashflow to support the working capital requirements of the Group, together with the available loan facilities.

### **Prospects**

The tourism industry had recovered in 2004 with notable increase in number of visitors. We expect this trend to continue into the year 2005. This will benefit the retail outlet business of the Group. The Group expects further improvement on the level of customers and business volume in the year ahead.

The Group will continue to seek opportunities to raise fund for expansion of current and potential businesses.

## OTHER INFORMATION

### Directors' and Chief Executives' Interests in Securities

As at 31 December 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 owns 5% in the SRI respectively.

Save as disclosed above, as at 31 December 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
<b>Directors</b>			
Wong Cheah Foo	18/02/02	0.3	4,500,000
Leung Oi Wah	18/02/02	0.3	4,500,000
<b>Legal advisor to the Group</b>	18/02/02	0.3	2,400,000
<b>Total</b>			<b>11,400,000</b>

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 31 December 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:

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

Save as disclosed above, as at 31 December 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 31 December 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 all independent non-executive directors, namely, Mr. Junya Kabeya, Mr. Chu Kai Wing and Mr. Loke Hoi Lam.

The Group's unaudited consolidated results for the nine months ended 31 December 2004 have been reviewed by the audit committee.

### **BOARD PRACTICES AND PROCEDURES**

During the nine months ended 31 December 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 nine months ended 31 December 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, 2 February 2005

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, Mr. Chu Kai Wing and Mr. Loke Hoi Lam.