



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 **2005/06**

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 announcements in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at 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.

UNAUDITED CONSOLIDATED INCOME STATEMENT*For the three months ended 30 June 2005*

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 2005, together with the unaudited comparative figures for the corresponding period last year, as follows:

	Notes	(Unaudited) Three months ended 30 June	
		2005 HK\$'000	2004 HK\$'000
Turnover	2	4,331	65
Cost of sales		(3,554)	(4)
Gross profit		777	61
Other income		204	312
Distribution and marketing expenses		–	(122)
Administrative expenses		(1,935)	(845)
Other operating expenses		–	–
Loss from operations	3	(954)	(594)
Finance costs		(150)	(76)
Share of results of a jointly controlled entity		–	–
Loss before taxation		(1,104)	(670)
Taxation	4	–	–
Loss after taxation		(1,104)	(670)
Minority interests		45	–
Loss for the period		(1,059)	(670)
Dividend	5	–	–
Loss per share	6		
– Basic (<i>cent</i>)		(0.23)	(0.14)
– Diluted (<i>cent</i>)		N/A	N/A

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The financial statements have been prepared under the historical cost convention.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies adopted in the preparation of the unaudited consolidated results are consistent with those used in the consolidated financial statements of the Group for the year ended 31 March 2005 upon adoption of the new HKFRSs.

2. Turnover

The Group is engaged in the sale of health care products and digital electronic products. Revenues recognized during the three months ended 30 June 2005, together with the comparative figures for the corresponding period in 2004, are as follows:

	(Unaudited)	
	Three months ended	
	30 June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of:		
– Health care products	867	65
– Digital electronic products	3,464	–
	<hr/>	
Total revenue	4,331	65
	<hr/>	

The business segmental results for the three months ended 30 June 2005 are as follows:

	Healthcare products <i>HK\$'000</i>	Digital electronic products <i>HK\$'000</i>	Total Retail <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE				
External sales	867	3,464	4,331	4,331
Inter-segment sales	–	–	–	–
Total revenue	867	3,464	4,331	4,331
Loss from operations				(954)
Finance costs				(150)
Less from ordinary activities before taxation				(1,104)
Income tax				–
Minority interest				45
Net loss for the year				(1,059)

No business segmental results is presented for the three months ended 30 June 2004 as the Group was only engaged in the sale of health care products during that period.

The Group's operations are principally carried out in Hong Kong. Accordingly, no geographical segmental results is presented.

3. Loss from operations

(Unaudited)	
Three months ended	
30 June	
2005	2004
HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:	
Depreciation of property, plant and equipment	67
	14

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 2005 (three months ended 30 June 2004: 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	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Loss for the purpose of basic and diluted loss per share – net loss for the period	(1,059)	(670)
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 2005 as there was no outstanding share options at end of that period

7. Movement in reserves

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Exchange equalisation reserve <i>HK\$'000</i>	Accumulated profits (losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004	46,900	19,009	(39,998)	341	(39,787)	(13,535)
Loss for the period	–	–	–	–	(670)	(670)
At 30 June 2004	46,900	19,009	(39,998)	341	(40,457)	(14,205)
At 1 April 2005	4,690	19,009	(39,998)	196	(997)	(17,100)
Loss for the period	–	–	–	–	(1,059)	(1,059)
At 30 June 2005	4,690	19,009	(39,998)	196	(2,056)	(18,159)

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's retail outlet business was stable in the period under review. There was steady increase in the number of visitors and volume of business. The Group continued to fine-tune its product range, expanding on health care products from its existing proprietary Chinese medicine.

The Group managed to maintain tight control over its operating expenses in the period under review.

Prospects

The Directors believes that the Group will benefit from the economic growth in both Hong Kong and the PRC which will support increase in consumer spending and number of visitors to Hong Kong in the foreseeable future. The Directors will continue to monitor the product range with the aim to improve on the profit margin.

At the same time, the Group will identify other business opportunities that may create synergies with its core business and to further reinforce its market position in health care related businesses.

Financial Review

The turnover of the Group amounted to HK\$4,331,000 was principally from the local retail operation. (2004: HK\$65,000) and a net loss attributable to the shareholders of approximately HK\$1,059,000 (2004: HK\$670,000)

The cost of sales was high as we took into account marketing commissions that were directly related to the volume of business in the cost of sales calculation.

On 6 July 2005, the Company obtained shareholders approval at an extraordinary general meeting to consolidate every four shares of HK\$0.01 each of existing shares into New Shares of HK\$0.04 each, therefrom resulting in the issue of 117,250,000 New Shares, and allotted and issued 450,000,000 New Shares at an issue price of HK\$0.04 each to Excel Point Holdings Limited. The above transactions were completed on 11 July 2005 with additional HK\$18,000,000 cash, before professional expenses incurred for the transaction, in the Group. The financial resources will be partly used as additional working capital to expand on existing businesses and the balance for development of related businesses.

OTHER INFORMATION

Directors' and Chief Executives' Interests in Securities

As at 30 June 2005, 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:

Long positions in Shares of the Company

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:

- 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, as at 30 June 2005, 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.

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 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 2005, 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 5% 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	Direct/indirect interest	Number of shares held	
			Approximate percentage of shareholding
Leung Oi Wah (<i>note 1</i>)	200,800,641		42.82%
Great Fair Limited (<i>note 1</i>)	89,435,440		19.07%
Wealth Way Limited (<i>note 1</i>)	111,365,201		23.75%
Technique Enterprises Limited (<i>note 2</i>)	49,019,607		10.45%
Cheung Chui (<i>note 2</i>)	49,019,607		10.45%
SRI (<i>note 3</i>)	32,000,000		6.85%

Notes:

1. Great Fair Limited and Wealth Way Limited which are wholly and beneficially owned by Leung Oi Wah, the vice chairlady and the founder of the Group, is deemed to be interested in the Shares under the provisions of Division 2 and 3 of Part XV of the SFO.
2. Technique Enterprises Limited which is wholly and beneficially owned by Cheung Chui, is deemed to be interested in the Shares under the provisions of Division 2 and 3 of Part XV of the SFO.
3. SRI is beneficially owned by Gao Junqing, Lin Daquan, Gao Yang, Yang Cifen, Wan 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.

Save as disclosed above, as at 30 June 2005, 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 5% 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 2005, 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 three independent non-executive directors, namely, Mr. Chu Kai Wing, Mr. Loke Yu (alias Loke Hoi Lam) and Mr. Ku Ling Yu John.

The Group's unaudited consolidated results for the three months ended 30 June 2005 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

A Remuneration Committee has been established on 10 August, 2005 in accordance with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee comprises of three independent non-executive directors, namely Messrs. Chu Kar Wing, Loke Yu (alias Loke Hoi Lam) and Ku Ling Yu John, and one executive director Miss Tong Pui Chi Lucia. Miss Tong Pui Chi Lucia being the Chairperson of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and reviewing the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealing as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the period ended 30 June 2005. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings throughout the period ended 30 June 2005.

CORPORATE GOVERNANCE CODE COMPLIANCE

The Company is in the process of reviewing its corporate governance practice and will report in its half-year financial announcement on the compliance of the Code on Corporate Governance Practices.

The Company has received from each of the independent non-executive directors, a confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of its independent non-executive directors are independent.

BOARD PRACTICES AND PROCEDURES

During the three months ended 30 June 2005, 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 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

Kam Yiu Ming Wilfred
Director

Hong Kong, 10 August 2005

At the time of this report, the Board comprises of (i) four executive Directors, namely Messrs. Wong Chun Keung, Fung Cheuk Nang Clement, Tong Pui Chi Lucia and Kam Yiu Ming Wilfred; and, (ii) three independent non-executive Directors, namely Messrs. Chu Kar Wing, Loke Yu (alias Loke Hoi Lam) and Ku Ling Yu John.