



新醫藥控股有限公司

NEW CHINESE MEDICINE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8085

2006/07

INTERIM REPORT

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.

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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.

SUMMARY

For the six months ended 30 September 2006:

- the turnover was approximately HK\$2,270,000;
- the loss attributable to equity holders was approximately HK\$1,798,000; and
- the directors do not recommend the payment of any interim dividend.

INTERIM RESULTS

The board of Directors (the "Board") of New Chinese Medicine Holdings Limited (the "Company") hereby submits the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 September 2006, together with the unaudited comparative figures for the corresponding period in 2005 as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

	Notes	Three months ended 30 September		Six months ended 30 September	
		2006 Unaudited HK\$'000	2005 Unaudited HK\$'000	2006 Unaudited HK\$'000	2005 Unaudited HK\$'000
Turnover	3	850	561	2,270	4,892
Cost of sales		(775)	(469)	(2,038)	(4,023)
Gross profit		75	92	232	869
Other operating income		85	1,862	198	2,066
General and administrative expenses		(1,415)	(1,199)	(2,228)	(3,134)
(Loss)/profit from operations	4	(1,255)	755	(1,798)	(199)
Finance costs		-	(131)	-	(281)
(Loss)/profit before taxation		(1,255)	624	(1,798)	(480)
Taxation	5	-	-	-	-
(Loss)/profit after taxation		(1,255)	624	(1,798)	(480)
Attributable to:					
Equity holders of the Company		(1,255)	624	(1,798)	(480)
Minority interests		-	-	-	-
		(1,255)	624	(1,798)	(480)
Dividend	6	-	-	-	-
(Loss)/earnings per share (cent)	7				
- Basic and diluted		(0.22)	0.12	(0.32)	(0.10)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006

		30 September 2006 Unaudited HK\$'000	31 March 2006 Audited HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		207	73
Current assets			
Inventories of finished goods at cost		2,025	991
Trade and other receivables	8	887	1,016
Bank and cash balances		9,313	13,517
		12,225	15,524
Current liabilities			
Other creditors and accrued charges		5,186	6,553
Net current assets		7,039	8,971
Total assets less current liabilities		7,246	9,044
Non-current liabilities			
Bond, unsecured		(7,054)	(7,054)
Net assets		192	1,990
Capital and reserves			
Share capital	9	22,690	22,690
Reserves		(22,498)	(20,700)
Equity attributable to the equity holders of the Company		192	1,990

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 September 2006*

	Share capital	Share premium	Special reserve	Exchange reserve	Bond reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	4,690	19,009	(39,998)	195	-	(997)	(17,101)
Issued share capital	18,000	-	-	-	-	-	18,000
Exchange differences on translation of foreign operations	-	-	-	76	-	-	76
Net loss for the period	-	-	-	-	-	(480)	(480)
At 30 September 2005	22,690	19,009	(39,998)	271	-	(1,477)	495
At 1 April 2006	22,690	18,269	(39,998)	322	3,036	(2,329)	1,990
Net loss for the period	-	-	-	-	-	(1,798)	(1,798)
At 30 September 2006	22,690	18,269	(39,998)	322	3,036	(4,127)	192

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 September 2006*

	Six months ended 30 September	
	Unaudited 2006	Unaudited 2005
	HK\$'000	HK\$'000
Net cash used in operating activities	(4,243)	(3,099)
Net cash from investing activities	39	47
Net cash from financing activities	-	18,001
Net (decrease)/increase in cash and cash equivalents	(4,204)	14,949
Cash and cash equivalents at 1 April	13,517	216
Cash and cash equivalents at 30 September	9,313	15,165

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1. General Information

The Company was incorporated in the Cayman Islands on 30 October 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The shares of the Company have been listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 7 March 2002.

2. Basis of preparation and principal accounting policies

The unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on the GEM of the Stock Exchange.

The accounting policies adopted in these condensed interim financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2006.

3. Turnover and Segment Information*Turnover*

Turnover represents amounts received and receivable from outside customers from sales of products during the period.

Business segments

The Group comprises only one business segment which is the sales of healthcare products in Hong Kong.

Geographical segments

No analysis of the Group's turnover, carrying amounts of segment assets and capital expenditure by geographical location is presented as less than 10% are generated from or located outside Hong Kong.

4. (Loss)/profit from operations

	Six months ended	
	30 September	
	Unaudited	Unaudited
	2006	2005
	HK\$'000	HK\$'000
Loss from operations is arrived at after charging:		
Depreciation	25	18
Impairment loss on property, plant and equipment	–	258
	<u>25</u>	<u>276</u>

5. Taxation

No provision for Hong Kong profits tax has been made in the interim financial statements as the Group has no assessable profits arising in Hong Kong for the period.

6. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2006 (six months ended 30 September 2005: Nil).

7. (Loss)/earnings per share

The calculation of basic and diluted (loss)/earnings per share is based on the following:

	Three months ended 30 September		Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share – (loss)/profit attributable to equity holders	(1,255)	624	(1,798)	(480)
Weighted average number of shares for the purpose of basic (loss)/earnings per share	567,250,000	537,453,804	567,250,000	503,413,934
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)/earnings per share	N/A	N/A	N/A	N/A

8. Trade and other receivables

	30 September 2006 Unaudited HK\$'000	31 March 2006 Audited HK\$'000
Trade receivables, with ageing analysis:		
0 – 30 days	283	391
30 – 60 days	439	250
Over 60 days	2	176
Total trade receivables	724	817
Deposits and prepayments	163	199
	887	1,016

9. Share capital

	30 September 2006 Unaudited HK\$'000	31 March 2006 Audited HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.04 each	200,000	200,000
Issued and fully paid:		
567,250,000 ordinary shares of HK\$0.04 each	22,690	22,690

MANAGEMENT DISCUSSION AND ANALYSIS**BUSINESS REVIEW**

In order to increase the public awareness of the Group's health care products, the Group has been engaged in a series of promotional campaign in restaurants, exhibitions, shopping centres, health and beauty retail chains in Hong Kong and Macau. Since processed health care products made from 6-years Korean Red Ginseng has recently been the Group's key products, the Group has been concentrating in several brand building as well as educational exercises of the end-users with more knowledge of the Group's products.

The majority of the public know that Korean ginseng helps maintain health but they still do not have a clear picture of the active ingredients contained in ginseng and how these active ingredients work in a human body, such as ginsenosides (Ginseng saponin), which consists of more than 30 different kinds of congeners which help maintain homeostatic against deleterious environmental stress, and also further improve the quality of life by alleviating or improving psychological, cardiovascular, immunological and digestive system disorders.

Korean Red Ginseng not only being accredited for the highest quality of ginseng product worldwide but also its unique usage as a traditional herbal medicine as well as in food that help expand life span makes them very popular in Korea as well as other parts of the world especially in Asian countries.

PROSPECTS

The Group firmly believes that the products introduced to the general public is a premium type of health supplement and will be well received by health conscious users regardless of their age group. In addition to general promotional campaigns, the Group also targets our marketing work towards key professional organizations, academic and sports groups, etc. The Group will invest in educating users and potential users alike the benefits of taking the Group's health care products made from 6-years Korean Red Ginseng. This aims to convince the public the efficacies of the Group's processed health care products substantiated by reputable scientific research.

In addition to promoting the Group's ginseng processed products, the Group will at the same time explore other health care as well as beauty products that will suit the taste of the increasingly demanding health conscious consumers in Hong Kong, Macau, China, as well as other parts of Asia. The exploration and adoption of the modern health, beauty and drug store concept will be the Group's major target development in China in the years to come.

On the announcement of the Company dated 21 September 2006, the Directors have informed shareholders of the Company that the Company is in preliminary negotiations with an independent third party for the possible acquisition by the Company of a controlling interest in a company, the principal business of which is engaged in the provision of computer hardware, software and network system for online instant lotteries, and any ancillary services. The consideration for the said proposed acquisition may be satisfied partly or in full by the allotment and issuance of new shares of the Company. However, no final terms and conditions in relation thereto has been concluded as at the date of this report. Further announcement(s) will be made by the Company in compliance with the requirements of the GEM Listing Rules.

FINANCIAL REVIEW

For the six months ended 30 September 2006, the Group recorded an unaudited consolidated turnover of approximately HK\$2,270,000, which represented sales of health care products. The turnover for the six months ended 30 September 2005 was approximately HK\$4,892,000.

The Group also managed to maintain tight control over its operating expenses in the period under review. The general and administrative expenses decrease from approximately HK\$3,134,000 in 2005 to approximately HK\$2,228,000 in 2006, representing a decrease of 29%.

Unaudited net loss attributable to the equity holders for the period amounted to approximately HK\$1,798,000. The net loss for the corresponding period in 2005 was approximately HK\$480,000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's net current assets as at 30 September 2006 were approximately HK\$7,039,000 as compared to net current assets of approximately HK\$8,971,000 as at 31 March 2006. There were no bank borrowings as at 30 September 2006 (31 March 2006: Nil).

On 29 December 2005, the Company obtained shareholders approval at an extraordinary general meeting to issue a redeemable convertible bond (the "Bond") of the Company in the principal amount of HK\$10,000,000 with a term of 5 years for fully settling a long-term borrowing amount to HK\$12,229,742.70. Holder of the Bond shall have the right to convert the Bond into shares of the Company at the price of HK\$0.072 per share. Details of the above Bond issuance were set out in the Company's circular dated 13 December 2005.

GEARING RATIO

As at 30 September 2006, the Group's gearing ratio, being the ratio of total liabilities to total assets, was approximately 98% (31 March 2006: approximately 87%).

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs costs in Hong Kong Dollars and considers that the impact of foreign exchange exposure of the Group is minimal.

CHARGE OF GROUP ASSETS

As at 30 September 2006, a time deposit of HK\$3,000,000 of the Company was pledged to a bank to secure general banking facilities (31 March 2006: Nil).

SIGNIFICANT INVESTMENTS

The Group had no significant investments during the period.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions or disposals during the period under review.

EMPLOYEE INFORMATION

As at 30 September 2006, the Group employed a total of 8 (31 March 2006: 3) full-time employees in Hong Kong. During the six months ended 30 September 2006, the total remuneration to employees, including directors' emoluments amounted to approximately HK\$726,000 (six months ended 30 September 2005: HK\$1,050,000). The Group remunerates its employees based on their performance, qualification, experience and the prevailing industry practice.

CONTINGENT LIABILITIES

As at 30 September 2006, the Group did not have any material contingent liabilities (31 March 2006: Nil).

CAPITAL COMMITMENTS

As at 30 September 2006, the Group had commitment for future minimum lease payments under non-cancelable operating lease in respect of rented premises which fall due within one year amounting to HK\$87,840 (31 March 2006: HK\$12,320).

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 September 2006, 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
Mr. Wong Chun Keung	Corporate (note 1)	62.58%	354,980,000

Notes:

- These shares are registered in the name of Excel Point Holdings Limited, a company wholly and beneficially owned by Mr. Wong Chun Keung.

Save as disclosed above, as at 30 September 2006, 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 or 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 September 2006, 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:

Number of shares held (long positions)

Name of shareholder	Direct/indirect interest	Approximate percentage of shareholding
Excel Point Holdings Limited (<i>note 1</i>)	354,980,000	62.58%
Ms. Chu Cheong Hing Jenny (<i>note 2</i>)	40,160,128	7.08%
Mr. Pang Wing Keung (<i>note 2</i>)	40,160,128	7.08%

Notes:

- Excel Point Holdings Limited is wholly and beneficially owned by Mr. Wong Chun Keung, the chairman of the Group.
- These are joint interests of spouse held by Ms. Chu Cheong Hing Jenny and Mr. Pang Wing Keung.

Save as disclosed above, as at 30 September 2006, 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.

COMPETING INTERESTS

As at 30 September 2006, 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 with written terms of reference in compliance with the relevant GEM Listing Rules. There are three members in the audit committee comprising three independent non-executive directors, namely, Mr. Chu Kar Wing, Dr. Loke Hoi Lam and Mr. Ku Ling Yu John. The primary duties of the audit committee are to review and provide supervision over the financial reporting system and internal control procedures of the Group. The Group's unaudited consolidated results for the six months ended 30 September 2006 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

A Remuneration Committee has been established with written terms of reference in accordance with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee comprises three independent non-executive directors, namely Mr. Chu Kar Wing, Dr. Loke Hoi Lam and Mr. Ku Ling Yu John, and one executive director Ms. Tong Pui Chi Lucia. Ms. 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 remuneration of all 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. 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 September 2006.

CORPORATE GOVERNANCE CODE COMPLIANCE

The Company has complied throughout the six months ended 30 September 2006 with the Code Provisions set out in the Code on Corporate Governance Practices contained in appendix 15 of the GEM Listing Rules except for the following:

Code Provision A.4.1

Code A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

All the non-executive directors of the Company do not have a specific term of appointment. However, in accordance with article 87 of the articles of association of the Company, at each annual general meeting, one third of the directors for the time being (except those directors appointed by the Board under article 86 to fill a casual vacancy or as an addition to the Board shall be subject to retirement and shall be eligible for re-election at the first annual general meeting after their appointment), or, if their number is not a multiple of three, then the number nearest to but not less than one-third, shall retire from office.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

By Order of the Board
New Chinese Medicine Holdings Limited
Wong Chun Keung
Chairman

Hong Kong, 8 November 2006

At the time of this report, the Board comprises of (i) five executive Directors, namely Mr. Wong Chun Keung, Mr. Fung Cheuk Nang Clement, Ms. Tong Pui Chi Lucia, Mr. Wong Mo Wah Gordon and Mr. Ng Tin Shui; and, (ii) three independent non-executive Directors, namely Mr. Chu Kar Wing, Dr. Loke Hoi Lam and Mr. Ku Ling Yu John.