



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*

THIRD QUARTERLY REPORT

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

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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.*

## SUMMARY

For the nine months ended 31 December 2006:

- the turnover was approximately HK\$7,927,000;
- the loss attributable to equity holders was approximately HK\$767,000; and
- the directors do not recommend the payment of any interim dividend.

### THIRD QUARTERLY 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 nine months ended 31 December 2006, together with the comparative unaudited figures for the corresponding period in 2005 as follows:

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2006 Unaudited HK\$'000	2005 Unaudited HK\$'000	2006 Unaudited HK\$'000	2005 Unaudited HK\$'000
Turnover	2	5,657	1,000	7,927	5,892
Cost of sales		(5,346)	(909)	(7,384)	(4,932)
Gross profit		311	91	543	960
Other operating income		1,894	90	2,092	2,156
General and administrative expenses		(1,174)	(670)	(3,402)	(3,805)
Profit/(loss) from operations	3	1,031	(489)	(767)	(689)
Finance costs		-	(86)	-	(366)
Profit/(loss) before taxation		1,031	(575)	(767)	(1,055)
Taxation	4	-	-	-	-
Profit/(loss) after taxation		1,031	(575)	(767)	(1,055)
Attributable to:					
Equity holders of the Company		1,031	(575)	(767)	(1,055)
Minority interests		-	-	-	-
		1,031	(575)	(767)	(1,055)
Dividend	5	-	-	-	-
Earnings/(loss) per share (cent)	6				
- Basic		0.15	(0.10)	(0.13)	(0.20)
- Diluted		0.15	N/A	N/A	N/A

Notes:

**1. Basis of preparation and principal accounting policies**

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and complied with accounting standards 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 unaudited consolidated financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2006.

**2. 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.

**3. Profit/(loss) from operations**

	<b>Nine months ended</b>	
	<b>31 December</b>	
	<b>Unaudited</b>	Unaudited
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Loss from operations is arrived at after charging:		
Depreciation	33	21
Impairment loss on property, plant and equipment	–	258
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**4. Taxation**

No provision for Hong Kong profits tax has been made in the unaudited consolidated results as the Group has no assessable profits arising in Hong Kong for the period.

**5. Dividend**

The directors do not recommend the payment of any interim dividend for the nine months ended 31 December 2006 (nine months ended 31 December 2005: Nil).

## 6. Earnings/(loss) per share

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

	Three months ended 31 December		Nine months ended 31 December	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Earnings/(loss) for the purpose of basic and diluted earnings/(loss) per share				
– profit/(loss) attributable to equity holders	<b>1,031</b>	(575)	<b>(767)</b>	(1,055)
Weighted average number of shares for the purpose of basic earnings/(loss) per share	<b>698,048,552</b>	567,250,000	<b>611,008,061</b>	524,770,000
Effect of dilutive potential shares in respect of share options	<b>2,376,000</b>	N/A	<b>N/A</b>	N/A
Weighted average number of shares for the purpose of diluted earnings/(loss) per share	<b>700,424,552</b>	N/A	<b>N/A</b>	N/A

No diluted loss per share for the nine months ended 31 December 2006 is shown as the share options of the Company outstanding as at 31 December 2006 had anti-dilutive effects on the loss per share. Diluted loss per share for the three months and nine months ended 31 December 2005 are not presented as there were no dilutive potential ordinary shares existed during such periods.

## 7. Changes in shareholders' equity

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Bond reserve HK\$'000	Accumulated losses HK\$'000	Total 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	-	-	-	135	-	-	135
Net loss for the period	-	-	-	-	-	(1,055)	(1,055)
At 31 December 2005	22,690	19,009	(39,998)	330	-	(2,052)	(21)
At 1 April 2006	22,690	18,269	(39,998)	322	3,036	(2,329)	1,990
Issued share capital	1,048	2,961	-	-	-	-	4,009
Conversion of bond	5,556	4,444	-	-	(3,036)	-	6,964
Disposal of subsidiaries	-	-	-	(322)	-	-	(322)
Net loss for the period	-	-	-	-	-	(767)	(767)
At 31 December 2006	29,294	25,674	(39,998)	-	-	(3,096)	11,874

## 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 nine months ended 31 December 2006, the Group recorded an unaudited consolidated turnover of approximately HK\$7,927,000, which represented sales of health care products. The turnover for the nine months ended 31 December 2005 was approximately HK\$5,892,000.

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\$3,805,000 in 2005 to approximately HK\$3,402,000 in 2006, representing a decrease of 11%.

Unaudited net loss attributable to the equity holders for the period amounted to approximately HK\$767,000. The net loss for the corresponding period in 2005 was approximately HK\$1,055,000.



## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's net current assets as at 31 December 2006 were approximately HK\$11,680,000 as compared to net current assets of approximately HK\$8,971,000 as at 31 March 2006. There were no bank borrowings as at 31 December 2006 (31 March 2006: Nil).

On 9 October 2006, holders of the Convertible Bonds (the "Bond") have fully converted an aggregated principal amount of HK\$10,000,000 Bond into shares of the Company at the price of HK\$0.072 per share, which resulted a total of 138,888,890 shares were issued on the conversion.

Pursuant to the share option scheme adopted by the Company on 1 February 2002, a total of 46,000,000 options have been granted on 29 November 2006 to the employees of the Group to subscribe for a total of 46,000,000 shares of the Company at a price of HK\$0.153 per share. On 18 December 2006, a total of 26,200,000 options were exercised by the option holders, which resulted a total of 26,200,000 shares were issued on the subscription.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 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:

#### (1) Long positions in the shares of the Company

Name of Directors	Type of interest	Number of shares	Interest in the Company's share capital
Mr. Wong Chun Keung	Corporate (Note)	354,980,000	48.47%
Mr. Fung Cheuk Nang Clement	Personal	7,000,000	0.96%
Ms. Tong Pui Chi Lucia	Personal	7,000,000	0.96%

*Note:*

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

## (2) Long positions in the underlying shares of the Company

Name of Directors	Date of grant of share options	Exercise price per share HK\$	Outstanding as at 01/04/2006	Granted during the period	Exercised during the period	Lapsed/cancelled during the period	Outstanding as at 31/12/2006	Expiry date
Mr. Wong Mo Wah Gordon	29/11/2006 (Note)	0.153	-	7,000,000	-	-	7,000,000	28/11/2009
Mr. Fung Cheuk Nang Clement	29/11/2006 (Note)	0.153	-	7,000,000	7,000,000	-	-	28/11/2009
Ms. Tong Pui Chi Lucia	29/11/2006 (Note)	0.153	-	7,000,000	7,000,000	-	-	28/11/2009

*Note:*

The grant of options on 29 November 2006 pursuant to the Share Option Scheme had been reviewed and approved by the Independent Non-executive Directors.

Save as disclosed above, as at 31 December 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.

Options may be exercised at any time during the specified option period. The exercise price shall be determined by the directors of the Company, and shall be at least the highest of (i) the closing price of the Company's shares as stated on GEM's daily quotation sheets on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant and (iii) the nominal value of the Company's shares.

On 29 November 2006, a total of 46,000,000 options have been granted to the employees of the Group to subscribe for a total of 46,000,000 shares of the Company at a price of HK\$0.153 per share. On 18 December 2006, a total of 26,200,000 options were exercised by the option holders, which resulted a total of 26,200,000 shares were issued on the subscription.

The following are details of the outstanding share options as at 31 December 2006:

Categories of grantees	Date of grant of share options	Exercise price per share HK\$	Outstanding as at 01/04/2006	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding as at 31/12/2006	Expiry date
Directors	29/11/2006	0.153	-	21,000,000	14,000,000	-	7,000,000	28/11/2009
Employees	29/11/2006	0.153	-	25,000,000	12,200,000	-	12,800,000	28/11/2009
Total			-	46,000,000	26,200,000	-	19,800,000	

#### 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 31 December 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	48.47%
Mr. Wong Ching	41,666,667	5.69%
Ms. Chu Cheong Hing Jenny ( <i>Note 2</i> )	40,160,128	5.48%
Mr. Pang Wing Keung ( <i>Note 2</i> )	40,160,128	5.48%

#### Notes:

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

Save as disclosed above, as at 31 December 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 31 December 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 nine months ended 31 December 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.

## SECURITIES TRANSACTIONS BY DIRECTORS

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 31 December 2006.

## CORPORATE GOVERNANCE CODE COMPLIANCE

The Company has complied throughout the nine months ended 31 December 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 deviations:

<b>Code</b>	<b>Provision</b>	<b>Deviation rectified on</b>
A.4.1	Non-executive directors should be appointed for a specific term.	8 November 2006
A.4.2	Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	30 August 2006

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

## BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the nine months ended 31 December 2006.

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

Hong Kong, 2 February 2007

*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.*