



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



ANNUAL REPORT 2002

<http://www.newchinesemedic.com>

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This report, for which the directors (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.

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BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Wong Cheah Foo (*Chairman*)

Leung Oi Wah (*Vice-chairlady*)

Chan Wai Ming, Billy (*Chief Executive Officer*)

Gao Junqing (*Director*)

Lin Daquan (*Director*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wan Choi Ha

Junya Kabeya

COMPANY SECRETARY

Tso Sze Wai, Jackson *CPA*

COMPLIANCE OFFICER

Chan Wai Ming, Billy

AUTHORISED REPRESENTATIVES

Wong Cheah Foo

Chan Wai Ming, Billy

AUDIT COMMITTEE

Wan Choi Ha

Junya Kabeya

Wong Cheah Foo

LEGAL ADVISORS

David Lo & Partners

Philip T.F. Wong & Co.

SPONSOR

Kingston Corporate Finance Limited

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681GT

George Town

Grand Cayman

Cayman Islands

British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

A portion of the 1st Floor
and the whole of the 2nd Floor

Wing Fai Mansion

52 Wing Kwong Street

Hunghom, Kowloon

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited

5th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

GEM STOCK CODE

8085

WEBSITE ADDRESS

<http://www.newchinesemedic.com>

Dear Shareholders,

On behalf of the board of Directors (the "Board") of New Chinese Medicine Holdings Limited (the "Company"), I am pleased to present the first annual report of the Company and its subsidiaries (collectively the "Group") since our listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on March 7, 2002.

The year ended March 31, 2002 (the "Year") was a landmark year for the Group. The shares of the Company have been successfully listed on GEM since March 7, 2002. The results of our public offer shares and placing shares were about 104 times and 4 times subscribed respectively, indicating investors' confidence in our business model and the future prospects of the Group. We believe our successful listing not only helped broaden the shareholder base of the Company but also increase our profile to the public and enhance the brand awareness of Kanpoyakudo (漢方藥堂), which in turn will boost business opportunities for the Group.

The Year however, has also been a year of challenge. The economic downturn in Japan and the United States in 2001 had far-reaching effects on the global economy, while the 911 terrorist attacks in New York (the "911 Event") dampened the sluggish economy even further, with disastrous results for worldwide tourism. With most of the existing business coming from Japanese tourists visiting the Group's retail outlet in Hong Kong, the Group's revenues for the Year were inevitably affected.

To capture the growing number of foreign tourists visiting the PRC and to reduce the reliance on the Group's retail outlet in Hong Kong, the Group is actively pursuing its plan to establish distribution outlets in the PRC and membership centres in Japan. The Hangzhou outlet is currently under renovation and the soft opening is scheduled for mid-July 2002. The first Japan membership centre will be located in Tokyo and is scheduled to open in September 2002. We believe the Hangzhou outlet and the Japan membership centre will bring positive contributions to the Group's revenue in the year ahead.

DIVIDEND

In view of establishing the Group's long term policy of paying dividends to its shareholders, the Board recommend a final dividend of HK0.125 cent per share for the year ended March 31, 2002. Such proposed dividend is subject to shareholders' approval at the Annual General Meeting to be held on July 24, 2002. The dividend will be payable on or before August 7, 2002 to shareholders whose names appear on the register of shareholders of the Company at 4 p.m. on July 24, 2002.

BUSINESS REVIEW

Sales and marketing

The Group is principally engaged in the marketing and distribution of the proprietary Chinese medicine. During the year under review, the Group's sales and marketing activities of the 14 proprietary Chinese medicine products under the Kanpoyakudo (漢方藥堂) label were conducted through (1) the Group's retail outlet in Hong Kong; (2) mail order; and (3) the Internet. For the year ended March 31, 2002, the Group recorded a turnover of about HK\$26.6 million, representing a decrease of about 22% from last year. The 911 Event was the major factor causing both the outlet sales and mail order business to drop. About 91% of the Group's sales turnover was contributed by the Group's retail outlet in Hong Kong. With the impact of the 911 Event starting to fade, we expect the number of Japanese tourists visiting the Group's retail outlet in Hong Kong will gradually recover in the year ahead.

To capture the growing number of foreign tourists visiting the PRC and to reduce the reliance on the Group's retail outlet in Hong Kong, the Group is actively pursuing its plan to establish distribution outlets in Hangzhou, Beijing, and Xian in the PRC. The Group entered into a 2-year agreement with Hangzhou Hu Qing Yu Tang Pharmaceutical Co. Ltd. ("Hu Qing Yu Tang") with regard to the management of a distribution outlet in Hangzhou to be opened by Hu Qing Yu Tang. The Hangzhou outlet is currently under renovation and the soft opening is scheduled for mid-July 2002.

Chairman's Statement

In order to build brand loyalty and to encourage repeated purchases via the Group's health portal, www.newchinesemedic.com, the Group launched its e-customer referral programme and established the Treasure 21C Club in February 2001 as an extension of its mail order business. The Treasure 21C Club has proven to be a great success. As at March 31, 2002, the Group had about 15,300 club members in the Treasure 21C Club. To capitalise on these sales potential and to encourage referrals from club members, the Group will establish a number of membership centres in Japan to provide follow-up on on-line sales, free health seminars on Chinese medicine, training on the use of the Internet and a range of membership activities. The first Japan membership centre will be located in Tokyo and is scheduled to open in September 2002.

Apart from the existing retail business, the Group continued to proceed with its plan to develop the Internet wholesale business through the "Medicine Street". The construction of the "Medicine Street" is divided into two phases. Presently, Phase I of the "Medicine Street" has been completed, and the construction of Phase II is currently taking place and expected to be completed in the third quarter of 2002.



Product Development

The Group emphasises on product development as an important element of the Group's marketing and distribution of proprietary Chinese medicine. Since the establishment of the Group in late 1994, the Group has been working closely with the Sichuan Research Institute of New Medicine ("SRI") (四川新醫藥研究所), a substantial shareholder of the Company, to develop and enhance its products. The SRI is mainly comprised of former or retired scientists, professors or researchers from medical or pharmacy school of West China Medical Centre (華西醫學中心) of the Sichuan University (四川大學) and the Sichuan Chinese Medicine Research Institute (四川省中醫藥研究院). The 14 proprietary Chinese medicine products currently sold by the Group under the Kanpoyakudo (漢方藥堂) label were developed by the Group with the assistance of the SRI.



The Group is also committed to developing and searching new proprietary Chinese medicine and health supplement products to expand its product range. In December 2001, the Group successfully developed a total of 8 new health supplement products. These 8 health supplement products are intended for those affected by diabetes, hyperlipidemia, hypertension, obesity, pollinosis, constipation and strengthening the liver and stomach. The Group has been conducting pre-launch preparation for these new products and plans to launch them in the third quarter of 2002.

Manufacturing

We believe that maintaining and improving the quality of the Group's products is a key factor to the Group's continuous success. To ensure that our products meet the applicable quality standards prescribed by relevant PRC authorities, the production of the Group's 14 proprietary Chinese medicine has been outsourced to Hu Qing Yu Tang since January 2001, a renowned GMP compliant Chinese medicine manufacturer in the PRC.

Currently, samples of each product of every shipment manufactured by Hu Qing Yu Tang are sent to health authorities in Sichuan or Zhejiang, the PRC for testing before the products are made available for sale.

Research and Development

The Group places high priority on research and development and is committed to expanding its research and development capabilities. During the Year, the Group continued to enjoy and maintain excellent research and development support from the SRI. In January 2002, the Group entered into an agreement with the SRI, whereby the SRI agreed to provide quality and scientific research and development support to the Group for the development of new products and for the enhancement of the Group's existing products.

To enhance the Group's product development capabilities, we also established a strong in-house advisory board. As at March 31, 2002, the advisory board had 16 members. Members of the advisory board possess in-depth knowledge in a wide variety of disciplines, including Chinese medicine, western medicine, gynaecology and pharmacology. The advisory board is mainly responsible for advising on the feasibility of new research projects, and for recommending and reviewing potential strategic alliances for the Group.

In July 2001, the Group formed an equal joint venture with a member of Kinetana International Biotech Pharma Limited ("Kinetana"). The joint venture will principally engage in the research and



development, marketing and distribution of self-developed proprietary Chinese medicine, health supplement products and herbal products to international markets. In February 2002, the Group entered into an agreement with a member of Kinetana, whereby Kinetana will assist the Group to enhance some of its products.

During the Year, the Group also entered into discussions with a number of universities and research institutes in Hong Kong and in the PRC with a view to expanding the Group's research and development capabilities and conducting joint research projects with these universities and research institutes. We expect that the Group will enter into a joint research and development agreement with a Chinese medicine university in Chengdu in the PRC within the next few months.

FUTURE PLANS AND PROSPECTS

Looking ahead, the Group will continue to focus on (1) expanding distribution network; (2) enlarging customer base; (3) expanding research and development capabilities; and (4) enlarging product lines.

Expanding distribution network

To capture the business opportunities in the booming tourist market in the PRC, the Group is actively pursuing its plan to establish distribution outlets in Hangzhou, Beijing and Xian. Apart from targeting at its customary Japanese tourists, these outlets will also target foreign tourists from Southeast Asia and the United States. The soft opening of the Hangzhou outlet is scheduled for mid-July 2002. The Group has identified a business partner in Beijing and is in the process of finalising the terms of the agreement. We aim to open the Beijing outlet before the end of 2002 and the Xian outlet in 2003. The PRC distribution outlets will create an additional source of income for the Group.

To develop overseas markets, the Group has been actively seeking suitable business partners in different countries. In April 2002, the Group entered into a distribution agreement with a Canadian based health food distributor. The Canadian distributor will be responsible for marketing and distributing the Group's 8 new health supplement products to professional parties including naturopathic doctors, TCM doctors and specialized health food stores, drug stores and supermarkets in Canada. This move marks a cornerstone in the Group's penetration into the North American market. The Group is currently in discussion with a US nutritional supplement company (listed on the NASDAQ) with a view to distributing the Group's new health supplement products through this company's sale channels in the United States. With increasing health consciousness and the aging population in North America, we believe that the North American market will offer the Group strong market potential for its new health supplement product line. At a later stage, the Group will also expand its distribution network into other overseas markets such as Korea, Australia and New Zealand.

Enlarging customer base

Over the years, the Group has successfully built up its brand name, Kanpoyakudo (漢方藥堂), and its strong customer base in the Japanese market. In order to encourage repeated purchases and solicit referrals from existing customers, the Group will establish a number of membership centres in Japan to strengthen brand loyalty. These membership centres will offer free health seminars to the Group's existing and potential Japanese customers on the benefits of Chinese medicine and specific usage of the Group's products, and provide value-added services to the customers such as after-sales services and customer services hotline. The membership centre will also educate members on how to use the Group's health portal, www.newchinesemedic.com, to make purchases for the Group's products and to refer customers to the Group.

The first Japan membership centre will be located in Tokyo and is scheduled to open in September 2002. We expect that at least one more membership centre will be opened in Japan before the first half of 2003. The Group had about 15,300 club members in the Treasure 21C Club as at March 31, 2002. With the opening of the membership centres in Japan, we believe that both the Internet sales and the number of referrals from club members will rise in the years ahead.

In addition to the marketing to Japanese club members, the Group also plans to market and distribute its new health supplement product line in Japan through large local Japanese distributors or large local health food chain stores.

Expanding research and development capabilities

To maintain and enhance its competitive edge, the Group's strategy is to make use of advanced technologies and the latest research results to develop high quality new products of international standards and improve the quality of existing products. In addition to the strong research and development support received from the SRI and the in-house advisory board, we plan to expand the Group's research and development capabilities in two ways: (1) forming research and development platforms with well established research institutes and Chinese medicine universities; and (2) developing bio-pharmaceutical technologies.

The Group is currently in discussion with a research institute in Beijing and a Chinese medicine university in Chengdu with a view to forming research and development platforms in these two cities. We expect the joint research alliance in Chengdu will be formed within the next few months. We also intend to take advantage of the favorable sentiment currently in the capital market of Hong Kong to acquire and/or undertake suitable bio-pharmaceutical/biotechnology projects with a view to developing the Group's proprietary bio-pharmaceutical technologies.

Enlarging product lines

The Group intends to increase the number of products from the current 14 proprietary Chinese medicine and 8 health supplement products to 40 products to satisfy different customer needs. The Group is currently developing a new health supplement product series using Saussurea (天山雪蓮) as major ingredient. The Saussurea (天山雪蓮) series will consist of 4 products which are intended for regulating menstruation, pelvic inflammation, rheumatic arthritis and anti-aging. We expect the research and development on the Saussurea (天山雪蓮) series will be completed before the end of 2002.

The Group is also in discussion with a Chinese medicine university in Chengdu to conduct a joint research project to develop a new health supplement product series targeting young children and teenagers. We believe that with successful introduction of new products to the market, the Group is not only well positioned to satisfy different customer needs and compete against its competitors in the Chinese medicine and health supplement markets, but also to further enhance its income base.

Other business opportunities

The implementation of mandatory registration requirements for Chinese medicine practitioners by the Hong Kong Government has undoubtedly increased confidence in Chinese medicine practitioners in Hong Kong. As more and more people in Hong Kong are willing to seek medical consultations from Chinese medicine practitioners, we believe that this growing trend will offer good market potential for the Group's proprietary Chinese medicine and health supplement products. The Group is now studying the viability of opening a specialized Chinese medicine clinic in Hong Kong with a view to promoting the Group's propriety Chinese medicine and health supplement products through Chinese medicine practitioners.

With its entry into the World Trade Organization, the PRC government will gradually open up its medical and Chinese medicine markets. In view of this huge market potential, the Group is currently seeking suitable PRC business partners to form an alliance with the Group to develop the PRC domestic Chinese medicine market.

In summary, with the opening of the PRC distribution outlets targeting foreign tourists, the setting up of membership centres in Japan, and the launch of new health supplement product line, the Group is well positioned to enlarge its customer and revenue base and to achieve higher return for its shareholders.

APPRECIATION

I would like to take this opportunity to express my gratitude to our management and staff for their dedication and contribution to the Group, and to thank our fellow business partners and shareholders for their continuing support. We will endeavor to explore every potential opportunity for business growth, creating a promising future and better results in the year ahead.

Wong Cheah Foo

Chairman

Hong Kong, June 19, 2002

FINANCIAL REVIEW

Turnover

	Year ended March 31,			
	2002		2001	
	HK\$'000	%	HK\$'000	%
Turnover breakdown				
Outlet sales	24,147	90.8	28,466	83.5
Mail order	2,042	7.7	5,456	16.0
Internet	406	1.5	174	0.5
Total	26,595	100.0	34,096	100.0

For the Year, the Group recorded a turnover of about HK\$26.6 million from the sale of 14 proprietary Chinese medicine. About 91% of the turnover was contributed by the Group's retail outlet in Hong Kong. The Group's outlet sales for the Year was about HK\$24.1 million representing a decrease of about 15% from last year. The decrease of the outlet sales was mainly caused by the 911 Event. The number of Japanese tourists visited the Group's retail outlet in Hong Kong dropped from last year's 95,482 to 80,472 in this Year. The 911 Event not only caused the number of Japanese tourists visited Hong Kong to drop but also adversely affected the Group's mail order business. Due to the fear of anthrax attacks from mails, the Group's mail order business decreased to about HK\$2 million. However, the average spending per customer from the outlet sales slightly increased to HK\$300 from last year's HK\$296.

Gross profit and Profit margin

In line with the decrease of the sales turnover, the gross profit of the Group for the Year also decreased to about HK\$15.3 million from last year's HK\$17.9 million. Despite the decrease of the gross profit, the gross profit margin improved to 57.4% from last year's 52.5%. The increase of the gross profit margin was mainly caused by the decrease of the commission paid to the Japanese tour agencies. In the beginning of the Year, the Group started to renegotiate the commission arrangement with the Japanese tour agencies, and subsequently the Group has successfully reduced the commission rate paid to the Japanese tour agencies.

Other revenue

Other revenue was about HK\$1.8 million, mainly representing interest earned on a loan advanced to a director and on a loan advanced to an independent third party. Principal portion of both loans were subsequently fully repaid before the end of the Year.

Operating expenses

The website development costs reduced to about HK\$0.9 million from last year's HK\$1.2 million. The Group spent less on website development costs this Year because most of the development costs were incurred in prior year when the website construction commenced. The website development costs for this Year mainly represented the costs associated with website maintenance, updates and the development of the Group's b2b platform.

The medicine research and development costs decreased slightly to about HK\$1.3 million from last year's HK\$1.4 million.

The administration expenses increased from last year's HK\$9.7 million to about HK\$11.1 million this Year. The increase was mainly caused by the increase of business development costs for the establishment of distribution outlets in the PRC and the increase of staff costs.

Net Profit

In line with the decrease of the sales turnover, the net profit attributable to the shareholders for the Year also decreased to about HK\$2.2 million from last year's HK\$5.1 million.

Finance costs

The finance costs increased to about HK\$1.4 million from last year's HK\$1.2 million. The finance costs were mainly the interest charged on an installment loan obtained on behalf of an independent third party and the interest charged on a HK\$10,000,000 convertible loan and a HK\$5,000,000 convertible notes. The installment loan, the convertible loan and the convertible notes were all fully repaid before the end of the Year.

Liquidity, financial resources and capital resources

The Group has maintained a sound financial position in this Year. During the Year, the Group's primary sources of funds were cash provided by operating activities and the balance of cash proceeds from the issue of new shares pursuant to the listing of the Company in March 2002. As at March 31, 2002, the Group had total assets of about HK\$42.3 million which were financed by current liabilities of about HK\$4.1 million and shareholders funds of about HK\$38.2 million. The current assets amounted to about HK\$40 million, of which about HK\$22.7 million was bank balances and cash. As at March 31, 2002, the Group had only a small bank borrowings of about HK\$61,000 and had no long term debt. The current assets to current liabilities is about 9.9.

Foreign currency risk

The Group has foreign currency risk as a significant portion of the Group's turnover is denominated in the Japanese Yen. Fluctuation of the exchange rates of Hong Kong dollars against the Japanese Yen could affect the Group's results of operations.

The Group closely monitors its foreign currency exposure by converting the Japanese Yen received from the customers as soon as practicable and does not hold position on Japanese Yen.

Charges on group assets

As at March 31, 2002, none of the Group's assets was pledged as security for liabilities.

Contingent liabilities

As at March 31, 2002, the Group had no contingent liabilities.

Review of Business Objectives

Set out below is a comparison between the Group's actual business progress up to March 31, 2002 and its business objectives as stated in the prospectus of the Company dated February 25, 2002:

I. TO EXPAND RESEARCH AND DEVELOPMENT CAPABILITY AND PRODUCT LINES ON CHINESE MEDICINE AND HEALTH SUPPLEMENT PRODUCTS

Proposed project progress

Actual project progress

Research and development on Chinese medicine products

Conduct research and development projects

Commenced a project to develop a Chinese medicine product for allergic rhinitis.

Research and development on health supplement products

Conduct research and development projects

Commenced a project to develop a new health supplement product series using Saussurea (天山雪蓮) as major ingredient. The Saussurea (天山雪蓮) series will consist of 4 products which are intended for regulating menstruation, pelvic inflammation, rheumatic arthritis and anti-aging.

Launch health supplement products

Delayed to August 2002 due to the change of packaging and delay in production.

Joint research and development

Enter into joint research cooperative arrangements

Entered into an agreement with a biotech company to assist the Group to enhance some of its products.

Expansion of the in-house advisory board

Appoint additional members

Identified one suitable candidate, a professor from Chengdu University of Traditional Chinese Medicine. Invitation was made and waiting for acceptance.

II. TO PURSUE GEOGRAPHICAL EXPANSION OF THE DISTRIBUTION NETWORK IN THE PRC AND OF THE CUSTOMER BASE

Proposed project progress

Actual project progress

PRC distribution outlets

Identify distribution partners for outlets in Beijing and Hangzhou

Entered into an agreement with Hangzhou Hu Qing Yu Tang Pharmaceutical Co. Ltd. with respect to the Hangzhou outlet. The Hangzhou outlet is currently under renovation and the soft opening is scheduled for mid-July 2002. Identified a business partner for the Beijing outlet and is in the process of finalising the terms of the agreement.

Identify site location for the outlet in Xian

The Group is currently evaluating different site options.

Expansion to overseas markets

Discuss with US distributors, wholesalers and/or large chain stores

Commenced discussions with a US nutritional supplement company (listed on the NASDAQ) with a view to distributing the Group's new health supplement products through this company's sale channels in the United States.

Conduct feasibility studies on distributing products to Australia and New Zealand

Commenced the study but the report not yet finished.

Discuss with distributors, wholesalers and/or large chain stores in Australia and New Zealand

Commenced discussions with a New Zealand distributor in April 2002 and the Group continued to look for other suitable business partners in these two countries.

III. TO EXTEND BUSINESS INTO E-COMMERCE AND TO UTILISE THE INTERNET AS MARKETING MEDIUM

Proposed project progress

Actual project progress

Health Portal

Construct and launch the on-line professional club

The structure of the on-line professional club has been developed and is in the programming stage.

Review the software and hardware support and upgrade the computer system and enhance features on the portal

Review completed and a backup computer server was built to protect data and images files.

Promote the Group's portal for banner advertisement through other portals, exhibitions, newsletters and other traditional media

Banners (free) for business partners were built and posted. In view of the current economic environments, the Group does not foresee any significant income from banner advertisement in the near future.

"Medicine Street"

Continue to construct "Medicine Street"

Continued to construct Phase II of the "Medicine Street".

Add new products to "Medicine Street"

Delayed because the "Medicine Street" was still under construction. Will resume activities upon completion of the "Medicine Street".

Promote "Medicine Street" to the PRC pharmaceutical manufacturers through other portals, exhibitions, newsletters and other traditional media

Delayed and will resume activities upon completion of the "Medicine Street".

Promote "Medicine Street" to international pharmaceutical manufacturers through other portals, exhibitions, newsletters and other traditional media

Delayed and will resume activities upon completion of the "Medicine Street".

Continue to identify and enter into on-line distribution agreements with pharmaceutical manufacturers

Delayed and will resume activities upon completion of the "Medicine Street".

Continue to establish b2b sales and marketing team

Delayed and will resume activities upon completion of the "Medicine Street".

Provision of information on Chinese medicine and health supplement products

Continue to update information in the Group's portal

Continued to update information and the number of pages increased from 6,900 to over 8,000.

E-education platform

Identify a suitable PRC partner on e-education

Suspended because a local university has recently offered similar on-line education on Chinese medicine. The Group is currently evaluating the impacts.

Finalise course structure and materials

Suspended because a local university has recently offered similar on-line education on Chinese medicine. The Group is currently evaluating the impacts.

USE OF PROCEEDS FROM PLACING AND PUBLIC OFFER

During the period from March 7, 2002 (date of listing) to March 31, 2002, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus:

	Intended Funding HK\$'000	Actual Funding HK\$'000
Expansion of R&D capability and product lines on Chinese medicine and health supplement products	910	250
Expansion of distribution network in the PRC, and its customer base development of "e-customer referral programme", and development of overseas markets	100	646
Health portal enhancement, e-commerce development and provision of on-line education	100	62
Expansion of Hong Kong office	0	165
Total	1,110	1,123

Reasons for difference between usage of proceeds and forecast usage

After the 911 terrorist attacks in New York, the Group reduced the management fee paid to the Sichuan Research Institute of New Medicine (四川新醫藥研究所) and accelerated its plan to establish membership centres in Japan.

DIRECTORS

Executive Directors

Mr. Wong Cheah Foo, aged 53, is the chairman of the Group. He is responsible for overseeing the formulation of corporate strategy and the overall management of the Group's strategic planning and business operations. Mr. Wong joined the Group in October 1994. Mr. Wong was a fellow member of the Association of Chartered Certified Accountants, and has over 10 years of management experience.

Ms. Leung Oi Wah, aged 35, is the vice chairlady and the founder of the Group. Ms. Leung is responsible for the Group's strategic planning and the overall steering of the Group's retail operations and e-customer referral program. Ms. Leung has over 10 years of experience in the tourist-retailing business and is a pioneer in introducing modernised Chinese medicine into Japanese tourist industry in Hong Kong.

Mr. Chan Wai Ming, Billy, aged 38, is the chief executive officer of the Group. Mr. Chan is responsible for the overall strategic planning, business development and implementing the business plans of the Group. Mr. Chan joined the Group in August 2000, bringing with him the experience as the managing director of a promotional marketing agency where he oversaw its finance, legal and corporate functions as well as the operations of its 10 overseas offices since 1998. Mr. Chan graduated with a Bachelor of Business Administration (Honours) degree from the University of Texas at Austin, a Master of Business Administration degree majoring in Management Science and Master of Business Administration degree majoring in Finance from the University of North Texas in the United States. Mr. Chan is an experienced banker and has about 10 years of working experience in corporate and investment banking with two international banking corporations.

Mr. Gao Junqing, aged 71, is the co-director of research and development and is responsible for overseeing the Group's research and development, in particular regarding the proprietary Chinese medicine and health supplement products. Prior to joining the Group in October 2000, Mr. Gao has been supportive to the Group through the collaboration between the Company and SRI. Mr. Gao is also the director of the SRI and has been a committee member of a number of research institutes of Chinese medicine in the PRC. In addition, Mr. Gao has undertaken teaching and senior management roles in various universities such as the West China University of Medical Sciences in the PRC for over 40 years.

Professor Lin Daquan, aged 61, is the co-director of research and development, in particular regarding biotechnology related subject. Professor Lin has been a professor of biomedical engineering at Chengdu University of Science and Technology since 1992 and the vice director of the SRI. Professor Lin graduated from the Sichuan University with a major in biophysics. He is the president of the Sichuan University's research centre for human engineering and medical equipment. Professor Lin joined the Group in October 2000.

Professor Lin has participated in extensive researches in anthropomorphic radiological phantom, biophysical functional materials and synthesis of artificial radiological equivalent materials. In recognition of his fine work in the field of biophysics, Professor Lin has been awarded the National Invention Award of China and the Scientific and Technological Award of the Ministry of Public Health of China. He is also listed in the "Five Hundred Leaders of Influence" published by the American Biographical Institute.

Independent non-executive Directors

Ms. Wan Choi Ha, aged 34, a qualified solicitor in Hong Kong and is the principal of a solicitor's firm, Messers Wan and Leung. She was appointed as an independent non-executive director of Global Food Culture Group Limited in September 2000.

Mr. Junya Kabeya, aged 65, graduated with a degree in political science from the Waseda University in 1959 and is currently the managing director of two trading companies after his retirement from the Japan based international airline group of companies in 1999.

SENIOR MANAGEMENT

Mr. Wong Kwok Hung, aged 52, is the marketing director of the Group's retail operations and is responsible for maintaining relationship and developing business opportunities with tour operators and agencies as well as expanding the Group's market presence in the tourist industry. Mr. Wong has over 20 years of experience in the tourist industry. Before joining the Group in June 1997 as the general manager of Kanpoyakudo (漢方藥堂), Mr. Wong held various positions with travel agencies and tourist shop operations.

Mr. Guo Ping, aged 36, is the director of product development and quality control. Mr. Guo is responsible for overseeing the research and development of the Group's proprietary Chinese medicine and health supplement products. He is also in charge of liaising with the SRI regarding all technical and medical issues and supervising the implementation of the quality control procedures of the Group to ensure that all proprietary Chinese medicine and health supplement products of the Group comply with all applicable regulatory standards with regard to quality and safety. Mr. Guo graduated from the Chengdu University of Traditional Chinese Medicine ("CUTCM") with a bachelor degree in medicine and a master degree in Chinese herbology in 1986 and 1989 respectively. Mr. Guo possesses in-depth knowledge in herb identification and quality analysis, herb processing and preparation of commonly used herbal dose forms, and the relations between the quality of herbs and their therapeutic effects. Mr. Guo was sponsored by Sasagawa Medical Fellowship as a visiting scholar in Japan to conduct research program for the investigation of traditional medicines and herbs in the Toyama Medical and Pharmaceutical University during the period from April 1996 to March 1997. Mr. Guo was also a guest professor conducting lectures on foundation of traditional Chinese medicine, Chinese herbology, Chinese herbal formulas and diet therapy in the International College of Traditional Chinese Medicine in Victoria, Canada during the period from September 1997 to September 1998. Since 1999, Mr. Guo has been an associate professor of CUTCM in Chinese herbology and in September 2000, has been admitted as Ph.D candidate of Chinese herbology in CUTCM. MR. Guo is one of the leading interpreters of traditional Chinese medicine in CUTCM. Mr. Guo joined the Group in October 2000.

Mr. Chan Kim Leung, Kenneth, aged 49, is the director of the Group's information technology division responsible for the development, planning, operation and maintenance of the Group's multi-language health portal, www.newchinesemedic.com. Mr. Chan has about 20 years of experience in computer technical services and management. Mr. Chan has been a project consultant and a senior technical lecturer to a number of multinational computer vendors prior to joining the Group in October 2000. Mr. Chan holds a diploma in computing science from the Red Deer College, Canada and a post-graduate certificate in business administration from Humber College, Canada. He is also a member of The Association of Australian Computer Professionals.

Profile of Directors and Senior Management

Ms. Tse Sau Mui, Axity, aged 37, is the general affairs manager and is responsible for the day-to-day administration and personnel functions of the Group. Ms. Tse graduated with a Bachelor of Business Administration degree from the Chinese University of Hong Kong. Ms. Tse has over 10 years of experience in personnel and administration management and joined the Group February 1999.

Mr. Hung Tit Sang, aged 51, is the shop manager and is responsible for supervising the retail operations of Kanpoyakudo (漢方藥堂). Mr. Hung has over 10 years experience in the retailing business targeting at Japanese tourists and joined the Group in October 1994.

Dr. Zeng Guan Ming, aged 39, is the senior lecturer in Kanpoyakudo (漢方藥堂), and is responsible for giving briefing to Japanese tourists explaining the history of the Chinese medicine and providing information on the Group's products. Since joining the Group in March 1996, Mr. Zeng has brought to the Group his extensive experience with the culture and exposure in the academic studies of Japan as well as his fluency in Japanese. Dr. Zeng graduated with a Bachelor of Science degree with a major in physics from the East China Normal University of Education and a Master of Engineering degree and a Ph.D. of Engineering degree from the Osaka University in Japan.

Mr. Tso Sze Wai, Jackson, aged 31, is the company secretary and the assistant financial controller of the Group responsible for the Group's finance and accounting functions. Mr. Tso joined the Group in May 2001. Mr. Tso graduated from the University of New South Wales with a Bachelor of Commerce degree. Mr. Tso also holds a graduate diploma in Business Computing from the University of Western Sydney. Mr. Tso had auditing experience with one of the big international accounting firms and subsequently moved to the commercial sector. He is also a member of the Australian Society of Certified Practising Accountants.

Employees and remuneration policies

As at March 31, 2002 the Group employed a total of 48 staff (2001: 50). Remuneration is determined by reference to market terms, the performance, qualifications and experience of each individual employee. Discretionary bonus based on individual performance and the profit of the Group will be paid to employees as recognition of and reward for their contribution. Other benefits include share option scheme for eligible employees.

In order to strengthen the Group's culture and the courtesy level of employees, the Group provided employees with different on-job training and seminars. These training and seminars concentrated on employees' marketing skills and technical knowledge on Chinese medicine.

The directors of the Company present their first annual report and the audited financial statements of the Group for the year ended March 31, 2002.

CHANGE OF NAME

The Company was incorporated in the Cayman Islands on October 30, 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. On August 27, 2001, the Company changed its name to New Chinese Medicine (Cayman) Limited, and then changed it back to New Chinese Medicine Holdings Limited on the same day for the purpose of inserting its Chinese name (新醫藥控股有限公司) in the Company's registration.

GROUP REORGANISATION

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on August 6, 2001. Details of the Group Reorganisation are set out in note 1 to the financial statements and in the prospectus dated February 25, 2002 (the "Prospectus") issued by the Company.

The shares of the Company have been listed on GEM since March 7, 2002

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the marketing and distribution of proprietary Chinese medicine. The Group is also engaged in the research and development and the manufacture of proprietary Chinese medicine.

SEGMENTAL INFORMATION

About 91%, of the Group's sales turnover was contributed by the Group's retail outlet in Hong Kong. Further details of segmental information are set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended March 31, 2002 are set out in the consolidated income statement on page 26 of the annual report.

During the year, a subsidiary distributed HK\$8 million to its then shareholder prior to the Group Reorganisation.

In view of establishing the Group's long term policy of paying dividends to its shareholders, the Board recommend a final dividend of HK0.125 cent per share amounting to HK\$586,250 to the shareholders and the retention of the remaining profit for the year.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in notes 12 to the financial statements.

SHARE CAPITAL

Details of movements in the authorised and issued share capital of the Company since its incorporation are set out in note 24 to the financial statements.

DIRECTORS

The directors of the Company since incorporation and up to the date of this report were:

Executive directors

Wong Cheah Foo (<i>Chairman</i>)	(appointed on November 1, 2000)
Leung Oi Wah (<i>Vice-Chairlady</i>)	(appointed on November 1, 2000)
Chan Wai Ming, Billy	(appointed on November 1, 2000)
Gao Junqing	(appointed on November 1, 2000)
Lin Daquan	(appointed on November 1, 2000)
Chan Lap Ki, Lincoln	(appointed on November 24, 2000 & resigned on October 23, 2001)

Independent non-executive directors

Wan Choi Ha	(appointed on November 24, 2000)
Junya Kabeya	(appointed on November 24, 2000)
Wong Tak Fu	(appointed on November 01, 2000) & resigned on September 13, 2001)

In accordance with the provisions of the Company's Articles of Association, Messrs. Gao Junqing and Lin Daquan will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years commencing from February 1, 2002, which will continue thereafter until terminated by either party giving to the other not less than three months prior written notice.

Each of the non-executive directors has been appointed for a term of one year and eleven months, and the term of office shall expire on December 31, 2003.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Wong Tak Fu, an independent non-executive director of the Company and resigned on September 13, 2001, is the sole proprietor of Philip T.F. Wong & Co. The firm rendered professional services to the Group and received normal remuneration for such services. Wong Tak Fu also received share options from the Company as part of the remuneration for legal services rendered by his firm to the Group in relation to the listing of the Company.

Save as disclosed above and in the contracts disclosed in the directors' interests in securities, the directors' service contracts, the continuing connected transactions and note 17 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SECURITIES

As at March 31, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register required to be maintained by the Company pursuant to Section 29 of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") were as follows:

Director	Type of Interest	Interest in the Company's share capital	Number of shares
Leung Oi Wah	Corporate (note 1)	42.81%	200,800,641
Chan Wai Ming, Billy	Personal	1.71%	8,000,000
Gao Junqing	Other (note 2)	0.55%	2,600,000
Lin Daquan	Other (note 2)	0.55%	2,600,000
Wong Tak Fu	Personal	1.60%	7,500,000

Note:

- 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.

The following table discloses movements in the Company's share options under the Pre-IPO Share Option Scheme during the year and options outstanding at end of the year.

Director	Date of grant	Exercise Price		Outstanding at end of year
		HK\$	Grant	
Wong Cheah Foo	February 18, 2002	0.3	4,500,000	4,500,000
Leung Oi Wah	February 18, 2002	0.3	4,500,000	4,500,000
Chan Wai Ming, Billy	February 18, 2002	0.3	4,500,000	4,500,000
Senior Management				
Chan Kim Leung, Kenneth	February 18, 2002	0.3	2,400,000	2,400,000
Wong Kwok Hung	February 18, 2002	0.3	2,400,000	2,400,000
Tse Sau Mui, Axity	February 18, 2002	0.3	2,400,000	2,400,000
Hung Tit Sang	February 18, 2002	0.3	2,400,000	2,400,000
Legal advisor to the Group				
Wong Tak Fu (Note)	February 18, 2002	0.3	2,400,000	2,400,000

Save as disclosed above, none of the directors or their associates had any interest in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Note: Wong Tak Fu was also an independent non-executive director of the Company and resigned on September 13, 2001.

PRE-IPO SHARE OPTION SCHEME

On February 1, 2002, the Company adopted a share option scheme (the "Pre-IPO Share Option Scheme") to recognise the contribution of certain directors, employees and adviser of the Company to the growth of the Group and/or to the listing of the Company's shares on GEM. The Company subsequently granted the share options under the Pre-IPO Share Option Scheme to a total of 8 individuals on February 18, 2002. The Pre-IPO Share Option Scheme will expire on January 31, 2012.

As at March 31, 2002, the number of shares in respect of which options had been granted under the Pre-IPO Share Option Scheme was 25.5 million, representing approximately 5.44% of the issued share capital of the Company at that date.

Under the terms of the options granted under the Pre-IPO Share Option Scheme, these options (other than the options granted to Wong Tak Fu who can exercise the options granted within a period commencing from March 7, 2002 and expiring on February 17, 2005) can only be exercised by the grantees in the following manner:

Exercisable period	Number of shares that can be exercised under the Pre-IPO Share Option Scheme (excluding the options granted to Wong Tak Fu)
September 7, 2002 – February 17, 2005	7,700,000
March 7, 2003 – February 17, 2005	7,700,000
March 7, 2004 – February 17, 2005	7,700,000

No share options under the Pre-IPO Share Scheme were exercised during the year. No fair value of the share options granted under the Pre-IPO Share Option Scheme was estimated as no sufficient data was available to establish reasonable assumptions to derive the fair value. The Company's shares commenced trading on GEM on March 7, 2002. From March 7, 2002 to the year ended March 31, 2002, there were only about 16 trading days, and in the opinion of the directors, this sample size was not large enough to estimate the volatility of the shares for the assumptions of the fair value calculation.

SHARE OPTION SCHEME

On February 1, 2002, a share option scheme was approved pursuant to a written resolution of the Company (the "Share Option Scheme"). The purpose of the Share Option Scheme is to enable the Company to grant options to selected individuals to subscribe for shares in the Company as incentives or rewards for their contributions to the Group. The Board may, as 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 for a consideration of HK\$1 each lot of share option granted. The Share Option Scheme will remain valid for a period of 10 years commencing on February 1, 2002.

The total number of shares of the Company available for issue under the Share Option Scheme is 46,000,000 shares representing approximately 9.8% of the issued share capital of the Company as at the date of this report. The total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted to each participant or grantee (as the case may be) (including both exercised and outstanding options) in any 12-month period up to and including the date of grant must not exceed 1% of the issued share capital of the Company at the date of grant.

An option may be exercised at any time during a period to be determined and notified by the Board to each grantee. The subscription price for the shares of the Company will be a price determined by the Board and will be the highest of (i) the closing price of the shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant and (iii) the nominal value of a share.

No share options have been granted by the Company under the Share Option Scheme up to the date of this report.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURE

Save as disclosed in the directors' interest in securities and the Pre-IPO Share Option Scheme above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of 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 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2002, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance showed that, the following shareholders had an interest of 10% or more of the issued share capital of the Company:

Name of shareholders	Number of shares held	
	Direct interest	Approximate percentage of shareholding
Great Fair Limited ("Great Fair") (note 1)	89,436,440	19.07%
Wealth Way Limited ("Wealth Way") (note 1)	111,365,201	23.74%
Sichuan Research Institute of New Medicine ("SRI") (note 2)	52,000,000	11.09%
Technique Enterprises Limited (note 3)	49,019,607	10.45%

Note:

- Great Fair and Wealth Way are wholly owned by Leung Oi Wah, the Vice-chairlady and the founder of the Group.
- SRI is beneficially owned by Gao Junqing, Lin Daquan, Gao Yang, Yang Cifen, Wang 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.
- Technique Enterprises Limited is wholly owned by Cheung Chui who is an independent third party.

DONATION

During the year, the Group made donation amounting to HK\$63,000.

CONTINUING CONNECTED TRANSACTIONS

Related party transactions entered by the Group during the year ended March 31, 2002 are disclosed in note 34 to the financial statements.

During the year, the Group entered into the following continuing connected transactions under the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"):

- (1) Pursuant to a tenancy agreement dated October 10, 2000, entered into between Fairco Investments Limited as lessor and a subsidiary of the Group as lessee, the Group agreed to lease office premises in Hunghom, from the lessor for a term of two years and four months commencing from October 1, 2000 to January 31, 2003 at a monthly rental HK\$75,000 (inclusive of rates, government rent and management fee). The property is occupied by the Group as office.

The lessor is a subsidiary of Great Fair, which holds 95% of the issued share capital of the lessor. Great Fair is one of the initial management shareholders and for the purpose of the GEM Listing Rules, therefore, a connected person of the Company.

The tenancy agreement was negotiated at arm's length between the Group and the lessor. The Directors are of the opinion that the terms of the agreement are on normal commercial terms, being conducted in the usual and ordinary course of business and are fair and reasonable so far as the shareholders are concerned.

LCH (Asia -Pacific) Surveyors Limited, a firm of independent property valuer, has confirmed in the Prospectus that the rental payable under the tenancy agreement is fair and reasonable and the terms of the tenancy agreement are at arm's length and on normal commercial terms.

This transaction is exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 20.25(3) of the GEM Listing Rules as the annual total consideration of the transaction is less than HK\$1 million.

- (2) The Group entered into a number of continuing connected transactions with the SRI. Details of these continuing connected transactions are set out in the paragraph headed "Non-exempt continuing connected transactions" under the section headed "Business" in the Prospectus.

The independent non-executive directors of the Company have reviewed these transactions and confirmed that these transactions have been entered into:

- (a) in the ordinary usual course of business of the Company;
- (b) on normal commercial terms;
- (c) in accordance with the relevant agreements governing these transactions; and
- (d) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

COMPETING INTEREST

During the year and up to the date of this report, the SRI is considered to be a substantial shareholder and has interest in a business which might potentially compete with the business of the Group.

The SRI is a research-oriented organisation located in Sichuan, the PRC and is principally engaged in (1) the provision of research and development services on Chinese medicine and health supplement products; and (2) the research and development and distribution of medical equipment. In order to develop the Group's products continuously, the Group has been engaging the SRI to support its research and development projects since October 1994. The provision of research and development services on Chinese medicine and health supplement products by the SRI may compete with the business of the Group. Therefore, pursuant to a research and management agreement dated November 2, 2000 as revised and supplemented by a supplemental agreement dated January 11, 2002 entered into with the SRI, the SRI agreed to work exclusively for the Group in respect of research and development services for Chinese medicine and health supplement products and the SRI will not develop its own Chinese medicine and health supplement products or take up any other external jobs or assignments without obtaining prior approval from the Company. The Group also has the first right of refusal for the purchase of the intellectual property rights of any new Chinese medicine and health supplement products developed by SRI on SRI's own funding. Based on the above, the directors consider that so far as the Group is concerned, competition from the SRI is remote and unlikely.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in any business which competes or may compete with the business of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest suppliers of the Group accounted for approximately 100% of the Group's total purchases and the largest supplier of the Group accounted for approximately 51.2% of the Group's total purchases.

Aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's sales.

Save as disclosed above, none of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors own more than 5% of the issued share capital of the Company) had any interest in the Group's major suppliers or customers noted above for the financial year ended March 31, 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

BOARD PRACTICES AND PROCEDURES

The Group has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the financial year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

An audit committee was established on February 1, 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules). The audit committee has three members comprising two non-executive directors, namely, Junya Kabeya and Wan Choi Ha and the Chairman of the Group, Wong Cheah Foo.

Since its establishment, the audit committee had met once, reviewing the Company's reports and accounts, and providing advice and recommendations to the Board of Directors.

SPONSOR'S INTERESTS

Kingston Corporate Finance Limited ("Kingston") nor its directors, employees or associates (as referred to Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the Company or any other company in the Group (including options or right to subscribe for such securities) as at March 31, 2002.

Pursuant to the agreement dated March 7, 2002 entered into between the Company and Kingston, Kingston will act as the Company's continuing sponsor for a period commencing from March 7, 2002 to March 31, 2004.

AUDITORS

A resolution will be submitted to the annual meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By order of the Board

Wong Cheah Foo

Chairman

Hong Kong

June 19, 2002

德勤·關黃陳方會計師行

Certified Public Accountants
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111 Connaught Road Central
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香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF NEW CHINESE MEDICINE HOLDINGS LIMITED

新醫藥控股有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at March 31, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

June 19, 2002

Consolidated Income Statement

(for the year ended March 31, 2002)

	Notes	2002 HK\$	2001 HK\$
Turnover	3	26,595,352	34,096,317
Cost of sales		(11,329,901)	(16,187,655)
Gross profit		15,265,451	17,908,662
Other revenue	5	1,766,982	1,725,501
Medicine research and development costs		(1,269,783)	(1,396,027)
Administrative expenses		(11,090,432)	(9,711,168)
Website development costs		(860,877)	(1,150,487)
Profit from operations	6	3,811,341	7,376,481
Finance costs	7	(1,401,250)	(1,158,776)
Share of results of a jointly controlled entity		14,414	–
Profit before taxation		2,424,505	6,217,705
Taxation	9	(269,766)	(1,107,734)
Net profit for the year		2,154,739	5,109,971
Dividend	10	8,000,000	–
Earnings per share	11		
– Basic		0.532 cent	1.277 cents
– Diluted		0.530 cent	N/A

There were no recognised gains or losses other than the net profit for the year.

Consolidated Balance Sheet

(At March 31, 2002)

	Notes	2002 HK\$	2001 HK\$
Non-current Assets			
Property, plant and equipment	12	1,020,418	1,160,512
Interest in a jointly controlled entity	14	14,415	–
Deposit for formation of a new company		1,120,670	–
Deposit for management contract of retail outlet		200,000	–
Loan receivable	15	–	7,431,910
		2,355,503	8,592,422
Current Assets			
Inventories	16	381,905	180,075
Amount due from a director	17	344,431	29,941,462
Debtors, deposits and prepayments	18	15,978,240	5,620,078
Loan receivable	15	–	293,192
Pledged bank deposit	19	–	100,000
Tax recoverable		497,231	–
Bank balances and cash		22,740,022	112,751
		39,941,829	36,247,558
Current Liabilities			
Creditors and accrued charges	20	3,992,540	4,915,431
Tax payable		–	3,707,734
Convertible loan	21	–	10,000,000
Bank borrowings	22	60,742	605,846
		4,053,282	19,229,011
Net Current Assets		35,888,547	17,018,547
Total Assets less Current Liabilities		38,244,050	25,610,969
Non-current Liabilities			
Bank borrowings	22	–	7,431,910
Net Assets		38,244,050	18,179,059
Capital and Reserves			
Share capital	24	46,900,000	31
Reserves	26	(8,655,950)	18,179,028
		38,244,050	18,179,059

The financial statements on pages 26 to 51 were approved and authorised for issue by the Board of Directors on June 19, 2002 and signed on its behalf by:

Wong Cheah Foo
DIRECTOR

Leung Oi Wah
DIRECTOR

Balance Sheet

(At March 31, 2002)

	Notes	2002 HK\$	2001 HK\$
Non-current Asset			
Investments in subsidiaries	13	40,000,000	–
Current Assets			
Deposits and prepayments	18	2,222,586	–
Amounts due from subsidiaries	13	10,375,812	–
Bank balances		15,920,196	1
		28,518,594	1
Current Liability			
Accrued charges	20	2,019,038	–
Net current assets			
		26,499,556	1
Total Assets less Current Liabilities			
		66,499,556	1
Capital and Reserves			
Share capital	24	46,900,000	1
Reserves	26	19,599,556	–
		66,499,556	1

Wong Cheah Foo
DIRECTOR

Leung Oi Wah
DIRECTOR

Consolidated Cash Flow Statement

(for the year ended March 31, 2002)

	Notes	2002 HK\$	2001 HK\$
Net cash inflow (outflow) from operating activities	27	20,923,433	(9,269,621)
Returns on investments and servicing of finance			
Interest received		1,276,295	1,725,501
Interest paid		(1,401,250)	(1,158,776)
Dividends paid		(8,000,000)	–
Interest income from subscription monies		146,256	–
Net cash (outflow) inflow from returns on investments and servicing of finance		(7,978,699)	566,725
Taxation			
Hong Kong Profits Tax paid		(4,474,731)	–
Investing activities			
Purchase of property, plant and equipment		(217,370)	(1,093,750)
Investment in a jointly controlled entity		(1)	–
Decrease (increase) in pledged bank deposit		100,000	(100,000)
Increase in deposits paid		(1,320,670)	–
Repayment of loan from a debtor		–	73,203
Net cash outflow from investing activities		(1,438,041)	(1,120,547)
Net cash inflow (outflow) before financing		7,031,962	(9,823,443)
Financing	28		
Issue of new shares		41,400,000	–
Share issue expenses		(15,491,277)	–
Repayment of bank borrowings		–	(134,705)
Convertible loan raised		5,000,000	10,000,000
Redemption of convertible loans		(15,000,000)	–
Net cash inflow from financing		15,908,723	9,865,295
Increase in cash and cash equivalents		22,940,685	41,852
Cash and cash equivalents at beginning of the year		(261,405)	(303,257)
Cash and cash equivalents at end of the year		22,679,280	(261,405)
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		22,740,022	112,751
Bank overdrafts		(60,742)	(374,156)
		22,679,280	(261,405)

1. GENERAL

The Company was incorporated in the Cayman Islands on October 30, 2000 as an exempted company with limited liability under the Companies Law Cap. 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 35.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on August 6, 2001. The shares of the Company have been listed on the GEM of the Stock Exchange with effect from March 7, 2002. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. Details of the Group Reorganisation were set out in the prospectus dated February 25, 2002 issued by the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policy adopted is as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill (negative goodwill) represents the excess of the cost of an acquisition and the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its useful economic life.

Negative goodwill arising on acquisitions is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets/as a deduction from intangible assets.

On the disposal of an investment in a subsidiary, the attributable amount of unamortised goodwill (negative goodwill) is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Jointly controlled entity

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity on acquisition in so far as it has not already been written off less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

The Company's investment in jointly controlled entity is stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and, equipment are stated at cost less depreciation and amortisation and accumulated impairment losses.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property, plant and equipment – *continued*

Depreciation and amortisation are provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	20%
Computer equipment and system	30%
Furniture, fixture and equipment	20%
Motor vehicles	30%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Medicine research and development costs

Expenditure incurred on medicine research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's medicine development is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Website development costs

Costs incurred in the development of new website and enhancement of existing website, including costs incurred in the development and enhancement of contents, are charged to the income statement as incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

Inventories held for resale are stated at the lower of cost and net realisable value. Cost, which comprise all costs of purchase is calculated using the first-in, first-out method.

Foreign currencies

Transactions in currencies other than Hong Kong dollar are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollar are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Leases where substantially all the risks and rewards of ownership remains with the lessors are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease terms.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's Mandatory Provident Fund Scheme.

3. TURNOVER

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

Notes to the Financial Statements

(for the year ended March 31, 2002)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The principal activities of the Group are sale of Chinese medicine through retail and E-Commerce divisions. These activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

Year ended March 31, 2002

	Retail HK\$	E-Commerce HK\$	Eliminations HK\$	Consolidated HK\$
REVENUE				
External sales	26,189,530	405,822	–	26,595,352
Inter-segment sales	26,657	–	(26,657)	–
Total revenue	26,216,187	405,822	(26,657)	26,595,352

Inter-segment sales are charged at cost.

RESULT				
Segment result	10,053,151	(8,008,792)	–	2,044,359
Interest and other income				1,766,982
Profit from operations				3,811,341
Finance costs				(1,401,250)
Share of result of a jointly controlled entity				14,414
Profit before taxation				2,424,505
Taxation				(269,766)
Net profit for the year				2,154,739

4. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued*

At March 31, 2002

BALANCE SHEET

	Retail HK\$	E-Commerce HK\$	Consolidated HK\$
ASSETS			
Segment assets	10,373,365	8,672,299	19,045,664
Interest in a jointly controlled entity			14,415
Unallocated corporate assets			23,237,253
Consolidated total assets			42,297,332
LIABILITIES			
Segment liabilities	3,232,883	759,657	3,992,540
Unallocated corporate liabilities			60,742
Consolidated total liabilities			4,053,282

OTHER INFORMATION

	Retail HK\$	E-Commerce HK\$
Capital additions	165,100	52,270
Depreciation and amortisation	95,020	262,444

Year ended March 31, 2001

	Retail HK\$	E-Commerce HK\$	Eliminations HK\$	Consolidated HK\$
REVENUE				
External sales	33,921,759	174,558	–	34,096,317
RESULT				
Segment result	12,905,720	(7,254,740)	–	5,650,980
Interest and other income				1,725,501
Profit from operations				7,376,481
Finance costs				(1,158,776)
Profit before taxation				6,217,705
Taxation				(1,107,734)
Net profit for the year				5,109,971

Notes to the Financial Statements

(for the year ended March 31, 2002)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

At March 31, 2001

BALANCE SHEET

	Retail HK\$	E-Commerce HK\$	Consolidated HK\$
ASSETS			
Segment assets	35,065,788	2,049,090	37,114,878
Unallocated corporate assets			7,725,102
Consolidated total assets			44,839,980
LIABILITIES			
Segment liabilities	3,713,272	1,576,315	5,289,587
Unallocated corporate liabilities			21,371,334
Consolidated total liabilities			26,660,921

OTHER INFORMATION

	Retail HK\$	E-Commerce HK\$
Capital additions	121,393	972,357
Depreciation and amortisation	85,384	108,958

Geographical segments

The Group's sales operation is carried out in Hong Kong.

5. OTHER REVENUE

	2002 HK\$	2001 HK\$
Other revenue comprises:		
Interest earned on amount due from a director	1,170,000	927,000
Interest earned on loan receivable	445,014	789,163
Interest earned on bank deposits	5,712	9,338
Interest earned from subscription monies	146,256	–
	1,766,982	1,725,501

6. PROFIT FROM OPERATIONS

	2002 HK\$	2001 HK\$
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
For the year	200,000	60,000
Underprovision in prior year	52,759	34,325
	252,759	94,325
Depreciation and amortisation	357,464	194,342
Operating lease rentals in respect of rented premises	900,000	900,000
Staff costs:		
Directors' emoluments (note 8)	1,971,626	827,883
Other staff costs		
– salaries and other allowances	6,810,875	7,072,737
– retirement benefit scheme contribution	278,172	101,648
	9,060,673	8,002,268

7. FINANCE COSTS

	2002 HK\$	2001 HK\$
Interest on:		
Bank loan and overdrafts wholly repayable within five years	472,141	67,147
Bank loan not wholly repayable within five years	–	789,163
Convertible loans repayable within five years	929,109	302,466
	1,401,250	1,158,776

Notes to the Financial Statements

(for the year ended March 31, 2002)

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

	2002 HK\$	2001 HK\$
Directors		
Fees	–	–
Other emoluments:		
Salaries and other benefits	1,935,626	821,883
Mandatory Provident Fund contributions	36,000	6,000
	1,971,626	827,883

No directors' emoluments were payable to independent non-executive directors in both years.

	2002 HK\$	2001 HK\$
Analysed into:		
Director A	357,000	86,936
Director B	200,000	–
Director C	935,481	608,947
Director D	479,145	132,000
	1,971,626	827,883

During the year, no emoluments were paid by the Group to these directors as an inducement to join or upon joining the Group or as compensation for loss of office and no director had waived any emolument.

Employees

Of the five highest paid individuals of the Group, three (2001: one) were directors of the Company whose emoluments are included above. The emoluments of the remaining two (2001: four) individuals were as follows:

	2002 HK\$	2001 HK\$
Salaries and other benefits	573,117	1,109,583
Mandatory Provident Fund contributions	23,000	15,400
	596,117	1,124,983

9. TAXATION

	2002 HK\$	2001 HK\$
The charge comprises:		
Hong Kong Profits Tax		
– Current year	330,200	1,107,734
– Overprovision in prior year	(60,434)	–
	269,766	1,107,734

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

No provision for deferred taxation has been made in the financial statements as there were no material timing differences arising during the year and at the balance sheet date.

10. DIVIDEND

	2002 HK\$	2001 HK\$
Dividend paid by a subsidiary to its then shareholders prior to the Group Reorganisation	8,000,000	–

The final dividend of HK0.125 cent per ordinary share amounting to HK\$586,250 has been proposed by the directors and is subject to approval by the shareholders at the forthcoming Annual General Meeting.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2002 HK\$	2001 HK\$
Earnings for the purpose of basic earnings per share		
– Net profit for the year	2,154,739	5,109,971

	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	404,726,027	400,000,000
Effect of dilutive potential shares in respect of share options	2,193,385	
Weighted average number of shares for the purpose of diluted earnings per share	406,919,412	

No diluted earnings per share is presented for 2001 as there were no dilutive potential ordinary shares in existence then.

Notes to the Financial Statements

(for the year ended March 31, 2002)

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Computer equipment and system HK\$	Furniture, fixture and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP					
COST					
At April 1, 2001	682,526	570,467	66,617	100,331	1,419,941
Additions	165,100	52,270	–	–	217,370
At March 31, 2002	847,626	622,737	66,617	100,331	1,637,311
DEPRECIATION AND AMORTISATION					
At April 1, 2001	157,670	75,282	8,920	17,557	259,429
Provided for the year	142,009	172,031	13,324	30,100	357,464
At March 31, 2002	299,679	247,313	22,244	47,657	616,893
NET BOOK VALUES					
At March 31, 2002	547,947	375,424	44,373	52,674	1,020,418
At March 31, 2001	524,856	495,185	57,697	82,774	1,160,512

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$	2001 HK\$
Investments at cost:		
Unlisted shares	40,000,000	–

Particular of the Company's subsidiaries as at March 31, 2002 are set out in note 35 to the financial statements.

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

None of the subsidiaries had any debt capital outstanding at the balance sheet date.

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2002 HK\$	2001 HK\$
Share of net assets	14,415	–

As at March 31, 2002, the Group had interest in the following jointly controlled entity:

Name of company	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group %	Principal activities
KNCM Biotech Pharma Limited	Incorporated	Hong Kong	Hong Kong	Ordinary	50	Research and development, marketing and distribution of self developed proprietary Chinese medicine, health products and herbal products

15. LOAN RECEIVABLE

	THE GROUP	
	2002 HK\$	2001 HK\$
Amount due within one year	–	293,192
Amount due after one year	–	7,431,910
	–	7,725,102

The amount in prior year represents loan receivable from an independent third party and bears interest at Hong Kong prime rate plus 0.25% per annum. The loan receivable relates to the instalment loan (see note 22) which the Company obtained on behalf of this independent third party in prior years. The full amount was settled in February 2002.

16. INVENTORIES

	THE GROUP	
	2002 HK\$	2001 HK\$
Raw materials	253,985	–
Finished goods	127,920	180,075
	381,905	180,075

Notes to the Financial Statements

(for the year ended March 31, 2002)

17. AMOUNT DUE FROM A DIRECTOR

Particulars of the amount due from a director are as follows:

	Balance at 3.31.2002 HK\$	THE GROUP Balance at 4.1.2001 HK\$	Maximum amount during the year HK\$
Director			
Leung Oi Wah	344,431	29,941,462	29,941,462

For each of the two years ended March 31, 2002, the amount due from a director is unsecured, bears interest at 5.45% per annum (2001: 4.13% per annum) and repayable on demand. The balance as at March 31, 2002 represents interest receivable in respect of amount due from the directors during the year.

18. DEBTORS, DEPOSITS AND PREPAYMENTS

The credit terms of the trade debtors were cash on delivery. Accordingly, the Group did not have trade debtors at the balance sheet date:

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Trade debtors	–	–	–	–
Prepayment and deposits				
– prepayments	6,502,854	3,765,450	2,222,586	–
– deposits (note)	8,480,000	–	–	–
– deposit paid to suppliers	538,806	–	–	–
	15,521,660	3,765,450	2,222,586	–
Others	456,580	1,854,628	–	–
	15,978,240	5,620,078	2,222,586	–

Note: Deposits were paid to business agents for introducing strategic partners and/or customers to the Group.

19. PLEDGED BANK DEPOSIT

In 2001, the Group had pledged its fixed deposit of HK\$100,000 to a bank to secure general banking facilities granted to the Group. The deposit was subsequently released during 2002.

20. CREDITORS AND ACCRUED CHARGES

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

The following is aged analysis of accounts payable at the balance sheet date:

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
0 to 30 days	157,868	100,461	-	-
31 to 60 days	-	146,224	-	-
61 to 90 days	-	150,000	-	-
> 90 days	35,435	30,940	-	-
Trade creditors	193,303	427,625	-	-
Accrued charges	3,799,237	4,453,194	2,019,038	-
Other payables	-	34,612	-	-
	3,992,540	4,915,431	2,019,038	-

21. CONVERTIBLE LOAN

The convertible loan represented the convertible note instrument which the Group had entered into on November 14, 2000, with Korsair I, an independent investor, pursuant to which the Group issued convertible notes in a principal sum of HK\$10,000,000 to Korsair I at an interest rate of 8% per annum. The conversion period was within 10 business days from the date of expiry of a 6 month period after the listing date with conversion price of 80% of the offer price. The conversion right granted by the Group to Korsair I was cancelled in December 2001 and the Group redeemed the outstanding amount in 2002.

Notes to the Financial Statements

(for the year ended March 31, 2002)

22. BANK BORROWINGS

	THE GROUP	
	2002 HK\$	2001 HK\$
Bank overdraft – secured	–	374,156
Bank overdraft – unsecured	60,742	–
Bank loan (Note)	–	7,663,600
	60,742	8,037,756
The maturity of the bank borrowings is as follows:		
On demand or within one year	60,742	605,846
More than one year, but not exceeding two years	–	214,167
More than two years, but not exceeding five years	–	632,746
More than five years	–	6,584,997
	60,742	8,037,756
Less: Amount due within one year shown under current liabilities	(60,742)	(605,846)
	–	7,431,910

Note: During the year 2000, a subsidiary, Wondergold Limited, obtained an instalment loan of HK\$7,900,000 from a bank on behalf of an independent third party which is secured by a leasehold property situated in Hong Kong owned by the same independent third party. The loan proceed was advanced to the independent third party on the same terms as those of obtained by Wondergold Limited from the bank. The full amount of the bank loan was settled through that independent third party in February 2002.

23. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the major components of unprovided deferred tax liability (asset) are as follows:

	THE GROUP	
	2002 HK\$	2001 HK\$
Tax effect of timing difference because of:		
Excess of tax allowances over depreciation	53,669	86,025
Taxation losses	(53,449)	(189,384)
	220	(103,359)

The amount of unprovided deferred tax charge (credit) of the Group for the year are as follows:

	THE GROUP	
	2002 HK\$	2001 HK\$
(Shortfall) excess of tax allowances over depreciation	(32,356)	86,746
Taxation losses utilised (arising)	135,935	(189,384)
	103,579	(102,638)

24. SHARE CAPITAL

	Number of shares	Value HK\$
Ordinary share of HK\$0.1 each		
Authorised:		
Upon incorporation of the Company (note (a))	3,900,000	390,000
Increase in authorised share capital (note (b))	1,996,100,000	199,610,000
At March 31, 2002 and 2001	2,000,000,000	200,000,000
Issued and fully paid:		
At April 1, 2000 (note (f))		10,004
Elimination of share capital of subsidiaries as a result of Group Reorganisation		(10,004)
Issue of new shares (note (g))		31
Balance at March 31, 2001		31
Issue of new shares upon Group Reorganisation (note (h))		1,529
Elimination of share capital upon Group Reorganisation (note (i))		(1,560)
Allotted and issued at date of incorporation (note (a))	1	1
Issue of shares upon the Group Reorganisation (note (c))	399,999,999	39,999,999
Issue of shares through placing and public offer (notes (d) & (e))	60,000,000	6,000,000
Placing of shares to investors through exercise of over-allotment option (notes (d) & (e))	9,000,000	900,000
At March 31, 2002	469,000,000	46,900,000

Notes:

The following changes in the share capital of the Company took place during the period from October 30, 2000 (date of incorporation) to March 31, 2002.

- (a) The Company was incorporated on October 30, 2000 with an authorised share capital of HK\$390,000 divided into 3,900,000 ordinary shares of HK\$0.1 each. One fully paid share was allotted and issued to the subscriber for cash.
- (b) Pursuant to the written resolutions of the sole shareholder of the Company passed on November 24, 2000, the authorised share capital of the Company was increased from HK\$390,000 to HK\$200,000,000 by the creation of additional 1,996,100,000 ordinary shares of HK\$0.1 each.
- (c) Pursuant to the written resolutions of the Directors of the Company on August 6, 2001, 399,999,999 ordinary shares were allotted, issued and credited as fully paid at par as consideration for the acquisition by the Company of the entire issued share capital of New Chinese Medicine (BVI) Limited ("NCM (BVI)").

24. SHARE CAPITAL – continued

- (d) Pursuant to another written resolution of all shareholders of the Company passed on February 1, 2002, the placing and public offer of an aggregate of 60,000,000 ordinary shares (subject to over-allotment option) of HK\$0.1 each were approved and the directors were authorised to allot and issue the new shares pursuant thereto.
- (e) On March 7, 2002, 69,000,000 ordinary shares of HK\$0.1 each were issued at HK\$0.6 per ordinary shares for cash through an initial public offer by way of placing and public offer. The Group intended to use the net proceeds from the shares issued mainly for expansion and as general working capital of the Group.

All the above shares issued by the Company rank pari passu with the then existing shares in all respects.

The following represents changes in the share capital of the companies comprising the Group prior to the incorporation of the Company.

- (f) The share capital of HK\$10,004 represented 10,004 ordinary shares of HK\$1 each of the companies comprising the Group at April 1, 2000. These shares were subsequently eliminated as a result of Group Reorganisation.
- (g) The share capital of HK\$31 at March 31, 2001 shown in the consolidated balance sheet represented 4 shares of US\$1 each of the issued share capital of NCM (BVI), the then holding company of the subsidiaries acquired by the Company pursuant to the Group Reorganisation.
- (h) The share capital of HK\$1,529 represented 196 shares of US\$1 each issued by NCM (BVI).
- (i) This represented elimination of share capital of NCM (BVI) upon reorganisation.

25. SHARE OPTION SCHEME

On February 1, 2002, the Company adopted a share option scheme (the "Pre-IPO Share Option Scheme"), under which certain directors and full-time employees 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 February 18, 2002. At March 31, 2002, the outstanding options granted under the Pre-IPO Share Option Scheme and their exercisable periods are as follows:

Option scheme	No. of options at 2.18.2002 and 3.31.2002	Exercisable period
Pre-IPO Share Option Scheme	2,400,000	March 7, 2002 – February 17, 2005
Pre-IPO Share Option Scheme	7,700,000	September 7, 2002 – February 17, 2005
Pre-IPO Share Option Scheme	7,700,000	March 7, 2003 – February 17, 2005
Pre-IPO Share Option Scheme	7,700,000	March 7, 2004 – February 17, 2005
	25,500,000	

26. RESERVES

	Share premium HK\$	Special reserve HK\$	Accumulated profits HK\$	Total HK\$
THE GROUP				
At April 1, 2000	–	–	13,069,057	13,069,057
Profit for the year	–	–	5,109,971	5,109,971
<hr/>				
At March 31, 2001	–	–	18,179,028	18,179,028
Special reserve arising from the Group Reorganisation	–	(39,998,440)	–	(39,998,440)
Premium arising on initial public offer	34,500,000	–	–	34,500,000
Share issue expenses	(15,491,277)	–	–	(15,491,277)
Profit for the year	–	–	2,154,739	2,154,739
Dividend	–	–	(8,000,000)	(8,000,000)
<hr/>				
At March 31, 2002	19,008,723	(39,998,440)	12,333,767	(8,655,950)
<hr/>				
THE COMPANY				
At date of incorporation and at March 31, 2001	–	–	–	–
Premium arising from initial public offer	34,500,000	–	–	34,500,000
Share issue expenses	(15,491,277)	–	–	(15,491,277)
Profit for the year	–	–	590,833	590,833
<hr/>				
At March 31, 2002	19,008,723	–	590,833	19,599,556

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 2002.

The Company's reserves available for distribution represent the share premium, special reserve and accumulated profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law of Cayman Islands. In the opinion of the directors, as at March 31, 2002, the Company's reserves available for distribution comprised of share premium and accumulated profits amounted to HK\$19,599,556 (2001:nil).

Notes to the Financial Statements

(for the year ended March 31, 2002)

27. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	2002 HK\$	2001 HK\$
Profit before taxation	2,424,505	6,217,705
Share of results of a jointly controlled entity	(14,414)	–
Interest expenses	1,401,250	1,158,776
Interest income	(1,766,982)	(1,725,501)
Depreciation of property, plant and equipment	357,464	194,342
(Increase) decrease in inventories	(201,830)	144,451
Increase in debtors, deposits and prepayments	(9,913,148)	(5,085,660)
Decrease (increase) in amount due from a director	29,559,479	(11,523,146)
(Decrease) increase in creditors and accrued charges	(922,891)	1,349,412
Net cash inflow (outflow) from operating activities	20,923,433	(9,269,621)

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank borrowings HK\$	Convertible loans HK\$	Share premium HK\$	Share capital HK\$
At April 1, 2000	7,798,305	–	–	10,004
Repayment during the year	(134,705)	–	–	–
Convertible loan raised (note 21)	–	10,000,000	–	–
Elimination of share capital of subsidiaries as a result of Group Reorganisation	–	–	–	(10,004)
Issue of new shares	–	–	–	31
Balance at March 31, 2001	7,663,600	10,000,000	–	31
Repayment during the year	(7,663,600)	–	–	–
Issue of new shares upon Group Reorganisation	–	–	–	1,529
Elimination of share capital upon Group Reorganisation	–	–	–	(1,560)
Issue of new shares at nil consideration	–	–	–	40,000,000
Issue of new shares upon listing	–	–	–	6,900,000
Share issued at premium	–	–	34,500,000	–
Shares issue expenses	–	–	(15,491,277)	–
Convertible loan raised (note)	–	5,000,000	–	–
Redemption of convertible loans	–	(15,000,000)	–	–
	–	–	19,008,723	46,900,000

Note: A convertible loan with a note instrument dated August 22, 2001 (“Phoenix Notes”) made between certain note subscribers and the Group was created pursuant whereby the Group issued to these subscribers HK\$5,000,000 of convertible notes carrying the rights to convert the principal amount of the convertible loan into shares of the Company (the “Phoenix Notes Subscription Agreement”). Pursuant to a supplemental agreement to the Phoenix Notes Subscription Agreement dated January 24, 2002, the Group agreed to redeem the convertible loan three days after the Listing Date.

29. MAJOR NON-CASH TRANSACTIONS

During the year,

- (i) the shares issued upon Group Reorgansiation amounting to HK\$1,529 was debited to the current account with Ms. Leung Oi Wah, a director of the Company.
- (ii) the Company allotted and issued 400,000,000 ordinary shares at HK\$0.1 each as consideration for the acquisition by the Company of the entire issued share capital of NCM (BVI).

A subsidiary of the Company obtained an instalment loan from a bank on behalf of an independent third party during the year 2000. The loan receivable and bank instalment loan outstanding as at March 31, 2001 amounted to HK\$7,725,102 and HK\$7,663,600 respectively. During the year, the independent third party repaid the bank instalment loan directly to the bank and the balance of HK\$61,502 was debited to the director's current account.

30. WEBSITE DEVELOPMENT COMMITMENT

	THE GROUP	
	2002 HK\$	2001 HK\$
Commitment contracted but not provided for with respect to website development	300,000	400,000

31. OPERATING LEASE COMMITMENT

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease in respect of rented premises which fall due as follows:

	THE GROUP	
	2002 HK\$	2001 HK\$
Within one year	750,000	900,000
In the second to fifth year inclusive	-	750,000
	750,000	1,650,000

Operating lease commitment represent rentals by the Group for its retail and office properties. Leases are negotiated for an average term of approximately two years.

Notes to the Financial Statements

(for the year ended March 31, 2002)

32. CAPITAL COMMITMENTS

The Group established a joint venture with a third party during the year and initially contributed HK\$1 as capital. The Group's share of the commitment to inject additional share capital into the joint venture are as follows:

	THE GROUP	
	2002 HK\$	2001 HK\$
Contracted but not provided for	499,999	–

33. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme.

The retirement benefits cost charged to income statement represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

34. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

Name of related party	Nature of transaction	Note	2002 HK\$	2001 HK\$
Fairco Investments Limited	Rental paid	1, 2	900,000	900,000
Ms. Leung Oi Wah	Interest income	3	1,170,000	927,000
Sichuan Institute of New Medicine ("SRI")	Medicine research and development costs	4	1,019,783	1,396,027
Open Creative Limited	Website development costs	1, 5	100,000	900,000

Note:

- (1) The transaction was determined based on the terms agreed by the companies concerned.
- (2) The director, Mr. Wong Cheah Foo, has a beneficial interest in this company.
- (3) Interest income for the year ended March 31, 2002 was determined based on interest rate of 5.45% (2001: 4.13%) per annum respectively on balance with Ms. Leung Oi Wah, a director of the Company.
- (4) SRI is a substantial shareholder of the Company.
- (5) The director, Mr. Chan Wai Ming, Billy was also a director of this company up to July 28, 2000. Open Creative Limited entered into a contract with New Chinese Medicine (HK) Limited for provision of website development services and support thereof at a fee of HK\$1,300,000.

35. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at March 31, 2002 are as follows:

Name of subsidiary	Place of incorporation/ operation	Class of share held	Issued and fully paid up capital	Proportion of nominal value of issued capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
New Chinese Medicine (BVI) Limited	British Virgin Islands	Ordinary	US\$200	100	–	Investment holding
New Chinese Medicine Limited	Hong Kong	Ordinary	HK\$10,000	–	100	Investment holding
New Chinese Medicine (Website) Limited	Commonwealth of the Northern Mariana Islands	Ordinary	US\$1,000	–	100	Owner of the registered domain name of www.newchinesemedic.com
New Chinese Medicine (HK) Limited	Hong Kong	Ordinary	HK\$10,000	–	100	Internet based medical treatment and retailing of modern Chinese medicines
Wondergold Limited	Hong Kong	Ordinary	HK\$10,000	–	100	Retailing of pharmaceutical products

Financial Summary

	Year ended March 31,		2002 HK\$
	2000 HK\$	2001 HK\$	
Results			
Turnover	37,196,115	34,096,317	26,595,352
Profit from ordinary activities before taxation	16,905,040	6,217,705	2,424,505
Taxation	(2,600,000)	(1,107,734)	(269,766)
Profit attributable to shareholders	14,305,040	5,109,971	2,154,739

	At March 31,		2002 HK\$
	2000 HK\$	2001 HK\$	
Assets and liabilities			
Total assets	27,395,308	44,839,980	42,297,332
Total liabilities	(14,316,251)	(26,660,921)	(4,053,282)
Shareholders' funds	13,079,057	18,179,059	38,244,050

Note: Pursuant to a group reorganisation to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Growth Enterprises Market ("GEM") of the Stock Exchange of Hong Kong Limited, the Company became the holding company of the Group on August 6, 2001. The shares of the Company have been listed on the GEM with effect from March 7, 2002. The Group resulting from the Group reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. The results for the two years ended March 31, 2000 and 2001 have been extracted from the Company's prospectus dated February 25, 2002.

NOTICE IS HEREBY GIVEN THAT the 2002 Annual General Meeting of New Chinese Medicine Holdings Limited (the “Company”) will be held at Meeting Room 409, Hong Kong Convention and Exhibition Centre, 1 Harbour Road, Wanchai, Hong Kong on July 24, 2002 (Wednesday) at 10 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company and the reports of the directors and auditors for the year ended March 31, 2002.
2. To declare a final dividend for the year ended March 31, 2002.
3. To re-elect the retiring directors and to authorise the Board of Directors to fix the directors’ remuneration.
4. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.
5. As special business, to consider and if thought fit, pass the following resolutions as Ordinary Resolutions:

A. “THAT:

- (a) subject to paragraph A(b) below, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (as amended from time to time) or of any other stock exchange, be and is hereby generally and unconditionally approved and authorised;
- (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph A(a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the approval pursuant to paragraph A(a) shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

B. “THAT

- (a) subject to paragraph B(b) below, a general mandate be and is hereby unconditionally given to the Directors to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with the new shares in the capital of the Company or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;
- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph B(a) above during the Relevant Period, otherwise

Notice of Annual General Meeting

than pursuant to the following, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly:

- (i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or stock exchange in, or in any territory applicable to the Company);
 - (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company and approved by the Stock Exchange;
 - (iii) any issue of shares in the Company upon the exercise of subscription rights attaching to any warrants of the Company; or;
 - (iv) any scrip dividend scheme or similar arrangement implemented in accordance with the articles of association of the Company; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

C. **"THAT** conditional upon Resolutions 5A and 5B being passed, the general mandate granted to the directors of the Company pursuant to Resolution 5B to exercise the powers of the Company to allot shares in the capital of the Company be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution 5A, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

By order of the Board
Wong Cheah Foo
Chairman

Hong Kong, June 20, 2002

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited with the Company's Branch Share Registrars in Hong Kong, Standard Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.
2. The register of members of the Company will be closed from Monday, July 22, 2002 to Wednesday, July 24, 2002, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Standard Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on Friday, July 19, 2002.
3. An explanatory statement containing further details regarding the proposed Resolution 5 above will be sent to shareholders shortly together with the 2002 annual report.