



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



INTERIM REPORT 2003/04  
<http://www.newchinesemedic.com>

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

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**CONSOLIDATED INCOME STATEMENT***For the six months ended 30 September 2003*

The board of Directors (the "Board") of New Chinese Medicine Holdings Limited (the "Company") is pleased to report the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 September 2003, together with the unaudited comparative figures for the corresponding period last year as follows:

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	105	4,161	520	10,139
Cost of sales		(27)	(2,625)	(112)	(5,968)
Gross Profit		78	1,536	408	4,171
Other income		18	14	520	44
Distribution and marketing expenses		(20)	(67)	(146)	(72)
Administrative expenses		(2,766)	(3,985)	(4,138)	(8,166)
Other operating expenses		(1,159)	(365)	(2,317)	(532)
Loss from operations	4	(3,849)	(2,867)	(5,673)	(4,555)
Finance costs		(5)	–	(9)	(1)
Share of results of a jointly controlled entity		–	–	(1)	(1)
Loss before taxation		(3,854)	(2,867)	(5,683)	(4,557)
Taxation	5	–	–	–	–
Loss after taxation		(3,854)	(2,867)	(5,683)	(4,557)
Minority Interests		61	68	177	137
Loss for the period		(3,793)	(2,799)	(5,506)	(4,420)
Dividend	6	–	(586)	–	(586)
Loss per share	7				
– Basic (cent)		(0.81)	(0.60)	(1.17)	(0.94)
– Diluted (cent)		N/A	(0.57)	N/A	(0.91)



## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2003

		(Unaudited) 30 September 2003 HK\$'000	(Audited) 31 March 2003 HK\$'000
<b>Non-current Assets</b>			
Property, plant and equipment		508	712
Technical know-how		6,950	9,267
Interest in a jointly controlled entity		–	–
		<b>7,458</b>	<b>9,979</b>
<b>Current Assets</b>			
Inventories		4,718	4,756
Amounts due from directors		58	95
Debtors, deposits and prepayments	8	4,246	4,500
Tax recoverable		329	329
Bank balances and cash		624	751
		<b>9,975</b>	<b>10,431</b>
<b>Current Liabilities</b>			
Creditors and accrued charges	9	9,318	8,220
Amounts due to directors	10	2,061	842
Amounts due to related companies	10	1,470	1,146
Taxation payable		–	4
Bank overdrafts		164	84
		<b>13,013</b>	<b>10,296</b>
<b>Net Current Assets (Liabilities)</b>		<b>(3,038)</b>	<b>135</b>
<b>Total Assets less Current Liabilities</b>		<b>4,420</b>	<b>10,114</b>
<b>Minority interest</b>		<b>177</b>	<b>–</b>
		<b>4,597</b>	<b>10,114</b>
<b>Capital and Reserves</b>			
Share capital	11	46,900	46,900
Reserves		(42,303)	(36,786)
		<b>4,597</b>	<b>10,114</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY/MOVEMENT IN RESERVES

For the six months ended 30 September 2003

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 April 2002	46,900	19,009	(39,998)	–	12,333	38,244
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	–	–	–	48	–	48
Net loss for the period	–	–	–	–	(4,420)	(4,420)
Dividend paid	–	–	–	–	(586)	(586)
At 30 September 2002	46,900	19,009	(39,998)	48	7,327	33,286
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	–	–	–	55	–	55
Net loss for the period	–	–	–	–	(23,227)	(23,227)
At 31 March 2003	46,900	19,009	(39,998)	103	(15,900)	10,114
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognised in the consolidated income statement	–	–	–	(11)	–	(11)
Net loss for the period	–	–	–	–	(5,506)	(5,506)
At 30 September 2003	46,900	19,009	(39,998)	92	(21,406)	4,597



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2003

	(Unaudited)	
	Six months ended	
	30 September	
	2003	2002
	HK\$'000	HK\$'000
Net cash used in operating activities	(1,967)	(6,565)
Net cash from investing activities	394	265
Net cash from financing activities	1,366	13,731
Net (decrease) increase in cash and cash equivalents	(207)	7,431
Cash and cash equivalents at beginning of the period	667	22,679
Cash and cash equivalents at end of the period	460	30,110

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

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.

### 2. Turnover

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

### 3. Segment information

The Group's turnover for the period was derived mainly from sales operation in Hong Kong. An analysis of the Group's turnover and segment results by business segment is as follows:

*Income statement for the six months ended 30 September 2003*

	Retail HK\$'000	E-Commerce HK\$'000	Consolidated HK\$'000
REVENUE			
External sales	518	2	520
Total revenue	518	2	520
RESULT			
Segment result	(1,345)	(55)	(1,400)
Interest and other income			520
Unallocated corporate expenses			(4,793)
Loss from operations			(5,673)
Finance costs			(9)
Share of result of a jointly controlled entity			(1)
Loss before taxation			(5,683)
Taxation			-
Loss after taxation			(5,683)

Income statement for the six months ended 30 September 2002

	Retail	E-Commerce	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE				
External sales	10,042	97	–	10,139
Inter-segment sales (Note)	7	–	(7)	–
<b>Total revenue</b>	<b>10,049</b>	<b>97</b>	<b>(7)</b>	<b>10,139</b>

Note: Inter-segment sales are charged at cost.

RESULT				
Segment result	974	(324)		650
Interest and other income				44
Unallocated corporate expenses				(5,249)
Loss from operations				(4,555)
Finance costs				(1)
Share of results of a jointly controlled entity				(1)
Loss before taxation				(4,557)
Taxation				–
Loss after taxation				4,557

#### 4. Loss from operations

(Unaudited)  
Six months ended  
30 September  
2003                      2002  
HK\$'000                      HK\$'000

Profit from operations has been arrived at after charging:

Depreciation of property, plant and equipment	205	200
Amortisation of technical know-how	2,317	–

#### 5. Taxation

No provision for Hong Kong profit tax has been made in the financial statements as the Group incurred a tax loss for the period under review.

#### 6. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2003 (six months ended 30 September 2002: Nil).



## 7. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

	Three months ended		Six months ended	
	30 September		30 September	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Loss</b>				
Loss for the purpose of basic and diluted loss per share – net loss for the period	(3,793)	(2,799)	(5,506)	(4,420)
Weighted average number of shares for the purpose of loss per share	469,000,000	469,000,000	469,000,000	469,000,000
Effect of dilutive potential shares in respect of share options	N/A	18,847,826	N/A	18,108,696
Weighted average number of shares for the purpose of diluted loss per share	N/A	487,847,826	N/A	487,108,696

## 8. Debtors, deposits and prepayment

The sales to the majority of customers were with terms of cash on delivery. Other trade debtors were given the credit terms of 30 to 90 days.

The following is an aged analysis of debtors, deposits and prepayments as at 30 September 2003:

	(Unaudited) 30 September 2003 HK\$'000	(Audited) 31 March 2003 HK\$'000
0 to 30 days	–	57
31 to 60 days	–	9
61 to 90 days	–	–
> 90 days	35	–
Trade debtors	35	66
Prepayment and deposits	4,211	4,434
	4,246	4,500



**9. Creditors and accrued charges**

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

The following is an aged analysis of creditors and accrued charges as at 30 September 2003:

	(Unaudited) 30 September 2003 <i>HK\$'000</i>	(Audited) 31 March 2003 <i>HK\$'000</i>
0 to 30 days	–	48
31 to 60 days	–	1
61 to 90 days	–	24
> 90 days	75	14
Trade creditors	75	87
Accrued charges and other payables	<b>9,243</b>	8,133
	<b>9,318</b>	8,220

**10. Amounts due to directors/related companies**

The amounts are unsecured, interest-free and will not be demanded for repayment within twelve months from the balance sheet.

**11. Share capital**

	Number of shares	Value <i>HK\$'000</i>
Ordinary share of HK\$0.1 each		
Authorised:		
At 31 March 2003 and 30 September 2003	2,000,000,000	200,000
Issued and fully paid:		
At 31 March 2003 and 30 September 2003	469,000,000	46,900



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

The Group is based in Hong Kong and is 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. A substantial part of the Group's marketing and distribution business focuses on Japanese tourists traveling on packaged tours to Hong Kong that are arranged by inbound Japanese tour operators.

As disclosed in the Group's 2003 annual report and the first quarter report 2003/04, the economic downturn in Japan, and temporary loss of confidence in Chinese medicine related products among some Japanese generated by bad publicity linked to a number of death and illness incidents in Japan caused by the use of some imported weight-loss products from China, the outbreak of war and the outbreak of severe acute respiratory syndromes ("SARS"), has led to a drastic fall in the number of Japanese tourists visiting Hong Kong. These events in turn have had adverse impact on the Group's turnover for the financial year ended 31 March 2003, for the three months ending 30 June 2003 and for the six months ending 30 September 2003.

### Prospects

Although the U.S. government declared that the Iraq war was over on 1 May 2003, it was followed by the outbreak of SARS which has more profound social and economic impact to Hong Kong, especially in the sectors of tourism, air transportation, retailing and catering industries. The Group had made an announcement on the GEM website on 24 June 2003 pursuant to paragraph 17.10 of the GEM Listing Rules of the Stock Exchange to warn the Company's shareholders and public investors to exercise caution when dealing in the Company's shares.

The Board has responded to the abrupt disruption to its business by controlling cost on expenditures such as reducing the staff cost and enhancing the Group's distribution activities on the other, although such measures may not immediately become apparent in the short term.

As the World Health Organization ("WHO") had withdrawn its travel advisory against non-essential travel to Hong Kong. In view that Hong Kong has been removed from the list of areas with local transmission of SARS, the Board expects that the Hong Kong tourism industry will revive soon in the coming months. The Company is also currently exploring new sales channels such as arrangement with Japanese tour groups to distribute our products on their tour buses traveling in Hong Kong and planning to launch new medicine and health supplement products as to stimulate more revenue to the Group in future. However, it is not possible to foresee the development of the outbreak of SARS and how long the outbreak of SARS will disrupt the Company's operations.

The Group is well poised to take advantage of China's entry to the World Trade Organization to expand business. The Group is also planning to explore other potential markets to reduce reliance currently placed on the Hong Kong tourism market. In view of the huge market potential, the Group is currently seeking suitable PRC business partners or investors to develop the PRC domestic Chinese medicine market.

### Financial review

For the six months ended 30 September 2003, the Group recorded a turnover of about HK\$520,000. The Group's retail outlet in Hong Kong was closed from April 2003 to middle of July 2003 following the outbreak of SARS. Comparing with same period last year, about 96% of the Group's turnover was contributed by the Group's retail outlet in Hong Kong in same period last year. About 52% of the Group's turnover was contributed by our two newly launched Saussurea series products, YUKINOBI (雪之美) and YUKIJOBI (雪淨美) in February 2003, all over Hong Kong through Watsons, a large drug store chain. The economic downturn in Japan, and the temporary loss of confidence in Chinese medicine related products among some Japanese generated by bad publicity linked to a number of death and illness incidents in Japan caused by the use of some imported weight-loss products from China, the declaration of war on Iraq by the U.S. government on 20 March 2003 and the general concern of the fatal disease – SARS that was first found in Hong Kong on 10 March 2003 were the major factors causing both the number of Japanese tourists and the average spending per customer to drop. Japanese tourists coming to Hong Kong has shrunk significantly since mid-March 2003.

In line with the decrease of the sales turnover, the gross profit of the Group for the period also decreased to about HK\$408,000, representing a decrease of about 90% compared to same period last year. However, the gross profit margin increased to about 78% from 41% in same period last year. The increase of gross profit margin mainly caused by the sales of two newly launched Saussurea series products, which provide huge gross profit margins.

Loss attributable to the shareholders for the period amounted to approximately HK\$5,506,000.

### Liquidity, financial resources and capital resources

The Group's primary sources of funds were cash provided by the operating activities and balance of cash proceeds from the issue of new shares pursuant to the listing exercise of the Company in March 2002. As at 30 September 2003, the Group had total assets of about HK\$17.4 million (31 March 2003: HK\$20.4 million) which were financed by current liabilities of HK\$13.0 million (31 March 2003: HK\$10.3 million) and shareholders' funds of about HK\$4.6 million (31 March 2003: HK\$10.1 million). The current assets amounted to about HK\$10.0 million (31 March 2003: HK\$10.4 million). As at 30 September 2003, the Group had no bank borrowings and had no long-term debt.

### Gearing ratio

The Group did not have any bank borrowing as at 30 September 2003 except for the short term bank overdraft and the Group had a net cash position. In this regard, the Group's gearing ratio is 3.57% (31 March 2003: 0.82%), defined as the ratio between total borrowing and shareholders' funds.

**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.

**Funding and treasury policy**

The Group adopts a prudent funding and treasury policy with regard to its overall business operations and foreign currencies receipts are converted into Hong Kong dollars and banked it at the next banking day to minimize foreign exchange risks.

**Charges on group assets**

As at 30 September 2003, none of the Group's assets was pledged as security for liabilities (as at 31 March 2003: Nil).

**Material acquisitions and disposals of subsidiaries and affiliated companies**

In June 2003, the Group entered into an agreement with an independent third party to acquire the medicine formulae of five health supplement products ("Acquisition"). The Acquisition was subsequently terminated in August 2003.

**Contingent liabilities**

As at 30 September 2003, the Group had no contingent liabilities (as at 31 March 2003: Nil).

**Employees and remuneration policies**

As at 30 September 2003, the Group employed a total of 15 staff. Remuneration is determined by reference to market terms, the performance, qualifications and experience of each individual employee. Discretionary bonus based on individual performance and 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.

## COMPARISON OF BUSINESS OBJECTIVE WITH THE ACTUAL BUSINESS PROGRESS

Set out below is a comparison between the Group's actual business progress up to 30 September 2003 and its business objectives as stated in the prospectus of the Company dated 25 February 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 projects to enhance the Group's 14 Chinese medicine products, to develop a Chinese medicine product for menopause. Finished the formulation and literature research of it. Suspended development a Chinese medicine product for allergic rhinitis.

Launch new Chinese medicine products

Delayed as the research and development has not yet finished.

##### *Research and development on health supplement products*

Conduct research and development projects

Research and development on a new health supplement product line, the Saussurea (天山雪蓮) series, has finished. The Saussurea (天山雪蓮) series consists of 4 products which are indicated for regulating menstruation, pelvic inflammation, rheumatic arthritis and anti-ageing. 2 of the Saussurea products had launched over Hong Kong in February, 2003. The remaining 2 products are ready for mass production.

Research and development of 8 health supplement products for the Japanese local market had finished. These 8 products are intended for those affected by diabetes, hyperlipidemia, hypertension, obesity, pollinosis, constipation and strengthening the liver and stomach. Safety tests on these 8 products have been finished in Japan Food Analysis Center which is approval recommended by Ministry of Health, Labour and Welfare in Japan.



### Proposed project progress

Launch health supplement products

### ***Joint research and development***

Discuss with Hong Kong/overseas research institutes

Enter into joint research cooperative arrangement

Conduct research and development projects

### Actual project progress

Substantial research and development on a new health supplement product by using natural cordyceps as main ingredient, which is intended for anti-ageing, has finished.

4 health supplement products were launched and distributed on Japanese tour buses travelling in Hong Kong.

In February 2003, 2 of the Saussurea (天山雪蓮) series products, YUKINOBI (雪之美) and YUKIJOBI (雪淨美), had launched all over Hong Kong through Watsons, a large drug store chains. The advertising campaign is started in February 2003.

Delayed because the Group wanted to focus on finalising its current negotiations with some well established research institute in the PRC before commencing new discussions with Hong Kong/overseas research institutes.

Entered into a joint research agreement with Chengdu University of Traditional Chinese Medicine with a view of forming a research and development platform in Chengdu to research, develop and market modernised Chinese medicine and health supplement products to international markets.

The Group is reviewing a proposal of developing a new health supplement product series targeting children and teenagers with Chengdu University of Traditional Chinese Medicine. However, the project had temporary suspended due to the outbreak of SARS.

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

### Proposed project progress

### Actual project progress

#### ***PRC distribution outlets***

Establish distribution outlets in Beijing and Hangzhou

The Hangzhou outlet was soft opened in October 2002 but closed in February 2003 due to unsatisfactory results and the outbreak of war. Entered into a letter of intent with the Chinese Academy of Traditional Chinese Medicine ("CATCM") in September 2002 with respect to the opening of a distribution outlet in Beijing. However, since the outbreak of war and SARS, the opening of the Beijing outlet will be postponed.

Market the PRC distribution outlets to tour agencies

Commenced but finally terminated to market the Hangzhou outlet to tour agencies due to unsatisfactory results and outbreak of war in March 2003.

Identify site location for the outlet in Xian

The Group is still evaluating different site options.

#### ***E-customer referral programme***

Establish overseas membership centers in Japan

The first Japan membership center was opened in Tokyo in September 2002.

Launch membership promotional campaigns

Postponed due to some bad publicity linked to a number of death and illness incidents caused by the use of some imported Chinese brands' weight-loss products in Japan and the outbreak of war and SARS.

#### ***Expansion to overseas markets***

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

Commenced discussions with a large US chain stores nutritional supplement company (listed on NASDAQ) regarding distributing the Group's products through this company's sale channel. However, the discussion was temporary suspended due to change of market situation.



### **Proposed project progress**

Enter into agreements with US distributors, wholesalers and/or large chain stores

Conduct feasibility studies on distributing products to Australia and New Zealand

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

Enter into agreements with distributors, wholesalers and/or large chain stores in Australia and New Zealand

Distribute products to Australia and New Zealand

### **Actual project progress**

Entered into a distribution agreement with a Canadian health food distributor to distribute the Group's health supplement products in Canada. No agreement has been reached with the US distributor due to change of market situation.

The feasibility study is finished.

Commenced discussions with a New Zealand distributor in April 2002 and the Group needed further valuation of the market and 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**

#### ***Health Portal***

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

Translate the portal content into Korean

### **Actual project progress**

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

Postponed as no qualified translator has been identified to conduct the project.



**Proposed project progress*****“Medicine Street”***

Continue to construct “Medicine Street”

Add new products to “Medicine Street”

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

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

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

Continue to establish b2b sales and marketing team

***Provision of information on Chinese medicine and health supplement products***

Continue to update information in the Group’s portal

***E-education platform***

Identify a suitable PRC partner on e-education

Finalise course structure and materials

Promote the e-education platform through other portals, exhibitions, newsletters and traditional media

Recruit e-education students

**Actual project progress**

Continued to construct Phase II of the “Medicine Street”.

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

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

Continued to update information and the number of pages increased from 6,900 to over 9,600.

Suspended because a local university has just started similar on-line education on Chinese medicine.



### Use of proceeds from placing and public offer

During the period from 7 March 2002 (date of listing) to 30 September 2003, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus:

	Intended Funding <i>HK\$'000</i>	Actual Funding <i>HK\$'000</i>
Expansion of R&D capability and product lines on Chinese medicine and health supplement products	5,040	10,847
Expansion of distribution network in the PRC, and its customer base development of "e-customer referral programme", and development of overseas markets	12,725	4,651
Health portal enhancement, e-commerce development and provision of on-line education	4,000	1,150
Expansion of Hong Kong office	–	165
General working capital	500	4,000
<b>Total</b>	<b>22,265</b>	<b>20,813</b>

### Reasons for difference usage of proceeds and forecast usage

1. The economic downturn in Japan affected the number of Japanese tourists visiting the Group's retail outlet in Hong Kong, and the death and illness incidents in Japan caused by the use of some imported weight-loss products from China also caused temporary loss of confidence in Chinese medicine related products among some Japanese, the Group's revenues for the period were significantly affected. The Group intends to focus on expansion of R&D capability and product lines in order to catch up the recover of Hong Kong tourism industry and the products among some Japanese. In addition, the Group intends to increase the number of products as soon as possible to satisfy different market and customer needs in order to enhance the income base.
2. Due to the delay in opening the Beijing and Xian outlet, the budget for opening the Beijing and Xian outlet has not been spent.
3. Due to the delay in the construction of the "Medicine Street" and suspension of the E-education platform, the budget amount for the promotion of the "Medicine Street" and for the construction of the E-education platform have not been utilised.
4. HK\$0.5 million was budgeted for general working capital. Due to the operating loss of the Group, more funding required to finance the operations.

## OTHER INFORMATION

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

As at 30 September 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules were as follows:

Director	Type of Interest	Interest in the Company's share capital	Number of shares
Leung Oi Wah	Corporate ( <i>note 1</i> )	42.82%	200,800,641
Gao Junqing	Other ( <i>note 2</i> )	0.34%	1,600,000
Lin Daquan	Other ( <i>note 2</i> )	0.34%	1,600,000

*Note:*

1. These shares are registered in the name of Great Fair Limited ("Great Fair") and Wealth Way Limited ("Wealth Way"). Great Fair and Wealth Way are wholly owned by Leung Oi Wah.
2. These shares are registered in the name of Sichuan Research Institute of New Medicine (the "SRI"). Gao Junqing and Lin Daquan each owned 5% in the SRI respectively.

Save as disclosed above, as at 30 September 2003, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.



## PRE-IPO SHARE OPTION SCHEME

On 1 February 2002, the Company adopted a share option scheme (the “Pre-IPO Share Option Scheme”), under which 8 individuals, including 2 directors and 1 ex-director of the Company, 3 employees and 1 ex-employee and a legal advisor of the Group, have been granted by the Company options to subscribe for an aggregate of 25,500,000 shares in the Company at an exercise price of HK\$0.30 on 18 February 2002. The following table discloses details of options outstanding under the Pre-IPO Share Option Scheme at the end of the period:

Categories of grantees	Date of Grant	Exercise price HK\$	Outstanding at end of period
<b>Directors</b>			
Wong Cheah Foo	18/02/02	0.3	4,500,000
Leung Oi Wah	18/02/02	0.3	4,500,000
<b>Employees</b>	18/02/02	0.3	9,600,000
<b>Legal advisor to the Group</b>	18/02/02	0.3	2,400,000
<b>Total</b>			<b>21,000,000</b>

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

Number of shares that can be exercised under the Pre-IPO Share Option Scheme (excluding the exercisable period options granted to Mr. Wong Tak Fu)

Exercisable period	Number of shares that can be exercised under the Pre-IPO Share Option Scheme (excluding the options granted to legal advisor to the Group)
7 September 2002 – 17 February 2005	6,200,000
7 March 2003 – 17 February 2005	6,200,000
7 March 2004 – 17 February 2005	6,200,000

No share options under the Pre-IPO Share Scheme were exercised during the reporting period.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Share Option Scheme”), under which the Board may, at its discretion, invite any full-time or part-time employee of the Company or any member of the Group, including any director of any member of the Group and any adviser or consultant (in areas of technical, financial or corporate managerial) of the Company or any of its subsidiaries to take up options to subscribe for the share in the Company. The Share Option Scheme will remain valid for a period of 10 years commencing 1 February 2002.

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

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the Directors' and Chief Executives' Interests In Securities and the Pre-IPO Share Option Scheme above, at no time during the reporting period was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the interests and short positions of persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Number of shares held	
	Direct interest	Approximate percentage of shareholding
Great Fair Limited ( <i>note 1</i> )	89,435,440	19.07%
Wealth Way Limited ( <i>note 1</i> )	111,365,201	23.74%
Sichuan Research Institute of New Medicine ("SRI") ( <i>note 2</i> )	32,000,000	6.82%
Technique Enterprises Limited ( <i>note 3</i> )	49,019,607	10.45%

### Notes:

- Great Fair Limited and Wealth Way Limited are wholly owned by Leung Oi Wah, the vice chairlady and the founder of the Group.
- 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.

Save as disclosed above, as at 30 September 2003, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

## SPONSOR INTERESTS

To the best knowledge of the Company's sponsor, Kingston Corporate Finance Limited ("Kingston"), neither Kingston nor its directors, employees or associates (as referred to Note 3 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 30 September 2003.



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

### **COMPETING INTERESTS**

During the reporting period and up to the date of this announcement, the SRI is considered to be a substantial shareholder of the Company 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 at 2 November 2000 as revised and supplemented by a supplemental agreement dated 11 January 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 the 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 interest in any business which competes or may compete with the business of the Group.

### **AUDIT COMMITTEE**

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

The Group's unaudited consolidated results for the six months ended 30 September 2003 have been reviewed by the audit committee.

### **BOARD PRACTICES AND PROCEDURES**

During the six months ended 30 September 2003, the Group has complied with Board Practices and Procedures as met out in Rules 5.28 to 5.39 of the GEM Listing Rules.

### **PURCHASE, SALE OF REDEMPTION OF SHARES**

During the six months ended 30 September 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

**Leung Oi Wah**  
*Director*

Hong Kong, 14 November 2003