



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



FIRST QUARTERLY REPORT 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.

UNAUDITED CONSOLIDATED INCOME STATEMENT*For the three months ended 30 June 2002*

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 three months ended 30 June 2002, together with the unaudited comparative figures for the same period last year as follows:

		Three months ended 30 June	
		2002	2001
	<i>Note</i>	Unaudited HK\$'000	Unaudited HK\$'000
Turnover	3	5,978	7,577
Cost of sales		(2,392)	(3,636)
Gross profit		3,586	3,941
Other revenues		30	509
Medicine research and development costs		(99)	(455)
Administrative expenses		(3,003)	(2,893)
Website development costs		(68)	(73)
Profit from operations		446	1,029
Finance costs		(6)	(144)
Share of results of a jointly controlled entity		(1)	–
Profit before taxation		439	885
Taxation	4	–	–
Profit before minority interests		439	885
Minority interests		69	–
Profit for the period		508	885
Dividend		–	–
Earnings per share			
– Basic	5	0.11 cent	0.19 cent



Notes:

1. Group reorganisation

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

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group on 6 August 2001. The shares of the Company have been listed on GEM since 7 March 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 are set out in the prospectus dated 25 February 2002 issued by the Company.

2. Basis of preparation

The unaudited results of the Group have been prepared under the historical cost convention in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

3. Turnover

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

4. Taxation

Hong Kong profits tax is calculated at 16% of the estimated assessable profit for the reporting period.

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong for the three months ended 30 June 2002.

5. Earnings per share

The calculation of the basic earnings per share for the three months ended 30 June 2002 is based on the unaudited net profit of approximately HK\$508,000 (2001: approximately HK\$885,000) and the weighted average of 469,000,000 shares (30 June 2001: 469,000,000 shares) in issue for the three months ended 30 June 2002.

No diluted earnings per share is presented because there was no dilutive potential ordinary shares in existence during the reporting period.

6. Movement in reserve

	Share premium HK\$'000	Special reserve HK'000	Exchange difference HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 April 2002	19,009	(39,998)	-	12,334	(8,655)
Exchange difference	-	-	77	-	77
Profit for the period	-	-	-	508	508
As at 30 June 2002	19,009	(39,998)	77	12,842	(8,070)

MANAGEMENT DISCUSSION AND ANALYSIS FINANCIAL PERFORMANCE

For the three months ended 30 June 2002, the Group recorded a turnover of about HK\$5.9 million, representing a decrease of about 21% over the same period last year. The economic downturn in Japan and the 911 terrorist attacks in New York (the "911 Event") were the major factors causing both the number of Japanese tourists and sales turnover to drop. The number of Japanese tourists visited the Group's retail outlet in Hong Kong for the reporting period dropped to 17,705 from 21,039 in the same period last year. About 93% 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 second half of the financial year.

In line with the decrease of the sales turnover, the gross profit of the Group for the reporting period also decreased to about HK\$3.6 million, representing a decrease of about 9% compared to the same period last year. Despite the decrease of the gross profit, the gross profit margin improved to about 60% from 52% in the same period last year. The increase of the gross profit margin was mainly caused by the decrease of the commission paid to the Japanese tour agencies.

The net profit attributable to the shareholders for the three months ended 30 June 2002 was also decreased to about HK\$508,000 from HK\$885,000 in the same period last year.



BUSINESS REVIEW

During the period under review, the Group was actively implementing its business plans to (1) expand its distribution network; (2) enlarge its customer base; (3) enlarge its product lines; and (4) expand its research and development capability.

To capture the business opportunities in the booming tourist market in the PRC and to reduce the reliance on the Group's retail outlet in Hong Kong, the Group has been actively pursuing its plan to establish distribution outlets in Hangzhou, Beijing and Xian in the PRC. Apart from targeting at its customary Japanese tourists, these outlets will also target foreign tourists from Southeast Asia and the United States. The renovation of the Hangzhou outlet was completed in July 2002, and the Group is now providing training to its PRC staff. The soft opening of the Hangzhou outlet is rescheduled to early September 2002.

The Group has recently entered into a letter of intent with a research institute in Beijing with respect to the opening of a distribution outlet in Beijing. The Group is currently in the process of finalising the terms of the agreement and evaluating different site options for the Beijing outlet. We aim to open the Beijing outlet before the end of 2002 and the Xian outlet in 2003. With the opening of the PRC distribution outlets, it will create an additional source of income to the Group.

For the overseas markets development, the Group continued to seek suitable business partners in different countries during the period under review. In April 2002, the Group entered into a distribution agreement with a Canadian based health food distributor. The Canadian distributor is 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 marked a cornerstone in the Group's penetration into the North American market.

The Group is currently in discussion with a US nutritional supplement company with a view to distributing the Group's new health supplement products through this company's sales channels in the United States. With increasing health consciousness and the aging population in the North America, we believe that the North American market will offer the Group strong market potential for its new health supplement product line.

Over the years, the Group has successfully build up its brand name, Kanpoyakudo (漢方藥堂), and its customer base in the Japanese market. In order to encourage repeated purchases via the Group's health portal, www.newchinesemedic.com and solicit referrals from its existing customers, the Group has been actively pursuing its plan to establish a number of membership centers in Japan to strengthen the brand loyalty. During the period under review, the Group established its first Japan membership centre in Tokyo and the membership centre is scheduled to open to its members in September 2002. We expect that at least one more membership center will open before the first half of 2003. With the opening of the membership centers in Japan, it is expected that both the Internet sales and the number of referrals from club members will rise in the years ahead.

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 to the Japanese club members in the third quarter of 2002.

In addition to 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.

The Group has been developing a new health supplement product series for the Hong Kong market using Saussurea (天山雪蓮) as major ingredient. The Saussurea series is consisted of 4 products which are intended for regulating menstruation, pelvic inflammation, rheumatic arthritis and anti-aging. The research and development on the Saussurea (天山雪蓮) series is almost complete. The packaging design and the marketing plans are being prepared. In addition to its own retail outlet in Hong Kong, the Group also plans to distribute the Saussurea (天山雪蓮) series all over Hong Kong through large drug store chains and individual pharmaceutical stores with media support such as advertising on TV, cable, MTR, buses and trams, magazines and newspapers. The advertising campaign is expected to be launched in October 2002. 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.



During the period under review, the Group entered into discussions with a number of universities and research institutes 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. The Group has recently finalised its discussions with a Chinese medicine university in Chengdu in the PRC regarding forming a research and development platform in Chengdu. We expect the Group will enter into a research and development agreement with this Chinese medicine university in Chengdu in August 2002.

PROSPECTS

The economic downturn in Japan and the United States in 2001 had far-reaching effects on the global economy, while the 911 Event further dampened the sluggish economy, with disappointing 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 three months ended 30 June 2002 were inevitably affected. However, with increasing health consciousness and rising global demands for natural medicines, the prospects for Chinese medicine and health supplement products in both local and overseas markets are still very promising.

The Group has been actively implementing its business plans to reduce the reliance on the Group's retail outlet in Hong Kong and to develop additional income sources. With the opening of PRC distribution outlets targeting foreign tourists, the setting up of membership centres in Japan, and the launch of new health supplement product line in Japan and Hong Kong, we believe that the Group is well positioned to enlarge its customer and revenue base and to achieve a higher return for its shareholders.

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 successful results in the years ahead.

Wong Cheah Foo
Chairman

Hong Kong, 14 August 2002

OTHER INFORMATION

DIVIDENDS

The Directors do not recommend the payment of interim dividend for the three months ended 30 June 2002 (30 June 2001: nil).

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2002, the interests of the directors and their respective 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 (<i>note 1</i>)	42.81%	200,800,641
Chan Wai Ming, Billy	Personal	1.71%	8,000,000
Gao Junqing	Other (<i>note 2</i>)	0.55%	2,600,000
Lin Daquan	Other (<i>note 2</i>)	0.55%	2,600,000

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, 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.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Company's Pre-IPO Share Option Scheme adopted by the Company on 1 February, 2002, the following directors of the Company have personal interests in options to subscribe for shares in the Company which have been granted to them as follows:

Name of director	Date of grant	Exercise price Per share	Number of shares under option
Wong Cheah Foo	18 February 2002	HK\$0.30	4,500,000
Leung Oi Wah	18 February 2002	HK\$0.30	4,500,000
Chan Wai Ming, Billy	18 February 2002	HK\$0.30	4,500,000

Under the terms of the options granted under the Pre-IPO Share Option Scheme, these options 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
7 September 2002 – 17 February 2005	4,500,000
7 March 2003 – 17 February 2005	4,500,000
7 March 2004 – 17 February 2005	4,500,000

Save as disclosed 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.

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 report.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the register of substantial shareholders required to be maintained under Section 16(1) of the SDI ordinance shows that, the following shareholders had an interest of 10% or more of the issued share capital of the Company:

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 (<i>note 2</i>)	52,000,000	11.09%
Technique Enterprises Limited (<i>note 3</i>)	49,019,607	10.45%

Notes:

1. Great Fair and Wealth Way are wholly owned by Leung Oi Wah, the vice chairlady and the founder of the Group.
2. Sichuan Research Institute of New Medicine 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.
3. Technique Enterprises Limited is wholly owned by Cheung Chui who is an independent third party.

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 June 2002.

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 report, 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 Ms. Wan Choi Ha and the Chairman of the Group, Mr. Wong Cheah Foo.

The Group's unaudited consolidated results for the three months ended 30 June 2002 have been reviewed by the audit committee.

PURCHASE, SALE OF REDEMPTION OF SHARES

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