



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

THIRD QUARTERLY REPORT **2005/06**

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

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This report, for which the directors of New Chinese Medicine Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong limited for the purpose of giving information with regard to New Chinese Medicine Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

SUMMARY

For the nine months ended 31 December 2005:

- the turnover was approximately HK\$5,892,000;
- the loss attributable to shareholders was approximately HK\$1,055,000; and
- the directors do not recommend the payment of any dividend.

THIRD QUARTER RESULTS

The board of Directors (the “Board”) of New Chinese Medicine Holdings Limited (the “Company”) hereby submits the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the nine months ended 31 December 2005, together with the unaudited comparative figures for the corresponding period in 2004 as follows:

	Notes	Three months ended		Nine months ended	
		31 December		31 December	
		2005	2004	2005	2004
		Unaudited	Unaudited	Unaudited	Unaudited
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	1,000	339	5,892	502
Cost of sales		(909)	(58)	(4,932)	(91)
Gross profit		91	281	960	411
Other income		90	1,192	2,156	1,504
Distribution and marketing expenses		(58)	(329)	(227)	(546)
Administrative expenses		(587)	(711)	(3,261)	(1,814)
Other operating expenses		(25)	(1,302)	(317)	(1,811)
Loss from operations		(489)	(869)	(689)	(2,256)
Finance costs		(86)	(256)	(366)	(266)
Loss before taxation		(575)	(1,125)	(1,055)	(2,522)
Taxation	4	-	-	-	-
Loss after taxation		(575)	(1,125)	(1,055)	(2,522)
Minority interests		-	335	-	335
Loss attributable to shareholders		(575)	(790)	(1,055)	(2,187)
Dividend	5	-	-	-	-
Loss per share	6				
– Basic (cent)		(0.10)	(0.17)	(0.20)	(0.47)
– Diluted (cent)		N/A	N/A	N/A	N/A

Notes:

1. Basis of preparation

The unaudited consolidated results have been prepared in accordance with Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2005.

2. Turnover

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

3. Segment information

(a) The analysis of the Group's revenue and results by business segment during the periods are as follows:

For the nine months ended 31 December 2005

	Healthcare products HK\$'000	Digital electronic products HK\$'000	Elimination HK\$'000	Consolidation HK\$'000
Revenue				
External sales	2,099	3,793	-	5,892
Inter-segment sales	-	-	-	-
Total revenue	2,099	3,793	-	5,892
Segment result	410	550	-	960
Unallocated corporate income and expenses				(1,649)
Loss from operations				(689)
Finance costs				(366)
Loss from ordinary activities before taxation				(1,055)
Income tax				-
Minority interest				-
Loss attributable to shareholders				(1,055)

For the nine months ended 31 December 2004

	Healthcare products HK\$'000	Digital electronic products HK\$'000	Elimination HK\$'000	Consolidation HK\$'000
Revenue				
External sales	502	-	-	502
Inter-segment sales	-	-	-	-
Total revenue	502	-	-	502
Segment result	411	-	-	411
Unallocated corporate income and expenses				(2,667)
Loss from operations				(2,256)
Finance costs				(266)
Loss from ordinary activities before taxation				(2,522)
Income tax				-
Minority interest				335
Loss attributable to shareholders				(2,187)

(b) No geographical analysis is shown as the activities of the Group during the nine months ended 31 December 2005 and 31 December 2004 were mainly carried out in Hong Kong.

4. Taxation

No provision for Hong Kong profits tax has been made in the unaudited consolidated results as the Group has incurred tax loss for the period.

5. Dividend

The directors do not recommend the payment of any dividend for the nine months ended 31 December 2005 (2004: Nil).

6. Loss per share

The calculation of basic loss per share for the three months and nine months ended 31 December 2005 are based on the Group's unaudited loss of approximately HK\$575,000 and HK\$1,055,000 respectively (2004: approximately HK\$790,000 and HK\$2,187,000 respectively) attributable to shareholders and on the weighted average number of 567,250,000 and 524,770,000 respectively (2004: 469,000,000) ordinary shares in issue during the periods.

Diluted loss per share for the three months and nine months ended 31 December 2004 and 2005 are not presented as there were no dilutive potential ordinary shares existed during such periods.

7. Reserves

	Share premium HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2004	19,009	(39,998)	341	(39,787)	(60,435)
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognized in the consolidated income statement	-	-	(191)	-	(191)
Adjustments on capital reduction	-	-	-	42,210	42,210
Net loss for the period	-	-	-	(2,187)	(2,187)
At 31 December 2004	19,009	(39,998)	150	236	(20,603)
At 1 April 2005	19,009	(39,998)	195	(997)	(21,791)
Exchange differences arising on translation of financial statements of operations outside Hong Kong not recognized in the consolidated income statement	-	-	135	-	135
Net loss for the period	-	-	-	(1,055)	(1,055)
At 31 December 2005	19,009	(39,998)	330	(2,052)	(22,711)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In view of the rising consensus and awareness of the public to the human health, the Group continued to fine-tune its product range, expanding on health care products from its existing proprietary Chinese medicine and retail sales of consumable products. During the period under review, more new health care products are launched and making positive contribution to turnover and results.

The Group managed to maintain tight control over its operating expenses in the period under review.

PROSPECTS

The Directors believes that the Group will benefit from the economic growth in both Hong Kong and the PRC which will support increase in consumer spending and number of visitors to Hong Kong in the foreseeable future. The Directors will continue to monitor the product range with the aim to improve on the profit margin.

At the same time, the Group will identify other business opportunities that may create synergies with its core business and to further reinforce its market position in health care related businesses.

FINANCIAL REVIEW

For the nine months ended 31 December 2005, the Group recorded an unaudited consolidated turnover of approximately HK\$5,892,000, which represented sales of health care and consumable products. The turnover for the nine months ended 31 December 2004 was approximately HK\$502,000.

Unaudited net loss attributable to the shareholders for the period amounted to approximately HK\$1,055,000 as compared to net loss of approximately HK\$2,187,000 for the corresponding period in 2004, which represented a decrease of 52%.

On 6 July, 2005, the Company obtained shareholders approval at an extraordinary general meeting to consolidate every four shares of HK\$0.01 each of existing shares into one share of HK\$0.04 each ("New Share"); and allotted and issued 450,000,000 New Shares at an issue price of HK\$0.04 each to Excel Point Holdings Limited. The above transactions were completed on 11 July, 2005 with additional HK\$18,000,000 cash, before professional expenses incurred for the transactions, in the Group. The financial resources will be partly used as additional working capital to expand on existing businesses and the balance for development of related businesses.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's net current assets as at 31 December 2005 was approximately HK\$12,168,000 as compared to net current liabilities of approximately HK\$5,217,000 as at 31 March 2005. There were no bank borrowings and capital instruments as at 31 December 2005 (31 March 2005: Nil). As at 31 December 2005, there was an unsecured long-term loan of approximately HK\$12,230,000 (31 March 2005: approximately HK\$12,151,000) from an independent third party.

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

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.46 of the GEM Listing Rules were as follows:

Long positions in Shares of the Company

Director	Type of interest	Interest in the Company's share capital	Number of shares
Mr. Wong Chun Keung	Corporate (note 1)	62.58%	354,980,000

Notes:

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

Save as disclosed above, as at 31 December 2005, none of the directors nor the chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the interests and short positions of persons, other than a director or chief executive officer of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Number of shares held (long positions)

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

Notes:

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

Save as disclosed above, as at 31 December 2005, the directors or chief executive officer of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote on all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTERESTS

As at 31 December 2005, none of the directors, the management shareholders of the company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group.

AUDIT COMMITTEE

An audit committee was established with written terms of reference in compliance with the relevant GEM Listing Rules. There are three members in the audit committee comprising three independent non-executive directors, namely, Mr. Chu Kar Wing, Mr. Loke Hoi Lam and Mr. Ku Ling Yu John. The primary duties of the audit committee are to review and provide supervision over the financial reporting system and internal control procedures of the Group. The Group's unaudited consolidated results for the nine months ended 31 December 2005 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

A Remuneration Committee has been established with written terms of reference in accordance with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee comprises three independent non-executive directors, namely Messrs. Chu Kar Wing, Loke Hoi Lam and Ku Ling Yu John, and one executive director Miss Tong Pui Chi Lucia. Miss Tong Pui Chi Lucia being the Chairperson of the Remuneration Committee. The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy, and structure for remuneration of all Directors and senior management, and reviewing the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealing as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings throughout the period ended 31 December 2005.

CORPORATE GOVERNANCE CODE COMPLIANCE

The Company has complied throughout the nine months ended 31 December 2005 with the Code Provisions set out in the Code on Corporate Governance Practices contained in appendix 15 of the GEM Listing Rules except for the following:

Code Provision A.4.1

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

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

Code Provision A.4.2

Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Article 87 of the articles of association of the Company does not require the chairman of the board and/or managing director of the Company to retire from his office at each annual general meeting. In order to ensure full compliance with Code A.4.2, a special resolution will be proposed to amend the relevant provisions of the articles of association of the Company at the forthcoming general meeting so that every director of the Company shall be subject to retirement by rotation at least once every three years.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

Wong Chun Keung
Chairman

Hong Kong, 25 January 2006

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