



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 2002

<http://www.newchinesemedic.com>

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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.

UNAUDITED CONSOLIDATED INCOME STATEMENT

For the nine months ended 31 December 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 and nine months ended 31 December 2002, together with the unaudited comparative figures for the corresponding period last year as follows:

	Notes	(Unaudited)		(Unaudited)	
		Three months ended		Nine months ended	
		31 December 2002	2001	31 December 2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	2,488	4,379	12,627	20,188
Cost of sales		(1,213)	(1,994)	(7,181)	(8,761)
Gross profit		1,275	2,385	5,446	11,427
Other revenues		36	382	80	1,511
Medicine research and development costs		(164)	(300)	(410)	(1,002)
Administrative expenses		(5,900)	(2,379)	(14,138)	(7,650)
Website development costs		(136)	(196)	(422)	(438)
(Loss) profit from operations	3	(4,889)	(108)	(9,444)	3,848
Finance costs		(2)	(472)	(3)	(1,371)
Share of results of a jointly controlled entity		–	–	(1)	–
(Loss) profit before taxation		(4,891)	(580)	(9,448)	2,477
Taxation	4	–	–	–	(242)
(Loss) profit before minority interests		(4,891)	(580)	(9,448)	2,235
Minority interests		133	–	270	–
(Loss) profit for the period		(4,758)	(580)	(9,178)	2,235
Dividend	5	–	–	(586)	(8,000)
(Loss) earnings per share	6				
– Basic (<i>cent</i>)		(1.01)	(0.15)	(1.96)	0.56
– Diluted (<i>cent</i>)		N/A	N/A	(1.89)	N/A



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Turnover

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

3. (Loss) profit from operations

	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) profit from operations				
has been arrived at after charging:				
Depreciation and amortisation	219	89	419	263

4. Taxation

	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The charge comprises:				
Hong Kong Profits Tax	-	-	-	242

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the period.

No provision for Hong Kong profit tax has been made as the Group had no assessable profit in Hong Kong for the nine months ended 31 December 2002.

5. Dividend

On 7 August 2002, a dividend of HK0.125 cent per share (2001: HK\$Nil) was paid to shareholders as the final dividend for 2002.

The directors do not recommend the payment of any interim dividend for the nine months ended 31 December 2002. During the period ended 31 December 2001, a subsidiary of the Group paid a special dividend of HK\$8,000,000 to its then shareholder prior to the Group Reorganisation.

6. (Loss) earnings per share

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

	Three months ended		Nine months ended	
	31 December		31 December	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss) earnings				
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	(4,758)	(580)	(9,178)	2,235
Number of shares				
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	469,000,000	400,000,000	469,000,000	400,000,000
Effect of dilutive potential shares in respect of share options	N/A	N/A	15,478,166	N/A
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	N/A	N/A	484,478,166	N/A

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

No diluted loss per share has been presented for three months ended 31 December 2002 as the exercise price of the Company's share options was higher than the average market price for shares for that period.



7. Movement in reserves

	Share premium HK\$'000	Special reserve HK\$'000	Exchange equalisation reserve HK\$'000	Accumulated profit HK\$'000	Total HK\$'000
The Group					
At 1 April 2001	–	–	–	18,179	18,179
Profit for the period	–	–	–	2,235	2,235
Dividend	–	–	–	(8,000)	(8,000)
At 31 December 2001	–	–	–	12,414	12,414
Special reserve arising from the Group Reorganisation	–	(39,998)	–	–	(39,998)
Premium arising on initial public offer	34,500	–	–	–	34,500
Share issue expenses	(15,491)	–	–	–	(15,491)
Loss for the period	–	–	–	(81)	(81)
At 31 March 2002	19,009	(39,998)	–	12,333	(8,656)
Translation of financial statements of overseas operations	–	–	103	–	103
Loss for the period	–	–	–	(9,178)	(9,178)
Dividend	–	–	–	(586)	(586)
At 31 December 2002	19,009	(39,998)	103	2,569	(18,317)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the Group continued to follow 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.

The Group has been pursuing its plan to establish distribution outlets in Hangzhou, Beijing and Xian in the PRC. The Hangzhou outlet was soft opened in October 2002 and the Group is presently assessing the results of the Hangzhou outlet. The Group entered into a letter of intent with a research institute in Beijing in September 2002 with respect to the opening of a distribution outlet in Beijing. The research institute in Beijing is currently assisting the Group to identify and evaluate different site options for the Beijing outlet. In view of the delay in finalising the site location for the Beijing outlet, we believe the opening of the Beijing outlet will be postponed to the second quarter of 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 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. During 2002, the Group engaged a number of discussions 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. Up to the date of this announcement, no agreement has been reached with this US nutritional supplement company. The Group has now decided to seek another business partners to assist the Group in developing the US market.

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 centres in Japan to strengthen the brand loyalty. The Group's first Japan membership centre was opened in Tokyo in September 2002 and the Group is presently assessing the results of the membership centre. With the opening of the membership centres in Japan, it is expected that both the Internet sales and the number of referrals from club members will rise in the years ahead.

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. During the period under review, the Group successfully developed a total of 9 health supplement products for the Japanese local market. These 9 health supplement products are intended for those affected by diabetes, hyperlipidemia, hypertension, obesity, pollinosis, constipation and strengthening the liver and stomach and anti-ageing. These products are now in manufacturing stage and we expect to launch these products to the Japan local market in the second quarter of 2003.



In 2002, the Group successfully developed 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-ageing. In February 2003, the Group launched two of the Saussurea series' products, YUKINOBI (雪之美) and YUKIJOBI (雪淨美), all over Hong Kong through Watsons, a large drug store chain. The Group is presently assessing the results of these two products and aims to launch the other two Saussurea series' products in subsequent months. 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.

For the nine months ended 31 December 2002, the Group continued to enter 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. In August 2002, the Group entered into a joint research agreement with Chengdu University of Traditional Chinese Medicine ("成都中醫大學") ("CUTCM") with a view of forming a research and development platform in Chengdu to research, develop and market modernised Chinese medicine and health supplement products. The Group plans to develop a new health supplement product series targeting children and teenagers with CUTCM.

During the period under review, the Group entered into a number of agreements with Sichuan Research Institute of New Medicine (the "SRI"), a substantial shareholder of the Company, and the shareholders of SRI with respect to the acquisition of 51% interests in the SRI and amending the terms of a number of existing agreements between the Group and the SRI. The proposed transactions were subsequently terminated in December 2002 in view of the substantial change in the trading price of the shares of the Company. The research and development arrangement between the Group and the SRI remains unchanged and will continue to be the same as before the entering of the proposed transactions. The SRI will continue to provide various services, including research and development services, to the Group in accordance with the terms of a number of existing agreements between the Group and the SRI.

FINANCIAL REVIEW

For the nine months ended 31 December 2002, the Group recorded a turnover of about HK\$12.6 million. About 96% of the turnover were contributed by the Group's retail outlet in Hong Kong. The Group's outlet sales for the period was about HK\$12.1 million representing a decrease of about 33% from the same period last year. 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 were the major factors causing both the number of Japanese tourists and the average spending per customer to drop. The number of Japanese tourists visited the Group's retail outlet in Hong Kong dropped to 39,927 from 55,848 in the same period last year. The average spending per customer from the outlet sales also decreased to HK\$303 from the same period last year's HK\$323.

While the temporary loss of confidence in Chinese medicine related products in Japan may continue to affect the Group's sales in the coming few months, we expect that the impact will gradually disappear when the bad publicity of these Chinese weight-loss products start to fade.

In line with the decrease of the sales turnover, the gross profit of the Group for the reporting period also decreased to about HK\$5.4 million, representing a decrease of about 52.3% compared to the same period last year. The gross profit margin also decreased to about 43.1% from 56.6% in the same period last year. The decrease of gross profit margin was mainly caused by the structure of the commission arrangements with the Japanese tour agencies. Under the commission arrangements with the Japanese tour agencies, a portion of the commission was paid either on a fixed amount per visitor visiting the outlet or on a percentage of the purchase amount of the visitors visiting the outlet. As the former arrangement accounted for a large portion of the total commission and when the sales turnover drops, the gross profit margin will also decrease as the commission paid to the Japanese tour agencies does not change in the same proportion.

The administrative expenses of the Group for the reporting period increased to about HK\$14.1 million, representing an increase of about 84.8% compared to the same period last year. The increase was mainly caused by the increase of business development costs for the establishment of distribution outlets in the PRC, the establishment costs of first Japan membership centre in Tokyo and the increase in staff costs.

Loss attributable to the shareholders for the nine months ended 31 December 2002 was about HK\$9.2 million.

Material acquisitions and disposals of subsidiaries and affiliated companies

During the period under review, the Group attempted to acquire 51% interests in the SRI. The proposed acquisition was subsequently terminated in December 2002.

PROSPECTS

During 2002, the Group faced many challenges. 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. 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 nine months ended 31 December 2002 were significantly affected. While the temporary loss of confidence in Chinese medicine related products in Japan may continue to affect the Group's sales in the coming few months, we expect that the impact will gradually disappear when the bad publicity of these Chinese weight-loss products start to fade.



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 the Hangzhou outlet, the opening of the membership centre in Tokyo, and the launch of the new health supplement product Saussurea (天山雪蓮) series in 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.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 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 (<i>note 1</i>)	42.81%	200,800,641
Chan Wai Ming, Billy	Personal (<i>note 2</i>)	1.71%	8,000,000
Gao Junqing	Other (<i>note 3</i>)	0.55%	2,600,000
Lin Daquan	Other (<i>note 3</i>)	0.55%	2,600,000

Notes:

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. Chan Wai Ming, Billy has resigned as director with effect from 31 December 2002.
3. 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.

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 3 directors of the Company, 4 employees 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 and movements during the period:

Categories of grantees	Date of Grant	Exercise price HK\$	Outstanding at the beginning of the period	Granted during period	Exercised during period	Cancelled during period	Lapsed during period	Outstanding at the end of the period
Directors								
Wong Cheah Foo	18/02/02	0.3	4,500,000	-	-	-	-	4,500,000
Leung Oi Wah	18/02/02	0.3	4,500,000	-	-	-	-	4,500,000
Chan Wai Ming, Billy	18/02/02	0.3	4,500,000	-	-	-	(4,500,000)	-
Employees								
	18/02/02	0.3	9,600,000	-	-	-	-	9,600,000
Legal advisor to the Group								
	18/02/02	0.3	2,400,000	-	-	-	-	2,400,000
Total			25,500,000	-	-	-	(4,500,000)	21,000,000

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)

Number of shares that can be exercised under the Pre-IPO Share Option Scheme (excluding the options granted to legal advisor to the Group)

Exercisable period

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' 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 31 December 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 Enterprise Limited (<i>note 3</i>)	49,019,607	10.45%

Notes:

1. Great Fair Limited and Wealth Way Limited are wholly owned by Leung Oi Wah, the vice chairlady and the founder of the Group.
2. 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.
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 31 December 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 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 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 nine months ended 31 December 2002 have been reviewed by the audit committee.



BOARD PRACTICES AND PROCEDURES

During the nine months ended 31 December 2002, the Group has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 31 December 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

Wong Cheah Foo

Chairman

Hong Kong, 13 February 2003