
IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in New Chinese Medicine Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular, for which the directors (the “Directors”) of New Chinese Medicine Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular 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 circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



NEW CHINESE MEDICINE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8085)

PROPOSAL FOR REDUCTION OF SHARE CAPITAL AND GRANTING OF GENERAL MANDATES TO REPURCHASE NEW SHARES AND TO ISSUE NEW SHARES

The notice convening the Extraordinary General Meeting of the Company to be held at Meeting Room, 1/F., Wing Fai Shopping Arcade, 52 Wing Kwong Street, Hunghom, Kowloon, Hong Kong, on 10 May 2004 (Monday) at 9:00 a.m. is set out on pages 12 to 15 of this circular. If you do not intend to attend and vote at the Extraordinary General Meeting, you are required to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Standard Registrars Limited, at G/F, BEA Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof (as the case may be) should you so wish.

This circular will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting.

16 April 2004

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristic of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meaning:

“Announcement”	the announcement issued by the Company on 17 March 2004 relating to the Capital Reduction and granting of the General Mandate and Repurchase Mandate
“Board”	the board of Directors
“Business Day”	a day on which the Stock Exchange is open for the business of dealing in securities
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Capital Reduction”	A reduction of the share capital of the Company by canceling the issued and paid up share capital to the extent of HK\$0.09 on each of the issued Existing Shares, thereby reducing the nominal value of all the issued Existing Shares from HK\$0.10 each to HK\$0.01 each
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Company”	New Chinese Medicine Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM
“Court”	the Grand Court of the Cayman Islands
“Director(s)”	the director(s) of the Company
“Existing Share(s)”	existing shares of HK\$0.10 each of the Company
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held at Meeting Room, 1/F., Wing Fai Shopping Arcade, 52 Wing Kwong Street, Hung Hom, Kowloon, Hong Kong on 10 May 2004 at 9:00 a.m. or any adjourned meeting thereof, notice of which is set out on pages 12 to 15 of this circular
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility on GEM

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate proposed to be granted to the Directors, conditional upon the Capital Reduction becoming effective, to allot, issue and deal with New Shares as described on page 6 of this circular
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Latest Practicable Date”	15 April 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“New Share(s)”	shares of HK\$0.01 each in the capital of the Company immediately after the implementation of the Capital Reduction
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme of the Company adopted on 1 February 2002
“Registrar”	the branch share registrar of the Company in Hong Kong, Standard Registrar Limited, whose office is situated at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
“Repurchase Mandate”	the general mandate proposed to be granted to Directors, conditional upon the Capital Reduction becoming effective, to repurchase New Shares as described on page 5 of this circular
“Share Option(s)”	share options granted under the Pre-IPO Share Option Scheme
“Shareholder(s)”	holder(s) of the (i) Existing Share(s) or (ii) the New Share(s) upon the Capital Reduction becoming unconditional and effective (as the case may be)
“Special Reserve”	a distributable reserve of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

LETTER FROM THE BOARD



NEW CHINESE MEDICINE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:

Wong Cheah Foo (*Chairman*)
Leung Oi Wah (*Vice-chairlady*)
Gao Junqing (*Director*)
Lin Daquan (*Director*)

Independent non-executive Directors:

Junya Kabeya
Tsoi Chi Yin

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

*Head office and principal
place of business:*

A portion of the 1st Floor
Wing Fai Mansion
52 Wing Kwong Street
Hungghom, Kowloon
Hong Kong

16 April 2004

*To the Shareholders and, for information only
the optionholders*

Dear Sir and Madam,

**PROPOSAL FOR REDUCTION OF SHARE CAPITAL
AND
GRANTING OF GENERAL MANDATES TO REPURCHASE NEW SHARES
AND TO ISSUE NEW SHARES**

INTRODUCTION

The Board announced on 17 March 2004 that a proposal would be put forward to the Shareholders for the Capital Reduction. As any existing mandates which have been granted at the annual general meeting of the Company held on 8 August 2003 to the Directors to issue and to repurchase Existing Shares will not extend to the New Shares to be created immediately upon the Capital Reduction becoming effective, it is further proposed that, conditional upon the Capital Reduction becoming effective, the Directors be granted the General Mandate and the Repurchase Mandate.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further information relating to the Capital Reduction, the proposed granting of the General Mandate and the Repurchase Mandate and the notice convening the Extraordinary General Meeting at which resolutions will be proposed to approve the Capital Reduction and the granting of the General Mandate and the Repurchase Mandate.

CAPITAL REDUCTION

The Proposal

The Board intends to put forward the following proposal:

- (i) the nominal value of each of the 469,000,000 issued Existing Shares will be reduced by HK\$0.09, from HK\$0.10 to HK\$0.01, as a result of which the Company's existing issued share capital of HK\$46,900,000 will be reduced by HK\$42,210,000 to HK\$4,690,000;
- (ii) the credit in the sum of HK\$42,210,000 arising from the Capital Reduction will first be applied towards the elimination of the accumulated losses of up to HK\$55,096,800 (being the accumulated losses of the Company as shown in the unaudited management accounts of the Company for the period ended 31 December 2003 as provided by the Directors) of the Company with the balance to be credited to the Special Reserve; and
- (iii) all of the authorised but unissued Existing Shares including the authorized but unissued shares arising from the Capital Reduction will be cancelled and the authorised share capital of the Company will immediately thereafter be increased by the subsequent creation of such number of New Shares as shall be sufficient to increase the authorised share capital to HK\$200,000,000 but divided into 20,000,000,000 New Shares.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$200,000,000 divided into 2,000,000,000 Existing Shares of HK\$0.10 each, of which 469,000,000 Existing Shares were issued and are fully paid or credited as fully paid.

As at the Latest Practicable Date, the Company had outstanding Share Options granted to two executive Directors and a legal advisor to the Group to subscribe for an aggregate of 11,400,000 Existing Shares at an exercise price of HK\$0.30 each. Assuming that all of these outstanding Share Options were to be exercised in full prior to the effective date of the Capital Reduction, an additional 11,400,000 Existing Shares would be in issue and an additional credit of HK\$1,026,000 would arise from the Capital Reduction. Such credit, if so arising, will be credited to the Special Reserve.

The size of each board lot of the New Shares will remain the same as that of the Existing Shares, being 4,000 shares per board lot. The New Shares will rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions contained in the Company's articles of association.

LETTER FROM THE BOARD

Reasons for the Capital Reduction

The Board considers that the proposed Capital Reduction will enable the nominal value of the Existing Shares of the Company to be reduced from HK\$0.10 each to HK\$0.01 each. Since 10 February 2003, the Existing Shares have traded at prices below their par value of HK\$0.10 each. The closing price of the Existing Shares on 16 March 2004, being the last trading day immediately before the date of the Announcement, and the Latest Practicable Date, was HK\$0.045 and HK\$0.055 per Existing Share respectively.

Under the Companies Law, a company may not issue shares at a discount to the nominal value of such shares unless, among other things, the issue is authorised by a resolution of the shareholders of the company and is sanctioned by the Court.

With a view to providing greater flexibility to the Company in pricing future capital raising exercises when circumstances arise, the Board intends to put forward the proposal for the Capital Reduction.

Although the Company has no concrete plan to raise capital as at the Latest Practicable Date, the Company may conduct capital raising exercises, including but not limited to the issue of New Shares, if and when suitable opportunities arise. Further announcement will be made as and when required in accordance with the GEM Listing Rules.

Conditions of the Capital Reduction

The Capital Reduction is conditional on the following conditions:

- (a) the Shareholders' approval by special resolution at the Extraordinary General Meeting of the Company to be convened to approve, among other things, the Capital Reduction;
- (b) compliance with any conditions which the Court may impose in relation to the Capital Reduction;
- (c) the confirmation by the Court and the registration by the Registrar of Companies in the Cayman Islands of a copy of the Court order and the minutes containing the particulars required under the Companies Law; and
- (d) the GEM Listing Committee granting the listing of, and permission to deal in, the New Shares arising from the Capital Reduction.

The Capital Reduction will become effective when the conditions mentioned above are fulfilled. Upon the approval by the Shareholders of the Capital Reduction at the Extraordinary General Meeting, the legal advisors to the Company (as to the Cayman Islands law) will file the necessary court documents with the Court to obtain Court's confirmation of the Capital Reduction and a preliminary timetable will be announced as soon as the Court's hearing date to obtain Court's confirmation is confirmed. A further announcement will also be made by the Company informing the Shareholders of the effective date of the Capital Reduction.

LETTER FROM THE BOARD

Effect of the Capital Reduction

Save for the expenses of approximately HK\$0.5 million incurred in relation to the Capital Reduction, the Directors consider that the Capital Reduction will have no material effect on the underlying assets, business operations, management or financial position of the Company or the proportional interests of the Shareholders in the Company.

The Directors believe that, save for the application of the credit sum arising from the Capital Reduction towards eliminating the accumulated losses and crediting any balance thereafter to the Special Reserve of the Company, the proposed Capital Reduction will not have any material impact on the financial position of the Company nor will it have any material impact on the rights of the Shareholders and creditors of the Company.

Adjustment to subscription price of Share Options

As at the Latest Practicable Date, the Company had outstanding Share Options granted to two executive Directors and a legal advisor to the Group to subscribe for an aggregate of 11,400,000 Existing Shares at an exercise price of HK\$0.30 each.

Pursuant to the rules of the Pre-IPO Share Option Scheme, the Board has been advised by the legal advisor to the Company (as to the Hong Kong law) that the implementation of the Capital Reduction will not result in any adjustment to the subscription price or the number of New Shares to be subscribed for in relation to the outstanding Share Options granted to the grantees under the Pre-IPO Share Option Scheme.

Application for listing

An application will be made to the GEM Listing Committee of the Stock Exchange by the Company for the granting of the listing of, and permission to deal in, the New Shares pending confirmation of the Capital Reduction to be issued by the Court.

The Existing Shares are listed and dealt in on the GEM. No part of the Company's securities are listed or dealt in on any other stock exchange, nor application for the listing of or permission to deal in the Existing shares and the New Shares on any other stock exchange is being or proposed to be sought.

The New Shares will be listed on the GEM only and not on any other stock exchange.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

LETTER FROM THE BOARD

Share certificates and dealings

Assuming that the Capital Reduction will become effective, new share certificates for the New Shares will be issued in **brown** colour in order to distinguish them from existing share certificates (in **green** colour) for the Existing Shares.

As the Court hearing dates have yet to be fixed, the effective date of the Capital Reduction is not ascertainable at present. Should the Capital Reduction become effective, Shareholders may exchange their existing share certificate(s) for new share certificate(s) free of charge by delivering their existing share certificate(s) to the Registrar within four weeks after the Capital Reduction has become effective. Thereafter, existing share certificate(s) will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher as many from time to time be allowed by the Stock Exchange) for each new share certificate issued for the New Shares. A Shareholder will be entitled to aggregate his/her New Shares registered in his/her name in order to obtain new share certificates in the board lot size of 4,000 New Shares. All existing certificates of the Existing Shares will continue to be good evidence of legal title to the Existing Shares and be valid for delivery, transfer and settlement purpose, and may be exchanged into new share certificates for the New Shares in accordance with the foregoing. Details of such free exchange of share certificates will be announced as soon as the effective date of the Capital Reduction is ascertainable.

It is expected that new share certificates for the New Shares will be available for collection on or after the 10th Business Day from the date of submission of the existing share certificates for the Existing Shares to the Registrar for exchange. Unless instructed otherwise by the Shareholders at the time of delivering the existing certificate(s) for the Existing Shares to the Registrar for exchange, new share certificates will be issued in board lots of 4,000 New Shares.

GENERAL MANDATE TO REPURCHASE NEW SHARES

At the Extraordinary General Meeting, an ordinary resolution will be proposed to grant to the Directors authority, conditional upon the Capital Reduction becoming effective, to repurchase, as for the fully paid New Shares, of up to 10% of the aggregate nominal amount of share capital of the Company in issue immediately following the Capital Reduction becoming effective (the “Repurchase Mandate”).

The Repurchase Mandate will, if granted, remain in effect until the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next general meeting of the Company is required to be held by the law or by the articles of association of the Company; and (iii) the revocation or variation by an ordinary resolution of the Shareholders in general meeting.

An explanatory statement in relation to the Repurchase Mandate as required by the relevant provisions of the GEM Listing Rules concerning the regulation of repurchases by companies of their own securities on the GEM is set out in the Appendix to this circular.

LETTER FROM THE BOARD

GENERAL MANDATE TO ISSUE NEW SHARES

At the Extraordinary General Meeting, an ordinary resolution will also be proposed that the Directors be given, conditional upon the Capital Reduction becoming effective, a general mandate to allot, issue and deal with the New Shares not exceeding 20% of the aggregate nominal amount of share capital of the Company in issue immediately following the Capital Reduction becoming effective (the “General Mandate”).

The General Mandate will, if granted, remain in effect until the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next general meeting of the Company is required to be held by the law or by the articles of association of the Company; and (iii) the revocation or variation by an ordinary resolution of the Shareholders in general meeting.

In addition, if the Repurchase Mandate is granted, an ordinary resolution will be proposed at the Extraordinary General Meeting providing that any New Shares repurchased under the Repurchase Mandate will be added to the total number of New Shares which may be allotted and issued under the General Mandate.

With respect to the Repurchase Mandate and the General Mandate, the Directors wish to state that they have no immediate plan of exercising the Repurchase Mandate to repurchase the New Shares and the General Mandate to allot New Shares upon the Capital Reduction becoming effective, but consider both mandates to be in the interests of the Company in order to provide flexibility.

During the period between the passing of the ordinary resolutions mentioned aforesaid at the Extraordinary General Meeting and the effective date of the Capital Reduction, no Existing Shares and/or New Shares will be allotted and issued or repurchased under the General Mandate and the Repurchase Mandate.

EXTRAORDINARY GENERAL MEETING

A notice convening the Extraordinary General Meeting to be held at Meeting Room, 1/F., Wing Fai Shopping Arcade, 52 Wing Kwong Street, Hung Hom, Kowloon, Hong Kong on Monday, 10 May 2004 at 9:00 a.m. is set out on pages 12 to 15 of this circular for the purpose of considering and, if thought fit, passing the resolutions in respect of, among other things, the Capital Reduction and the granting of the General Mandate and the Repurchase Mandate.

A form of proxy for use by the Shareholders at the Extraordinary General Meeting is enclosed. If you do not intend to attend and vote at the Extraordinary General Meeting in person, you are required to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Standard Registrars Limited, G/F, BEA Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible but in any event, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting thereof (as the case may be) should you so wish.

LETTER FROM THE BOARD

RECOMMENDATION

Having regard to the information described above, the Board is of the opinion that the Capital Reduction and the proposed granting of the Repurchase Mandate and the General Mandate to the Directors, upon the Capital Reduction becoming effective, is in the best interest of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions to approve the same at the Extraordinary General Meeting.

The Repurchase Mandate may, depending on market conditions and funding arrangement at the time, lead to an enhancement of the net value of the Company and its net assets and/or earnings per New Share and will only be made when the Directors believe that a repurchase of New Shares will benefit the Company and the Shareholders. Accordingly, the Board recommends the Shareholders to vote in favour of the resolutions to approve the same at the Extraordinary General Meeting.

ADDITIONAL INFORMATION

Your attention is drawn to the Appendix of this circular which sets out the explanatory statement in relation to the granting of the proposed Repurchase Mandate.

As at the Latest Practicable Date, the executive Directors and independent non-executive Directors are as follows:

Executive Directors:

Wong Cheah Foo (*Chairman*)
Leung Oi Wah (*Vice-chairlady*)
Gao Junqing (*Director*)
Lin Daquan (*Director*)

Independent non-executive Directors:

Junya Kabeya
Tsoi Chi Yin

Yours faithfully,
For and on behalf of
New Chinese Medicine Holdings Limited
Wong Cheah Foo
Chairman

This appendix serves as an explanatory statement, as required by the GEM Listing Rules, to provide requisite information to you for your consideration of the Repurchase Mandate.

1. GEM LISTING RULES RELATING TO THE REPURCHASE OF SHARES

The GEM Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their shares on GEM subject to certain restrictions, the more important restrictions of which are summarised below. The Company is empowered by its memorandum and articles of association to repurchase its own shares.

Repurchase must be funded out of funds which are legally available for the purpose and in accordance with the memorandum and articles of association of the Company and the Companies Law (Revised) of the Cayman Islands (the “Companies Law”). A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Companies Law, a company may repurchase its shares out of the proceeds of a fresh issue of shares made for the purpose or out of profits of the Company. Capital can be used if the Company will be able to pay its debts as they fall due in the ordinary course of business following such payment.

As at the Latest Practicable Date, no connected person of the Company has notified the Company that he/she/it has a present intention to sell any shares to the Company or has any such connected person undertaken not to sell any of the shares held by him/her/it to the Company in the event that the Company is authorised to make purchase of shares.

2. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 469,000,000 Existing Shares of HK\$0.10 each. The issued share capital of the Company immediately upon the Capital Reduction becoming unconditional and effective will comprise 469,000,000 New Shares of HK\$0.01 each.

Subject to the passing of the ordinary resolution and on the basis that no New Shares are issued or repurchased by the Company prior to the annual general meeting, the Company will be allowed under the Repurchase Mandate to repurchase a maximum of 46,900,000 New Shares, being 10% of the issued share capital of the Company immediately upon the Capital Reduction becoming unconditional and effective.

3. REASONS FOR THE REPURCHASE

The Directors believe that the proposed Repurchase Mandate is in the best interests of the Company and Shareholders. An exercise of the Repurchase Mandate may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per share and/or earnings per share of the Company and will only be made when the Directors believe that repurchase of New Shares will benefit the Company and Shareholders.

4. FUNDING OF REPURCHASES

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the memorandum and articles of association of the Company, the GEM Listing Rules and the applicable laws of the Cayman Islands. A company may not repurchase its shares on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Pursuant to the Repurchase Mandate, repurchase would be funded entirely from the Company's available cash flow or working capital facilities which will be funds legally available under the Companies Law for the purpose.

In the event that the proposed purchase were to be carried out in full at any time during the proposed repurchase period, it would not have a material adverse impact on the working capital and gearing position of the Company as compared with the position disclosed in its most recent published audited accounts for the period ended 31 March 2003. The Directors do not, however, intend to make any repurchase in circumstances that would have a material adverse impact on the working capital or gearing of the Company.

5. SHARE PRICES

The highest and lowest prices at which the Existing Shares have been traded on GEM during each of the previous twelve calendar months were as follows:

	SHARES	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
March 2003	0.070	0.036
April 2003	0.078	0.032
May 2003	0.050	0.035
June 2003	Suspended	Suspended
July 2003	0.084	0.035
August 2003	0.063	0.042
September 2003	0.078	0.050
October 2003	0.052	0.036
November 2003	0.075	0.044
December 2003	0.053	0.038
January 2004	0.057	0.044
February 2004	0.068	0.047
March 2004	0.060	0.038
April 2004 (up to the Latest Practicable Date)	0.060	0.037

6. DISCLOSURE OF INTERESTS, THE CODE AND MINIMUM PUBLIC HOLDING

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any associates of the Directors currently intends to sell any New Shares to the Company in the event that the proposal is approved by Shareholders.

The Directors have undertaken to the Stock Exchange that they will exercise powers of the Company to make repurchases pursuant to the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands and in accordance with the memorandum and articles of association of the Company.

Assuming that the substantial Shareholders do not dispose of its New Shares, if the Repurchase Mandate is exercised in full, the percentage shareholdings of the substantial Shareholders before and after such repurchase would be as follows:

Substantial Shareholders	Before repurchase	After repurchase
Great Fair Limited (<i>Note 1</i>)	19.07%	21.19%
Wealth Way Limited (<i>Note 1</i>)	23.74%	26.38%
Sichuan Research Institute of New Medicine (<i>Note 2</i>)	6.82%	7.58%
Technique Enterprises Limited (<i>Note 3</i>)	10.45%	11.61%

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 named by Gao Junqing, Lin Daquan, Gao Yang, Yang Cifen, Wang Yuanping, Gau 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.

If a Shareholder's proportionate interest in the voting rights of the Company increases on the Company exercising its powers to repurchase securities pursuant to the Repurchase Mandate, such increase will be treated as an acquisition for the purpose of Rule 32 of the Hong Kong Code on Takeover and Mergers (the "Code"). As a result, a Shareholder or group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Code.

On the basis of the shareholdings held by the substantial Shareholders named above, an exercise of the Repurchase Mandate in full will not have any implications under the Code.

If the Directors exercise the Repurchase Mandate (whether in whole or in part), they will not exercise it to the extent which would result in the number of shares being held by the public falling below the relevant minimum prescribed percentage of the Company as required by the Stock Exchange, which is 25% of the entire issued share capital of the Company.

7. SHARE REPURCHASE MADE BY THE COMPANY

The Company had not purchased any of the Existing Shares (whether on GEM or otherwise) during the previous six months.

NOTICE OF EXTRAORDINARY GENERAL MEETING



NEW CHINESE MEDICINE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of the shareholders of New Chinese Medicine Holdings Limited (“the Company”) will be held at 9:00 a.m. on 10 May 2004 at Meeting Room, 1/F., Wing Fai Shopping Arcade, 52 Wing Kwong Street, Hunghom, Kowloon, Hong Kong, for the purposes of considering and, if thought fit, passing with or without amendments, the following resolutions which will be proposed as special and ordinary resolutions:

SPECIAL RESOLUTION

1. **THAT**, conditional upon (i) confirmation of the Capital Reduction (as defined below) by the Grand Court (the “Court”) of the Cayman Islands, registration by the Registrar of Companies of the Cayman Islands of the order of the Court confirming the Capital Reduction and the minute approved by the Court in respect of the Capital Reduction and compliance with any conditions as may be imposed by the Court in relation to the Capital Reduction, and (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited approving the listing of, and granting the permission to deal in, shares of HK\$0.01 each in the issued share capital of the Company upon the Capital Reduction (as defined below) becoming effective (the “Effective Date”):
 - (a) the issued share capital of the Company be reduced by canceling paid-up capital to the extent of HK\$0.09 on each of the shares of HK\$0.10 each in the capital of the Company in issue on the Effective Date (the “Capital Reduction”) so that each issued share in the capital of the Company shall be treated as one fully-paid up share of HK\$0.01 each in the capital of the Company (the “New Share”) and any liability of the holders of New Shares to make any further contribution to the capital of the Company on each such New Share shall be treated as satisfied;
 - (b) subject to and forthwith upon the Capital Reduction taking effect, the entire authorized but unissued share capital of the Company, including the authorized but unissued share capital arising from the Capital Reduction, be cancelled and forthwith upon such cancellation, the authorized share capital of the Company be increased by the creation of such number of New Shares as shall be necessary to increase the authorized share capital of the Company to HK\$200,000,000 but divided into 20,000,000,000 New Shares (the “Diminution and Increase”);
 - (c) subject to and forthwith upon the Capital Reduction taking effect, the credit amount arising from the Capital Reduction be applied to a distributable reserve of the Company where it may be utilized by the directors in accordance with the articles of association of the Company and all applicable laws, including to eliminate the accumulated losses of the Company as at 31 December, 2003 (the “Application of Credit”); and

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- (d) the directors of the Company be and are hereby authorised generally to do all such acts, deeds and things as they shall, in their absolute discretion, deem appropriate to effect and implement the Capital Reduction, the Diminution and Increase and the Application of Credit.

ORDINARY RESOLUTIONS

2. **“THAT:**

- (a) conditional upon the Capital Reduction taking effect, the existing powers of the Company to repurchase the share capital of the Company in issue, which has been granted at the annual general meeting of the Company held on 8 August 2003, be revoked and ceased to have effect immediately;
- (b) conditional upon the Capital Reduction taking effect, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to repurchase, as for the fully paid New Shares, of up to 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following the Capital Reduction becoming effective (“Repurchase Mandate”) be approved;
- (c) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the law or by the articles of association of the Company;
or
- (iii) the revocation or variation by any ordinary resolution of the shareholders in general meeting.

3. **“THAT:**

- (a) conditional upon the Capital Reduction taking effect, the existing powers of the Company to allot, issue and deal with the shares in the share capital of the Company, which has been granted at the annual general meeting of the Company held on 8 August 2003, be revoked and ceased to have effect immediately;
- (b) conditional upon the Capital Reduction taking effect, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with the New Shares not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following the Capital Reduction becoming effective (“General Mandate to issue New Shares”) be approved;

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(c) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required to be held by the law or by the articles of association of the Company; or
- (iii) the revocation or variation by an ordinary resolution of the shareholders in general meeting.

4. **“THAT:**

conditional upon the Repurchase Mandate and General Mandate to issue New Shares becoming unconditional and effective, any New Share repurchased by the Company pursuant to the Repurchase Mandate be added to the total number of New Shares which may be issued under the General Mandate to issue New Shares.”

By Order of the Board
New Chinese Medicine Holdings Limited
Wong Cheah Foo
Chairman

Hong Kong, 16 April 2004

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business:

A portion of the 1st Floor
Wing Fai Mansion
52 Wing Kwong Street
Hung Hom, Kowloon

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (1) A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the article and associations of the Company, vote on his behalf. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority, must be deposited at the office of the Company's branch registrar in Hong Kong, Standard Registrars Limited, at G/F, BEA Harbour View Center, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or adjourned meeting thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person should he so desire.