
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your 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, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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NEW CHINESE MEDICINE HOLDINGS LIMITED (新醫藥控股有限公司)

(incorporated in Cayman Islands with limited liability)
(Stock code: 8085)

THE DEED OF SETTLEMENT AND THE SUBSCRIPTION AGREEMENT

This circular, for which 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 of 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, (i) the information contained in this circular is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement herein misleading; and (iii) 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.

A notice convening an extraordinary general meeting of the Company to be held at 10:00 a.m. on Thursday, 29 December 2005 at Room 802, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong is set out on pages 15 to 16 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed. Whether or not you are able to attend and vote at the extraordinary general meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company’s branch share registrar in Hong Kong, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the extraordinary general meeting or any adjourned meeting should you so wish.

This circular will remain on the website of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting.

CHARACTERISTICS OF GEM

The Growth Enterprise Market (“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 future 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 characteristics 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 of Hong Kong Limited (the “Stock Exchange”). Listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website 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 shall have the following meanings:

“Announcement”	the announcement of the Company dated 25 November 2005
“Associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Bond”	a redeemable convertible bond to be issued by the Company to the Creditor in the aggregate principal amount of HK\$10,000,000 with a term of 5 years
“Company”	New Chinese Medicine Holdings Limited, a company incorporated in the Cayman Islands, the issued Shares of which are listed on the GEM
“Conversion Shares”	138,888,890 Shares which will fall to be allotted and issued upon conversion of the Bond at the conversion price of HK\$0.072 per Share
“Creditor”	Mr. Ng Siu Fung, a third party independent of and not connected with the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates
“Deed of Settlement “	a deed of settlement dated 24 November 2005 entered into between the Company and the Creditor
“Director(s)”	directors of the Company
“EGM”	an extraordinary general meeting of the Company to be held at 10:00 a.m. on Thursday, 29 December 2005 (or any adjournment thereof) for the purpose of approving the resolution set out in the EGM Notice
“EGM Notice”	the notice convening the EGM as set out on pages 15 to 16 of this circular
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing committee of the Stock Exchange with responsibilities for GEM
“GEM Listing Rules”	the Rules governing the Listing of Securities on the GEM

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	12 December 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“PRC”	the People’s Republic of China
“Remaining Indebtedness”	an amount of HK\$12,229,742.70 (inclusive of principal, interest, fees, costs or otherwise) owned by the Company to the Creditor pursuant to a loan agreement dated 17 January 2005 outstanding as at the date of the Announcement)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	existing ordinary share(s) of HK\$0.04 each in the issued share capital of the Company
“Shareholder(s)”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

LETTER FROM THE BOARD



NEW CHINESE MEDICINE HOLDINGS LIMITED **(新醫藥控股有限公司)**

(incorporated in Cayman Islands with limited liability)
(Stock code: 8085)

Executive Directors:

Mr. Wong Chun Keung
Mr. Fung Cheuk Nang Clement
Ms. Tong Pui Chi Lucia

Independent non-executive Directors:

Mr. Chu Kar Wing
Mr. Loke Hoi Lam
Mr. Ku Ling Yu John

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 in Hong Kong:*

Room 802, Tower 1
Harbour Centre
1 Hok Cheung Street
Hung Hom, Kowloon
Hong Kong

13 December 2005

To the Shareholders

Dear Sirs or Madams,

THE DEED OF SETTLEMENT AND THE SUBSCRIPTION AGREEMENT

INTRODUCTION

On 24 November 2005, the Company entered into the Deed of Settlement with the Creditor whereby the Creditor irrevocably agreed that the indebtedness of HK\$12,229,742.70 shall be settled by the issuance of a redeemable convertible bond by the Company to the Creditor in the aggregate principal amount of HK\$10,000,000 with a term of 5 years.

LETTER FROM THE BOARD

In consideration of the Creditor agreeing to settle the Remaining Indebtedness pursuant to the Deed of Settlement, the Company entered into the Subscription Agreement with the Creditor on 24 November 2005. Pursuant to the Subscription Agreement, the Company agreed to issue and the Creditor agreed to subscribe for the Bond.

Under the GEM Listing Rules, completion of the Deed of Settlement and the Subscription Agreement is conditional upon obtaining the approval of Shareholders. No Shareholders are required to abstain from voting at the EGM.

The purpose of this circular is to provide you with information regarding, amongst other things, the Deed of Settlement and the Subscription Agreement, and the EGM Notice at which resolution will be proposed to the Shareholders to consider.

THE DEED OF SETTLEMENT

Date : **24 November 2005**

Parties : **(a) The Company**
(b) The Creditor

Having made all reasonable enquiries, to the best knowledge, information and belief of the Directors, the Creditor is a third party independent of and not connected with the Company and its subsidiaries, their directors, chief executives and substantial shareholders or their respective associates.

To the best knowledge of the Directors, the Creditor is a director of a private company principally engaged in the Chinese herbs trading business in the PRC and the Creditor does not hold any directorship in any listed companies.

By a loan agreement dated 17 January 2005 entered into between the Creditor and the Company, the Creditor agreed to advance up to the extent of HK\$15,000,000 to the Company and the Company promised to repay the Creditor principal plus interest accrued at the rate of 5.25% per annum on or before 30 June 2006. The Creditor advanced an aggregated sum of about HK\$13,095,017.72 to the Company as working capital since entering into of the said loan agreement and as at the date of the Announcement, the balance of the indebtedness outstanding (inclusive of principal, interests, fees, costs or otherwise) amounts to HK\$12,229,742.70. Pursuant to the Deed of Settlement, the Creditor irrevocably agreed that the Remaining Indebtedness shall be settled by the issuance of a redeemable convertible bond, by the Company to the Creditor, in an aggregate principal amount of HK\$10,000,000 with a term of 5 years. Upon completion of the Deed of Settlement, the loan agreement will be invalid and the loan facilities up to the extent of HK\$15,000,000 will not be available to the Company. The major terms of the Bond are set out below.

LETTER FROM THE BOARD

Conditions Precedent

Completion of the Deed of Settlement is conditional upon:

- (a) the passing by Shareholders in general meeting of an ordinary resolution approving the Deed of Settlement, the Subscription Agreement, the issue of the Bond by the Company and the transaction(s) contemplated therein; and
- (b) the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares.

The Company shall use its best endeavours to procure the satisfaction of the above said conditions on or before 31 January 2006.

THE SUBSCRIPTION AGREEMENT

Date : 24 November 2005

Parties : (a) The Company as issuer
(b) The Creditor as subscriber

Subject to the fulfilment of the conditions as set out below, the Creditor agreed to settle the Remaining Indebtedness by means of the Company issuing and the Creditor subscribing for the Bond in the aggregate principal amount of HK\$10,000,000 with a term of 5 years pursuant to the terms set out in the Deed of Settlement and the Subscription Agreement. The Directors were informed by the Creditor that he has no present intention to convert the Bond into any new Shares upon completion of the Subscription Agreement.

As at the Latest Practicable Date, the Company has no outstanding convertible bonds, options or warrants which confer the right to subscribe for Shares.

The major terms of the Bond are as follows:

Maturity date: The Bond is due and will mature on the fifth anniversary of the date of issue of the Bond. The Company shall repay the principal amount outstanding under the Bond to the bondholder(s) on the fifth anniversary of the date of issue of the Bond.

Redemption: Ten certificates in respect of the Bond in the principal amount of HK\$1,000,000 each will be issued to the Creditor by the Company. The Bond may be redeemed at the option of the Company in whole (in an amount of HK\$1,000,000 each), but not in part, on giving not less than 30 nor more than 60 days' notice to the bondholder(s) at their principal amount without any interest.

LETTER FROM THE BOARD

- Interest:** The Bond shall not bear any interest.
- Conversion rights:** The Creditor shall have the right, to convert the Bond in an amount or integral multiple of HK\$1,000,000 of the outstanding principal amount of the Bond into Shares at any time following the date of issue of the Bond at the price of HK\$0.072 per Share.
- Conversion price:** The conversion price of HK\$0.072 per Share represents a discount of approximately 20% to the closing price of HK\$0.09 per Share as quoted on the Stock Exchange (i) on 23 November 2005, being the last trading day of the Shares on the Stock Exchange prior to the publication of the Announcement; and (ii) the average closing price of HK\$0.09 per Share as quoted on the Stock Exchange for the last ten trading days up to and including 23 November 2005.
- Conversion shares:** Assuming full conversion of the Bond, the Company will issue 138,888,890 new Shares, representing (a) approximately 24.48% of the Company's total issued share capital as at the date of the Announcement; and (b) approximately 19.67% of the Company's issued share capital as enlarged by the issue of the Conversion Shares. The Conversion Shares will rank pari passu in all respects with the existing Shares in issue.
- The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.
- Transferability:** Subject to the approval of the Company, the Bond may be assigned or transferred to any party or parties other than a party connected with the Company or any of the connected persons as defined in the GEM Listing Rules. The Company will undertake to the Stock Exchange that it will disclose to the Stock Exchange any dealings by any of the connected persons as defined in the GEM Listing Rules from time to time in the Bond immediately upon the Company becoming aware of such dealings.
- Voting right:** Holder of the Bond (or any part thereof) will not be entitled to attend or vote at any Shareholders' and/or warrant holders' meetings of the Company by reason only of it being a holder of the Bond (or any part thereof).
- Listing and trading:
of the Bond** No application will be made for the listing of and permission to deal in the Bond on the Stock Exchange or any other stock exchange.

LETTER FROM THE BOARD

Conditions Precedent

Completion of the Subscription Agreement is conditional upon:

- (a) the passing by Shareholders in general meeting of an ordinary resolution approving the Subscription Agreement, the Deed of Settlement, the issue of Bond and the transaction(s) contemplated therein;
- (b) the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares which may fall to be allotted and issued on conversion of the Bond; and
- (c) the execution by the Creditor of the Deed of Settlement.

The Company and the Creditor undertake to each other that they will exercise (to the extent they are able to exercise) their respective best endeavours to procure that the said conditions are fulfilled as early as practicable and in any event not later than 31 January 2006 or such later date as the parties may agree in writing.

In the event that the said conditions are not fulfilled on or before 31 January 2006 or such later date as the parties may agree in writing, the Subscription Agreement shall lapse and become null and void, and the parties shall be released from all their respective obligations thereunder, save for the liabilities for any antecedent breach of the Deed of Settlement.

REASON AND BENEFITS OF THE DEED OF SETTLEMENT AND THE SUBSCRIPTION AGREEMENT

The Group is principally engaged in the sales of health care products. 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.

The Directors are of the view that completion of the Deed of Settlement and the Subscription Agreement will enable the Company to reduce the Group's outstanding liabilities by settling the Remaining Indebtedness by means of issue of the Bond. The cash outflow position of the Group will thus be improved upon full conversion of the Bond.

The Directors consider that the terms of the Deed of Settlement and the Subscription Agreement were arrived at after arm's length negotiations and are on normal commercial terms and are fair and reasonable. The conversion price of HK\$0.072 per Share was determined with reference to (a) the closing price of HK\$0.09 per Share as quoted on the Stock Exchange on 23 November 2005, being the last trading day of the Shares on the Stock Exchange prior to the publication of the Announcement; and (b) the unaudited net asset value of the Group as at 30 September 2005 of approximately Hong Kong cents 0.087 per Share.

The Directors consider that the entering into of the Deed of Settlement and the Subscription Agreement is in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The Directors are of the view that the Company's cashflow position and business operations will not be adversely affected by reason of not entering into the Deed of Settlement and the Subscription Agreement.

CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the Company's existing shareholding structure and the shareholding structure upon full conversion of the Bond:

Name	Existing shareholding	%	Shareholding immediately upon full conversion of the Bond	%
Excel Point	354,980,000	62.58	354,980,000	50.27
The Creditor	0	0.00	138,888,890	19.67
Public	212,270,000	37.42	212,270,000	30.06
Total	<u>567,250,000</u>	<u>100.00</u>	<u>706,138,890</u>	<u>100.00</u>

EGM

A notice convening the EGM to be held at 10:00 a.m. on Thursday, 29 December 2005 for the purpose of considering and, if thought fit, passing the resolution proposed and set out on pages 15 to 16 of this circular.

The EGM will be held by the Company to approve, amongst other things, the Deed of Settlement, the Subscription Agreement and the issue of the Bonds and the Shares to be issued upon conversion of the Bonds. No Shareholder is required to be abstained from voting at the EGM.

A form of proxy is herewith enclosed for use at the EGM. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy and return it to the Company's branch share registrar in Hong Kong, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time for the EGM. Completion and delivery of the form of proxy will not prevent Shareholders from attending and voting at the EGM if they so wish.

LETTER FROM THE BOARD

PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 66 of the Articles of Association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the meeting; or
- (ii) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A demand by a person as proxy for a member (or, in the case of member being a corporation by its duly authorized representative) shall be deemed to be the same as a demand by a member.

RECOMMENDATION

The Board considers that the resolution proposed in this EGM Notice are in the interests of the Company and the Shareholders as a whole. The Board recommends that the Shareholders vote in favour of the resolution to be proposed at the EGM.

Your attention is also drawn to the EGM Notice set out in this circular.

Yours faithfully,
By order of the Board
New Chinese Medicine Holdings Limited
Wong Chun Keung
Chairman

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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:

- (a) the information contained in this circular is accurate and complete in all material respects and is not misleading;
- (b) there are no other facts the omission of which would make any statement in this circular misleading; and
- (c) 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.

2. SHARE CAPITAL OF THE COMPANY

Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and following completion of the Deed of Settlement and the Subscription Agreement and fully conversion of the Bond will be, as following:

HK\$

Authorised:

<u>5,000,000,000</u>	Shares as at the Latest Practicable Date	<u>200,000,000</u>
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Issued and to be issued and fully paid up or credited as fully paid up:

567,250,000	Shares in issue as at the Latest Practicable Date	22,690,000
<u>138,888,890</u>	new Shares to be issued upon fully conversion of the Bond	<u>5,555,556</u>
<u>706,138,890</u>	Shares in issue upon fully conversion of the Bond	<u>28,245,556</u>

3. DISCLOSURE OF INTERESTS

(A) Directors' and Chief Executive's Interests in Shares

As at the Latest Practicable Date, 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 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

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

Notes:

1. 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 Latest Practicable Date, 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.

Directors' Rights to Acquire Shares or Debentures

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.

(B) Substantial Shareholders

Substantial Shareholders

As at the Latest Practicable Date, 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 position)

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:

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

Save as disclosed above, as at the Latest Practicable Date, 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.

(C) Management Shareholders

Save for the interests disclosed above in respect of the Directors, chief executive and their associates, the Directors are not aware of any person who, as at the Latest Practicable Date, was entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who was able, as a practical matter, to direct or influence the management of the Company.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware of, none of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competed or might compete with businesses of the Group pursuant to Rule 11.04 of the GEM Listing Rules.

5. MATERIAL CHANGE

Save for the information disclosed in this circular and the Company's unaudited interim report for the six months ended 30 September 2005, the Directors are not aware of any material change in the financial or trading position of the Group since 31 March 2005, the date to which the latest published audited accounts of the Group as at 31 March 2005 were made up.

6. LITIGATION

As at the Latest Practicable Date, the Directors were aware that (i) a writ of summons was filed by two plaintiffs against, amongst other things, Wondergold Limited ("Wondergold"), a non-major subsidiary of the Company on 4 January, 2005 regarding, inter alia, a claim for breach of an agreement by Wondergold and other losses and damages (including but not limited to the damages for breach of trust by Wondergold, damages for detinue and/or conversion and the net proceeds for sale of goods and the repayment of HK\$1,500,000 which was already repaid by Wondergold) alleged to be suffered by the plaintiffs. The plaintiffs also sought an injunction against Wondergold to restrain Wondergold from selling or disposing of or in any way deal with the said goods. The plaintiffs applied for summary judgment by summons filed on 3 May 2005. Upon the hearing of the summons on 14 June 2005, the case was adjourned for hearing on a date to be fixed; and (ii) a writ of summons was filed by Brilliant Wealth Investment Limited in the District Court against Wondergold on 20 September 2005 for arrears of rent, rates, management fees, air-conditioning charges and mesne profits in the sum of HK\$568,371.55 and for damages to be assessed. Pursuant to an Order of the Court made on 22 November 2005, Wondergold filed its defence on 6 December 2005 to deny each and every allegation contained in the claim.

As at the Latest Practicable Date, the Directors were also aware that, a notice of place and day fixed for hearing was filed in accordance with the Small Claims Tribunal Ordinance by the Mandatory Provident Fund Schemes Authority as claimant against New Chinese Medicine (HK) Limited ("NCM"), a non-major subsidiary of the Company regarding, inter alia, a claim for the contributions in arrears together with the contribution surcharge. A judgment has been entered into against NCM and it was ordered that NCM has to pay to the Mandatory Provident Fund Schemes Authority HK\$10,685.02 being the amount of such claim together with the legal costs of the action incurred by the Mandatory Provident Fund Schemes Authority.

Save as disclosed above and as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claims of material importance were pending or threatened against any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which is not determinable by the Company exceeding one year without payment of compensation, other than statutory compensation.

8. GENERAL

- (a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands, British West Indies.

- (b) The head office and principal place of business of the Company in Hong Kong is at Room 802, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong.
- (c) The Company's branch share registrar and transfer office in Hong Kong is Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The company secretary is Mr. Cheung Kam Ming, an Associate Member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.
- (e) The qualified accountant of the Company is Mr. Law Kwok Chung, CPA, FCCA and ACA.
- (f) The compliance officer of the Company is Ms. Tong Pui Chi Lucia.
- (g) The Company has established an audit committee on 1 February 2002 with compliance with Rule 5.23 and 5.25 of the GEM Listing Rules. The duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee of the Company comprises the three independent non-executive Directors, Mr. Chu Kar Wing, Mr. Loke Hoi Lam and Mr. Ku Ling Yu John. The chairman of the audit committee is Mr. Loke Hoi Lam.
- (h) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. from Monday to Friday (except for public holidays) at the head office and principal place of business of the Company at Room 802, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong up to and including 29 December 2005:

- (1) the memorandum and articles of association of the Company;
- (2) the annual reports of the Company for the two years ended 31 March 2004 and 31 March 2005;
- (3) the Company's circular dated 6 May 2005 in relation to the change of auditors and notice of extraordinary general meeting;
- (4) the Company's circular dated 20 June 2005 in relation to share consolidation, change in board lot size, subscription of new shares by the subscriber and application for the Whitewash Waiver;
- (5) the Subscription Agreement;
- (6) the Deed of Settlement; and
- (7) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



NEW CHINESE MEDICINE HOLDINGS LIMITED (新醫藥控股有限公司)

(incorporated in Cayman Islands with limited liability)
(Stock code: 8085)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of New Chinese Medicine Holdings Limited (the “Company”) will be held at Room 802, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hungghom, Kowloon, Hong Kong, on Thursday 29 December 2005 at 10:00 a.m. or any adjournment thereof for the purposes of considering and, if thought fit, passing with or without amendment or modification, of the following resolutions:

ORDINARY RESOLUTION

“**THAT** the Deed of Settlement and the Subscription Agreement (as defined and described in the circular of the Company dated 13 December 2005), a copy of which is produced to the Meeting marked “A” and “B” respectively and signed by the chairman of the Meeting for the purpose of identification, and the transactions contemplated in or incidental to the Deed of Settlement and the Subscription Agreement be and are hereby approved, confirmed and ratified; and any one director of the Company be and is hereby authorised on behalf of the Company:

- (a) subject to completion of the Deed of Settlement and the Subscription Agreement, to issue a redeemable convertible bond (the “Bond”) of the Company in the principal amount of HK\$10,000,000 due on the fifth anniversary of the date of issue of the Bond, and to issue and allot the new shares to be converted upon conversion of the Bond at a price of HK\$0.072 per Share and ranking *pari passu* in all respects with the Shares then in issue;
- (b) to do all such other acts and things and execute all such documents for and on behalf of the Company as they may consider necessary, appropriate, desirable or expedient to implement, complete and give effect to the Deed of Settlement and the Subscription Agreement and the transactions contemplated therein.”

By order of the board of directors of
New Chinese Medicine Holdings Limited
Wong Chun Keung
Chairman

Hong Kong, 13 December 2005

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered office:

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

Head office & principal place of business in Hong Kong:

Room 802, Tower 1
Harbour Centre
1 Hok Cheung Street
Hungghom, Kowloon
Hong Kong

Notes:

- (1) Every member of the Company entitled to attend and vote at the above meeting (or at any adjournment thereof) is entitled to appoint one proxy or more than one proxy (if a member who is holder of two or more shares) to attend and vote instead of him/her. A proxy need not be a member of the Company.
- (2) Where there are joint registered holders of any share, any one of such joint holders may vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
- (3) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited at the office of the Company's branch share registrars and transfer office, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
- (4) Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the meeting. In the event that you attend the Meeting after having deposited a form or forms of proxy, your form or forms of proxy shall be deemed to have been revoked.
- (5) As at the date hereof, the board of directors of the Company comprises (i) three executive directors, namely Messrs. Wong Chun Keung, Fung Cheuk Nang Clement, and Tong Pui Chi Lucia; and, (ii) three independent non-executive Directors, namely Messrs. Chu Kar Wing, Loke Hoi Lam and Ku Ling Yu John.