
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 you should take, 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 and the accompanying form of proxy to the purchaser or the transferee or the bank, stockbroker or other registered dealer or other agent whom the sale or transfer was affected for transmission to the purchaser or transferee.

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

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

(Stock Code: 8085)

PROPOSED BONUS ISSUE OF LISTED WARRANTS

A notice convening an extraordinary general meeting of New Chinese Medicine Holdings Limited to be held at Room 802, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong on 27 June 2007 at 10:00 a.m. is set out on pages 21 to 22 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's principal place of business in Hong Kong at Room 802, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting (as the case may be). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish. The form of proxy for use at the extraordinary general meeting or any adjourned meeting is also enclosed. Such form of proxy is also published on the GEM website (www.hkgem.com).

8 June 2007

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

DEFINITION

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:–

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| “Associates” | has the same meaning as ascribed under the GEM Listing Rules; |
| “Board” | the board of Directors; |
| “Bonus Warrant Issue” | bonus issue of Warrants by the Company to all Shareholders whose names appear on the register of members of the Company on the Record Date, on the basis of one (1) Warrant for every five (5) Shares held on the Record Date; |
| “Business Day” | a day (excluding Saturday) on which the Stock Exchange is open for business of dealing in securities; |
| “CCASS” | Central Clearing and Settlement System established and operated by HKSCC; |
| “Company” | New Chinese Medicine Holdings Limited, a company incorporated in the Cayman Islands, the shares of which are listed on GEM of the Stock Exchange; |
| “connected persons” | has the same meaning as ascribed under the GEM Listing Rules; |
| “Director(s)” | director(s) of the Company; |
| “EGM” | an extraordinary general meeting of the Company to be held at Room 802, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong on Wednesday, 27 June 2007 at 10:00 a.m. to consider and, if appropriate, to approve the resolution contained in the notice of the meeting which is set out on pages 21 to 22 of this circular or any adjournment thereof; |
| “GEM” | the Growth Enterprise Market of the Stock Exchange; |
| “GEM Listing Rules” | the Rules Governing the Listing of Securities on the GEM; |
| “Group” | the Company and its subsidiaries; |
| “HK\$” | Hong Kong dollars; |
| “HKSCC” | Hong Kong Securities Clearing Company Limited; |
| “Hong Kong” | The Hong Kong Special Administrative Region of the People’s Republic of China; |

DEFINITION

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| “Latest Practicable Date” | 5 June 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular; |
| “Overseas Shareholder(s)” | Shareholder(s) whose address(es) as shown on the register of members of the Company at the close of business on the Record Date is/are outside Hong Kong; |
| “Record Date” | the record date for the purpose of ascertaining the entitlements of Shareholders to the Bonus Warrant Issue; |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time; |
| “Shares” | ordinary shares of HK\$0.04 in the capital of the Company; |
| “Shareholder(s)” | holder(s) of Shares; |
| “Specific Mandate” | the specific mandate to be granted by the Shareholders at the EGM for the issue and allotment of any Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “Subscription Rights” | the subscription right(s) attaching to the Warrant(s); |
| “Warrant(s)” | warrant(s) to be issued by the Company to subscribe for new Shares at the initial subscription price of HK\$0.60 per new Share, subject to adjustment, at any time from the date of the issue of the Warrants and end on 30 June 2010 (both dates inclusive); |
| “%” | per cent. |

LETTER FROM THE BOARD



NEW CHINESE MEDICINE HOLDINGS LIMITED **(新 醫 藥 控 股 有 限 公 司)**

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

Executive Directors:

Mr. Wong Chun Keung
Mr. Fung Cheuk Nang Clement
Ms. Tong Pui Chi Lucia
Mr. Wong Mo Wah Gordon
Mr. Ng Tin Shui

Independent Non-executive Directors:

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

Registered Office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681
George Town
Grand Cayman KY1-1111
Cayman Islands
British West Indies

*Head Office and Principal Place
of Business:*

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

8 June 2007

To the Shareholders

Dear Sir or Madam,

PROPOSED BONUS ISSUE OF LISTED WARRANTS

INTRODUCTION

The purpose of this circular is to provide you with information in relation to the resolution to be proposed at the EGM relating to the proposed Bonus Warrant Issue and to give you notice of the EGM.

LETTER FROM THE BOARD

BONUS WARRANT ISSUE

Introduction

It was announced on 21 May 2007 that the Directors proposed, subject to the satisfaction of the conditions as stated in the paragraph headed “Conditions to the Bonus Warrant Issue” below, to make the bonus warrant issue to its Shareholders whose names appear on the register of members of the Company on the Record Date on the basis of one (1) Warrant for every five (5) Shares held.

Subscription Price and Subscription Period

The Warrants will be issued in registered form and each Warrant will entitle the holder thereof to subscribe in cash for one Share at an initial subscription price of HK\$0.60, subject to adjustment, at any time during the period which is expected to commence on date of the issue of the Warrants i.e. 29 June 2007 and end on 30 June 2010 (both dates inclusive).

The subscription price represents a discount of approximately 11.8% to the closing price of HK\$0.680 per Share as quoted on the Stock Exchange on the date of the announcement on 21 May 2007, a discount of approximately 2.9% to the average closing price of HK\$0.618 per Share as quoted on the Stock Exchange for the past five trading days and a discount of approximately 0.2% to the average closing price of HK\$0.601 per Share as quoted on the Stock Exchange for the past 10 trading days up to, and including 21 May 2007.

Shares to be issued upon exercise of the Warrants

On the basis of 752,138,890 Shares in issue as at the Latest Practicable Date, and assuming no further Shares will be issued or repurchased by the Company on or before the Record Date, 150,427,778 Warrants would be issued pursuant to the Bonus Warrant Issue. Full exercise of the subscription rights attaching to the 150,427,778 Warrants at the initial subscription price of HK\$0.60 per Share would result in the issue of a total of 150,427,778 new Shares, representing approximately 20% of the issued ordinary share capital of the Company as at the Latest Practicable Date and approximately 16.67% of the issued ordinary share capital of the Company as at the Latest Practicable Date as enlarged by the issue of such new Shares, and the receipt by the Company of subscription moneys totalling approximately HK\$90 million.

As at the Latest Practicable Date, the Company does not have any other outstanding convertible securities, warrants, derivatives, conversion rights or subscription rights.

LETTER FROM THE BOARD

Fractional Entitlements

Fractional entitlements to the Warrants (if any) will not be issued to the Shareholders but will be aggregated and sold for the benefit of the Company. The net proceeds of sale will be retained for the benefit of the Company.

Overseas Shareholders

As at the Latest Practicable Date, the Company has five Shareholders whose addresses as shown on the register of members of the Company are in the People's Republic of China and two Shareholders whose addresses as shown on the register of members of the Company are in the British Virgin Islands. In determining whether it would be necessary or expedient to exclude an overseas Shareholder who registered as a member of the Company on the Record Date, the Directors have made enquiry pursuant to Rule 13.36(2)(a) of the Listing Rules with legal advisers of the places in which such Overseas Shareholder is residing on the legal restrictions under the laws of the relevant places and the requirements of the relevant regulatory body or stock exchange of the relevant places. The People's Republic of China and the British Virgin Islands' legal advisers have confirmed that there are not any such legal restrictions or requirements imposed by the relevant regulatory body or stock exchange in the People's Republic of China and in the British Virgin Islands on issue of the Warrants to the relevant Overseas Shareholders. As such, the Company will issue to such Overseas Shareholders their respective entitled Warrants.

Conditions to the Bonus Warrant Issue

The Bonus Warrant Issue will be conditional upon the following conditions:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Warrants and any Shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants; and
- (ii) the passing by the Shareholders at the EGM of the necessary resolutions to approve the issue of the Warrants and any shares which may fall to be issued upon the exercise of the subscription rights attaching to the Warrants and any transactions contemplated thereunder.

Reasons for the Bonus Warrant Issue

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

The Directors believe that the Bonus Warrant Issue will provide Shareholders with an opportunity to participate in the growth of the Company. The Bonus Warrant Issue will also strengthen the equity base of the Company and increase the Company's working capital if and when the subscription rights attaching to the Warrants are exercised.

LETTER FROM THE BOARD

The Company intends to apply any subscription moneys received as and when Subscription Rights are exercised towards the general working capital of the Group or for such other purposes as the Directors deem necessary, taking into consideration the requirements of the Company prevailing at the relevant time. The Company did not raise any other funds by issue of equity securities during the 12 months immediately preceding the Latest Practicable Date.

General Information about the Bonus Warrant Issue

The Bonus Warrant Issue is conditional upon, among others, the approval by the Shareholders at the EGM for granting the Specific Mandate to the Directors. The Bonus Warrant Issue complies with the relevant provisions of Chapter 21 of the GEM Listing Rules.

Expected Timetable

The expected timetable for implementing the Bonus Warrant Issue is set forth below:

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| | <i>2007</i> |
| Despatch of the EGM circular | 8 June |
| Last day of dealings in Shares cum entitlements to the Warrants | 18 June |
| First day of dealings in Shares ex-entitlements to the Warrants | 20 June |
| Latest time for lodging forms of transfer to ensure entitlement to the Warrants | 4:00 p.m. on 21 June |
| Register of members closes | 22 June to 27 June |
| Record Date | 27 June |
| EGM | 27 June |
| Register of members reopens | 28 June |
| Warrant certificates posted | 29 June |
| Dealings in the Warrants expected to commence | 4 July |

Listing and Dealings

Application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrants and the new Shares falling to be issued upon exercise of the Subscription Rights.

LETTER FROM THE BOARD

The new Shares falling to be issued upon exercise of the Subscription Rights will rank pari passu in all respects with the then existing issued Shares.

All necessary arrangements have been made to enable the Warrants to be admitted into CCASS. The Shares and the Warrants are not/will not be listed or traded on any other stock exchange other than the Stock Exchange and no such listing, or permission to deal in such Shares/Warrants, is being or proposed to be sought.

Subject to the granting of listing of, and permission to deal in, the Warrants and the Shares falling to be issued pursuant to the exercise of Subscription Rights on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Warrants 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 Warrants on the Stock Exchange (which is expected to be on Wednesday, 4 July 2007) 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.

Dealings in the Warrants and the Shares falling to be issued upon exercise of the Subscription Rights will be subject to the payment of stamp duty in Hong Kong.

Certificates for the Warrants and Board Lots

Subject to the satisfaction of the condition to the Bonus Warrant Issue, it is expected that certificates for the Warrants will be posted on or before 29 June 2007 at the risk of the Shareholders entitled thereto to their respective addresses shown on the register of members of the Company.

Dealings in the Warrants are expected to commence on the Stock Exchange on 4 July 2007. The Warrants are expected to be traded on the Stock Exchange in board lots of 20,000 Warrants carrying rights to subscribe for 20,000 Shares at HK\$12,000 at the initial subscription price of HK\$0.60 per Share (subject to adjustment).

Closure of Register of Members

The register of members of the Company will be closed from 22 June 2007 to 27 June 2007 (both days inclusive) in order to establish entitlements of Shareholders to the Bonus Warrant Issue. The last day for dealing in Shares cum entitlements to the Bonus Warrant Issue will be 18 June 2007. In order to qualify for the Bonus Warrant Issue, all outstanding transfers of Shares should be lodged with the branch share registrar of the Company in Hong Kong, Standard Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 21 June 2007.

EXTRAORDINARY GENERAL MEETING

The notice convening the EGM is set out on pages 21 to 22 of this circular. Resolution in respect of the Bonus Warrant Issue will be proposed at the EGM.

LETTER FROM THE BOARD

A form of proxy for the Extraordinary General Meeting is enclosed with this circular and published on the GEM website (www.hkgem.com). If you are not able to attend the meeting in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's principal place of business in Hong Kong at Room 802, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, 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 adjourned meeting (as the case may be). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so desire.

PROCEDURES FOR DEMANDING A POLL

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

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders presents in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder and Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorized 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 shares conferring that right.

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

RECOMMENDATION

The Directors consider that the Bonus Warrants Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend all Shareholders to vote in favour of all the relevant resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

GENERAL INFORMATION

Your attention is drawn to the additional information set out in Appendix to this circular.

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

The Warrants will be issued subject to and with the benefit of the Warrant Instrument (“the Instrument”) and they will be issued in registered form and will form one class with and rank pari passu in all respects with each other.

The principal terms and conditions of the Warrants will be set out in the Warrant certificates and will include provisions to the effect set out below. Holders of Warrants will be entitled to the benefit of, be bound by, and be deemed to have notice of all such terms and conditions and of the provisions of the Instrument, copies of which will be available from the principal place of business for the time being of the Company in Hong Kong.

1. SUBSCRIPTION RIGHTS

- (a) The registered holder for the time being of a Warrant will have the right (the “Subscription Rights”) for each unit of Warrant to subscribe in cash the whole or part (in units of HK\$0.60) of the amount in respect of which the Warrant is issued for fully paid new Shares at an initial subscription price of HK\$0.60 per new Share (subject to the adjustments referred to below) (the “Subscription Price”). The Subscription Rights attaching to the Warrants may be exercised during the Subscription Period. The business day falling during the Subscription Period on which any of the Subscription Rights are duly exercised is referred to in this summary as a “Subscription Date”. Any Subscription Rights which have not been exercised during the Subscription Period will lapse and the relevant Warrant certificates will cease to be valid for any purpose. References in this summary to “Shares” are to the existing Shares of the Company and all other (if any) Shares from time to time and for the time being ranking pari passu therewith.
- (b) Each Warrant certificate will contain a subscription form. In order to exercise his Subscription Rights, a holder of Warrants must complete and sign the subscription form (which shall, once signed and completed, be irrevocable) and deliver the Warrant certificate (and, if the subscription form used is not the form endorsed on the Warrant certificate, the separate subscription form) to Standard Registrars Limited in Hong Kong or such other person, firm or company situated either in Hong Kong or in the Cayman Islands as may be approved from time to time by the Directors to act as the registrar in relation to the Warrants and transfer of the Warrants (the “Registrar”) together with a remittance for the relevant subscription monies (or in case of partial exercise, the relevant portion of the subscription monies) for the new Shares in respect of which the Subscription Rights are being exercised. In each case compliance must also be made with any exchange control, fiscal or other laws or regulations for the time being applicable.

- (c) No fraction of a new Share will be allotted but any balance representing fractions of the subscription monies paid on the exercise of the Subscription Rights will be retained by the Company for its own benefit, provided always that if the Subscription Rights comprised in one or more Warrant certificates are exercised on the same Subscription Date by the same holder of Warrants then, for the purpose of determining whether any (and if so what) fraction of a Share arises, the Subscription Rights represented by such Warrant certificates will be aggregated.
- (d) The Company undertakes in the Instrument that any new Shares will be issued and allotted not later than 28 days (or, if applicable, such other period as prescribed by the Stock Exchange) after the relevant Subscription Date and all new Shares so allotted shall, taking account of any adjustment which may have been made pursuant to paragraph 2 of this Appendix, rank *pari passu* in all respects with the then existing Shares in issue on the relevant Subscription Date and shall accordingly entitle the holders to participate in all dividends or other distributions paid or made on the New Shares on or after the relevant Subscription Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the relevant Subscription Date and notice of the amount and record date for which shall have been given to the Stock Exchange prior to the relevant Subscription Date.
- (e) As soon as practicable after the relevant issue and allotment of New Shares (and, in any event, not later than 28 days (or, if applicable, such other period as prescribed by the Stock Exchange) after the relevant Subscription Date) there will be issued free of charge to the holder(s) of Warrants:
 - (i) a certificate (or certificates) for the relevant New Shares in the name(s) of such holder(s) of Warrants; and
 - (ii) (if applicable) a balancing Warrant certificate in registered form in the name(s) of such holder(s) of Warrants in respect of any Subscription Rights remaining unexercised.

The certificate(s) for the new Shares and the balancing Warrant certificate (if any), will be sent by post at the risk of such holder(s) of Warrants to the address of such holder(s) of Warrants or (in the case of a joint holding to that one of them whose name stands first in the register of holders of Warrants). If the Company agrees, such certificates may by prior arrangement be retained by the Registrar to await collection by the relevant holder(s) of Warrants.

2. ADJUSTMENTS OF SUBSCRIPTION PRICE

The Instrument contains detailed provisions relating to the adjustment of the Subscription Price. The following is a summary of, and is subject to, the adjustment provisions of the Instrument:

- (a) The Subscription Price will (except as mentioned in sub-paragraphs (b) and (c) below) be adjusted as provided in the Instrument in each of the following cases:
 - (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;
 - (ii) an issue (other than pursuant to a scrip dividend scheme in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);
 - (iii) a capital distribution (as defined in the Instrument) being made by the Company, whether on a reduction of capital or otherwise, to holders of Shares (in their capacity as such);
 - (iv) a grant by the Company to holders of the Shares (in their capacity as such) of rights to acquire for cash, assets of the Company or any of its Subsidiaries (as defined in the Instrument);
 - (v) an offer being made by the Company to holders of its Shares of new Shares for subscription by way of rights or grant of options or warrants to subscribe for Shares at a price which is less than 90 per cent. of the market price (calculated in accordance with the provisions of the Instrument) provided that no such adjustment is to be made if the Company also makes a like offer or grant (as the case may be) at the same time to each holder of Warrant(s) (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange) as if he had exercised the Subscription Rights represented by his Warrant certificate in full on the day immediately preceding the record date for such offer or grant;
 - (vi) an issue wholly for cash being made by the Company or any of its Subsidiaries of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total Effective Consideration (as defined in the Instrument) per new Share is less than 90 per cent. of the market price (calculated in accordance with the provisions of the Instrument), or the conversion, exchange or subscription rights of any such securities being altered so that the total Effective Consideration per new Shares is less than 90 per cent. of the market price;

- (vii) an issue being made wholly for cash of Shares (other than pursuant to a Share Option Scheme (as defined in the Instrument)) at a price less than 90 per cent. of the market price (calculated in accordance with the provisions of the Instrument); and
 - (viii) the repurchase by the Company of Shares or securities convertible into Shares or any rights to acquire the Shares (excluding any such repurchases made on the Stock Exchange or any recognised stock exchange, being a stock exchange recognised for this purpose by the Securities and Futures Commission and the Stock Exchange) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Subscription Price.
- (b) Except as mentioned in sub-paragraph (c) below, no such adjustment as is referred to in sub-paragraphs (ii) to (vii) of paragraph (a) above will be made in respect of:
- (i) an issue of fully paid Shares upon the exercise of any conversion, exchange or subscription rights attached to securities wholly or partly convertible into or exchangeable for Shares or upon the exercise of any rights (including the Subscription Rights) to acquire Shares;
 - (ii) an issue by the Company of Shares or by the Company or any Subsidiary (as defined in the Instrument) of securities wholly or partly convertible into, or exchangeable for, or carrying rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business;
 - (iii) an issue of fully-paid Shares by way of capitalisation of all or part of the Subscription Right Reserve (as defined in the Instrument) to be established in certain circumstances pursuant to the terms and conditions contained in the Instrument provided that implementation of such terms and conditions is not prohibited by or inconsistent with any laws, rules or regulations to which the Company and the Warrants are subject from time to time (or other profits or reserves or any similar reserve which has been or may be established pursuant to the terms of any other securities wholly or partly convertible into, or exchangeable for, or carrying rights to acquire, Shares);
 - (iv) an issue of Shares pursuant to a scrip dividend scheme in lieu of a cash dividend where an amount of not less than the nominal amount of the Shares so issued is capitalised and the market value (calculated in accordance with the provisions of the Instrument) of such Shares is not more than 110 per cent. of the amount of dividend which holders of Shares could elect to or would otherwise receive in cash; and
 - (v) an issue by the Company of Shares or by the Company or any Subsidiary (as defined in the Instrument) of securities wholly or partly convertible into or exchangeable for or carrying rights of subscription for Shares pursuant to a Share Option Scheme (as defined in the Instrument).

- (c) Notwithstanding the provisions referred to in sub-paragraphs (a) and (b) above, in any circumstances where the Directors shall consider that an adjustment to the Subscription Price provided for under the said provisions should not be made or should be calculated on a different basis or that an adjustment to the Subscription Price should be made notwithstanding that no such adjustment is required under the said provisions or that an adjustment should take effect on a different date or with effect from a different time from that provided for under the said provisions, the Company may appoint either an approved merchant bank or the Auditors (as defined in the Instrument) to consider whether for any reason whatever the adjustment to be made (or the absence of adjustment) would or might not fairly and appropriately reflect the relative interests of the persons affected thereby and, if such an approved merchant bank or the Auditors (as the case may be) shall consider this to be the case, the adjustment shall be modified or nullified, or an adjustment made instead of no adjustment in such manner (including, without limitation, making an adjustment calculated on a different basis and/or the adjustment shall take effect from such other date and/or time) as shall be certified by such approved merchant bank or the Auditors (as the case may be) to be in its opinion appropriate.
- (d) Any adjustment to the Subscription Price shall be made to the nearest one cent so that any amount under HK\$0.005 shall be rounded down and any amount of HK\$0.005 or more shall be rounded up and in no event shall any adjustment be made to the Subscription Price in any case in which the amount by which the same would be reduced would be less than one cent and any adjustment which would otherwise then be required shall not be carried forward. In no event shall an adjustment be made (otherwise than upon the consolidation of Shares into shares of a larger nominal amount each or upon a repurchase of Shares) which would increase the Subscription Price or which would result in the Subscription Price falling below the par value of the Shares.
- (e) Every adjustment to the Subscription Price shall be certified by the Auditors or an approved merchant bank and notice of each such adjustment (giving the relevant particulars) shall be given to the holders of Warrants. In giving any certificate or making any adjustment under the Instrument, the Auditors or the approved merchant bank shall be deemed to be acting as experts and not as arbitrators and in the absence of manifest errors, their decision shall be conclusive and binding on the Company and the holders of Warrants and all persons claiming through or under them respectively. Any such certificate of the Auditors and/or approved merchant bank will be available for inspection at the principal place of business for the time being of the Company in Hong Kong, where copies may be obtained.

3. REGISTERED WARRANTS

The Warrants are issued in registered form. The Company shall be entitled to treat the registered holder of any Warrant as the absolute owner thereof and accordingly shall not, except as ordered by a court of competent jurisdiction or required by law, be bound to recognise any equitable or other claim to or interest in such Warrant on the part of any other person, whether or not it shall have express or other notice thereof.

4. TRANSFER, TRANSMISSION AND REGISTER

The Warrants shall be in registered form and be transferable, in whole amounts or integral multiples of HK\$0.60, by instrument of transfer in any usual or common form or such other form which may be approved by the Directors, or where the transferor or the transferee is HKSCC Nominees Limited or its successor thereof (or such other company as may be approved by the Directors for this purpose), by an instrument of transfer executed on behalf of HKSCC Nominees Limited or its successor by machine imprinted signature or under hand(s) by authorised person(s). For this purpose, the Company shall maintain a register of the holders of Warrants in Hong Kong (or in such other place as the Directors consider appropriate, having regard to applicable rules governing the listing of Warrants). The provisions of the Bye-laws in relation to the registration, transfer and transmission of Shares and the register of members shall, save as provided in this paragraph 4, mutatis mutandis, apply to the transfer, transmission and registration of the Warrants and the register of Warranholders. Transfers of Warrants must be executed by both the transferor and the transferee.

Since the Warrants will be admitted to CCASS, so far as applicable laws or regulations of relevant regulatory authorities, terms of the Instrument and circumstances permit, the Company may determine the last trading day of the Warrants to be a date falling at least three dealing days before 30 June 2010.

Persons who hold the Warrants and have not registered the Warrants in their own names and wish to exercise the Warrants may incur additional costs and expenses in connection with any expedited reregistration of the Warrants prior to the transfer or exercise of the Warrants, particularly during the period commencing on the date falling 10 business days prior to and including the last day of the Subscription Period.

5. CLOSURE OF REGISTER OF HOLDERS OF WARRANTS

The registration of transfers may be suspended and the register of holders of Warrants may be closed for such period as the Directors may from time to time direct, provided that the same may not be closed for a period, or for periods together, of more than 60 days in any one year. Any transfer or exercise of the Subscription Rights attached to the Warrants made while the register of holders of Warrants is so closed shall, as between the Company and the person claiming under the relevant transfer of Warrants or, as the case may be, as between the Company and the holder of Warrant(s) who has so exercised the Subscription Rights attached to his Warrants (but not otherwise), be considered being made immediately after the reopening of the register of holders of Warrants.

6. PURCHASE AND CANCELLATION

The Company or any of the Subsidiaries (as defined in the Instrument) may at any time repurchase Warrants:

- (i) in the open market or by tender (available to all holders of Warrants alike) at any price; or
- (ii) by private treaty at a price per Warrant, exclusive of expenses, not exceeding 110 per cent. of the closing price on the Stock Exchange per Warrant for one or more board lots of Warrants prior to the date of repurchase of the Warrants on the Stock Exchange

but not otherwise. All Warrants repurchased as aforesaid shall be cancelled forthwith and may not be re-issued or re-sold.

7. MEETINGS OF HOLDERS OF WARRANTS AND MODIFICATION OF RIGHTS

- (a) The Instrument contains provisions for convening meetings of holders of Warrants to consider any matter affecting the interests of holders of Warrants, including the modification by Special Resolution (as defined in the Instrument) of the provisions of the Instrument and/or of the conditions endorsed on the Warrant certificates subject to the approval of the Stock Exchange (if required). A Special Resolution duly passed at any such meeting shall be binding on the holders of Warrants, whether present or not.
- (b) All or any of the rights for the time being attached to the Warrants (including any of the provisions of the Instrument) may from time to time, subject to sub-paragraph (a) above (whether or not the Company is being wound up), be altered or abrogated (including, but without prejudice to that generality by waiving compliance with, or by waiving or authorising any past or proposed breach of, any of the provisions of the conditions endorsed on the Warrant certificates and/or the Instrument) with the prior sanction of a Special Resolution and may be effected only by deed poll executed by the Company and expressed to be supplemental to the Instrument.
- (c) Where the holder of Warrants is a recognised clearing house (within the meaning of the SFO or its nominee(s), it may authorise such person or persons as it thinks fit to act as its representative (or representatives) or proxy (or proxies) at any meeting of the holders of Warrants provided that, if more than one person is so authorised, the authorisation or proxy form must specify the number and class of Warrants in respect of which each such person is so authorised. The person so authorised will be entitled to exercise the same power on behalf of the recognised clearing house as that clearing house or its nominee(s) could exercise if it were an individual holder of Warrants.
- (d) At any such meeting two or more persons holding Warrants and/or being proxies and being or representing in the aggregate the holders of not less than ten per cent. in value of the Subscription Rights for the time being outstanding and exercisable shall

(except for the purpose of passing a special resolution) form a quorum for the transaction of business and no business (other than the choosing of a chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business. The quorum at any such meeting for the passing of a special resolution shall be two or more persons holding Warrants and/or being proxies and being or representing in the aggregate holders of not less than one-third in value of the Subscription Rights for the time being outstanding and exercisable.

8. REPLACEMENT OF WARRANT CERTIFICATES

If a Warrant certificate is mutilated, defaced, lost or destroyed, it may, at the discretion of the Company, be replaced at the principal office of the Registrar (unless the Directors otherwise determine) on payment of such costs as may be incurred in connection therewith and on such terms as to evidence, indemnity and/or security as the Company may require and on payment of such fee not exceeding HK\$2.50 (or such other amount as may from time to time be permitted under the rules prescribed by the Stock Exchange) as the Company may determine. Mutilated or defaced Warrant certificates must be surrendered before replacements will be issued.

In the case of lost Warrant certificates, Article 21 of the Articles of association of the Company shall apply.

9. PROTECTION OF SUBSCRIPTION RIGHTS

The Instrument contains undertakings by and restrictions on the Company designed to protect the Subscription Rights.

10. CALL

If, at any time during the Subscription Period, Warrants which have not been exercised carry rights to subscribe less than 10 per cent. of the amount of the exercise moneys attached to the aggregate of all the Warrants issued under the Instrument, the Company may, on giving not less than three calendar months' notice to the holders of Warrants, require the holders of Warrants either to exercise their Subscription Rights represented thereby or to allow the Warrants held by them to lapse. On expiry of such notice, all unexercised Warrants will be automatically cancelled without any compensation to the holders of Warrants.

11. ISSUE OF FURTHER WARRANTS

The Company shall be at liberty to issue further warrants to subscribe for New Shares in such manner and on such terms as it may in its absolute discretion deem fit, provided that it is in accordance with the Listing Rules.

12. UNDERTAKINGS BY THE COMPANY

In addition to the undertakings given by it in relation to the grant and exercise of the Subscription Rights and the protection thereof, the Company has undertaken in the Instrument that:

- (a) it will send to each holder of Warrants (or, in the case of joint holders of Warrants, to the holder of Warrants whose name stands first in the register of the holders of Warrants in respect of the Warrant(s) held by such joint holders of Warrants), at the same time as the same are sent to the holders of Shares, its audited accounts and all other notices, reports and communications despatched by it to the holders of Shares generally;
- (b) it will pay all stamp and capital duties, registration fees or similar charges (whether in the Cayman Islands or Hong Kong or elsewhere), if any, payable in respect of the execution of the Instrument, the creation and initial issue of the Warrants in registered form, the exercise of the Subscription Rights and the issue of new Shares upon the exercise of the Subscription Rights;
- (c) it will keep available for issue sufficient Shares to satisfy in full all rights for the time being outstanding of subscription for and conversion into new Shares; and
- (d) it will use its best endeavours to procure that:
 - (i) at all times during the Subscription Period, the Warrants may be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Warrants on the Stock Exchange is withdrawn following an offer for all or any of the Warrants (whether by way of proposal to holders of Warrants or by way of a scheme of arrangement or otherwise)); and
 - (ii) all new Shares may, upon allotment or as soon as reasonably practicable thereafter, be dealt in on the Stock Exchange (save that this obligation will lapse in the event that the listing of the Shares on the Stock Exchange is withdrawn following an offer for all or any of the Shares (whether by way of a scheme of arrangement or otherwise) where a like offer is extended to holders of the Warrants or to holders of any Shares issued on exercise of the Warrants during the period of the offer (whether by way of proposal to holders of Warrants or by way of a scheme of arrangement or otherwise)).

13. NOTICES

The Instrument contains provisions relating to notices to be given to the holders of Warrants.

14. OVERSEAS HOLDERS OF WARRANTS

The Instrument contains provisions giving certain discretion to the Directors in the case of any holder of Warrant(s) who has a registered address in any territory (other than Hong Kong) where, in the opinion of the Directors, the issue of new Shares upon the exercise of any of the Subscription Rights represented by any Warrants held by such holder of Warrant(s) may be unlawful or impracticable.

15. WINDING UP OF THE COMPANY

If an effective resolution is passed during the Subscription Period for the voluntary winding-up of the Company, then:

- (a) if such winding-up be for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the holders of Warrants, or some person designated by them for such purpose by a Special Resolution (as defined in the Instrument), shall be a party or in conjunction with which a proposal is made to the holders of Warrants and is approved by a Special Resolution, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all holders of Warrants; and
- (b) in the event a notice is given by the Company to its Shareholders to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall as soon as practicable give notice thereof to each holder of Warrants (or in the case of joint holders of Warrants, the holder of Warrants whose name stands first in the register of the holders of Warrants in respect of the Warrant(s) held by such joint holders of Warrants) and thereupon, every holder of Warrants shall be entitled by irrevocable surrender of his Warrant certificate(s) to the Registrar (such surrender to occur not less than two business days prior to the date of the proposed general meeting) with the Subscription Form(s) duly signed and completed, together with payment of the exercise moneys or the relative portion thereof, to exercise the Subscription Rights represented by such Warrants and the Company shall, as soon as practicable and in any event not later than the day immediately preceding the date of the proposed general meeting, to allot the Shares which fall to be issued pursuant to the exercise of the Subscription Rights represented by such Warrants to the holder of Warrants. The Company shall give notice to the holders of Warrants of the passing of such resolution within seven days after the passing thereof.

Subject to the foregoing, if the Company is wound up, all Subscription Rights which have not been exercised at the date of the passing of such resolution shall lapse and the Warrant certificates shall cease to be valid for any purpose.

16. GOVERNING LAW

The Instrument and the Warrants are governed by and will be construed in accordance with the laws of Hong Kong.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8085)

NOTICE IS HEREBY GIVEN that the 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, Hunghom, Kowloon, Hong Kong on Wednesday, 27 June 2007 at 10:00 a.m. for the following purposes:

ORDINARY RESOLUTION

“**THAT**, conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting listing of, and permission to deal in, the warrants (“**Bonus Warrants**”) and any shares in the capital of the Company (“**Share(s)**”) to be issued upon any exercise of the subscription rights attaching to the Bonus Warrants, the directors of the Company be and are hereby authorised:–

- (a) to create Bonus Warrants, which shall be in registered form, to subscribe, at the initial Exercise Price of \$0.60 per Share, subject to adjustments and the terms and conditions set out in the warrant instrument (the “**Bonus Warrant Instrument**”, a copy of a draft of which has been produced to the meeting and signed for the purpose of identification by the Chairman) and such Bonus Warrants could be exercised during the period from the date of issue of the Bonus Warrants to 30 June 2010 (both dates inclusive) and to issue the same by way of bonus to and among the persons who were registered as shareholders of the Company on 27 June 2007 in the proportion of one Bonus Warrant carrying the right to subscribe at \$0.60 for a Share in the capital of the Company for every 5 Shares held, provided that:–
 - (i) in the case of persons having registered addresses not in Hong Kong, save and except the People’s Republic of China and the British Virgin Islands, the relevant Bonus Warrants shall not be issued to such persons but shall be aggregated and sold in the market and the net proceeds of sale, after deduction of expenses, distributed pro rata to such persons unless such amount falling to be distributed to any such person is less than \$100 in which case such amount will be retained for the benefit of the Company; and
 - (ii) no fractional entitlements to Bonus Warrants shall be issued aforesaid, but the fractional entitlements shall be aggregated and sold for the benefit of the Company. The net proceeds of the sale will be retained for the benefit of the Company. The directors of the Company shall do all such acts and things as they consider necessary or expedient to give effect to the foregoing arrangements;

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) as a specific mandate to the directors of the Company, to allot and issue shares in the capital of the Company arising from the exercise of subscription rights under such Bonus Warrants or any of them;
- (c) to affix common seal of the Company to and to sign the Bonus Warrant Instrument in accordance with the bye-laws of the Company; and
- (d) to do all such acts and things as the directors of the Company consider necessary or expedient to give effect to the transactions contemplated by the Bonus Warrant Instrument.”

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

Hong Kong, 8 June 2007

Notes:

1. Every member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a 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 that power or authority must be deposited at the Company's principal place of business in Hong Kong at Room 802, Tower 1, Harbour Centre, 1 Hok Cheung Street, Hunghom, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting (or any adjournment thereof).
3. The Register of Members of the Company will be closed from 22 June 2007 to 27 June 2007, both days inclusive, during which period no transfer of shares will be effected. In order to ascertain the right to receive final dividend or to attend the meeting, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 21 June 2007.
4. A form of proxy for use in connection with the EGM is enclosed and such form of proxy is also published on the GEM website (www.hkgem.com).