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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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.

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**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)

(Warrant Code: 8359)

**CONNECTED TRANSACTION:**  
**PLACING OF 400,000,000 NEW SHARES**  
**SUBJECT TO SHAREHOLDERS' APPROVAL**

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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 Thursday, 31 January 2008 at 10:00 a.m. is set out on pages 23 to 24 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](http://www.hkgem.com)).

This circular will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its publication and on the website of the Company at [www.ncm.com.hk](http://www.ncm.com.hk).

7 January 2008

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## CHARACTERISTICS OF GEM

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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](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.

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## **RESPONSIBILITY STATEMENT**

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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.

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## DEFINITION

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*In this circular, unless the context otherwise requires, the following terms shall have the following meanings:*

“associates”	has the meaning given to that term in the Listing Rules;
“Business Day”	means any day (excluding a Saturday, Sunday or any statutory public holiday) on which banks are generally open for business to the public in Hong Kong;
“Company”	New Chinese Medicine Holdings Limited, a limited company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the GEM board of the Stock Exchange;
“Completion”	means in respect of each Tranche, the date for completion of that Tranche pursuant to the Placing Agreement or, where the context so permits or requires, the performance by the parties hereto of their respective obligations under the Placing Agreement;
“Companies Ordinance”	means the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Conditions”	means the conditions referred to in Clause 4 of the Placing Agreement;
“EGM”	means the extraordinary general meeting of the Company to approve the Placing;
“GEM”	means The Growth Enterprise Market of the Stock Exchange;
“Group”	means the Company and its Subsidiaries and the expression “member of the Group” shall be construed accordingly;
“HK\$”	means Hong Kong currency;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Latest Practicable Date”	3 January 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“Letter of Intent”	means a non-legally binding letter of intent entered into on 4 December 2007 between the Company and the Vendor for the sale by the Vendor and the purchase by the Company of part of or entire issued share capital of 北京中民安園投資有限公司(Beijing Zhongmin Anyuan Investment Company Limited);

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## DEFINITION

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“Listing Committee”	means the listing committee of the Stock Exchange;
“Listing Rules”	means the Rules Governing the Listing of Securities on GEM;
“PRC”	means the People’s Republic of China;
“Placees”	means any individual(s), institutional, corporate or other professional investor(s) procured by the Placing Agent to subscribe for any of the Placing Shares pursuant to the Placing Agent’s obligations under the Placing Agreement;
“Placing”	means the offer by way of a private placing of the Placing Shares procured by the Placing Agent to prospective Placees on the terms and subject to the conditions set out in the Placing Agreement;
“Placing Agent”	K.K.M. Securities Limited which is a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to conduct type 1 (dealing in securities) regulated activities;
“Placing Agreement”	the placing agreement dated 10 December 2007 entered into between the Company and the Placing Agent relating to the placing of up to a maximum of 400,000,000 new Shares and the supplemental agreement dated 12 December 2007;
“Placing Period”	three months from the date of passing of a resolution by the Shareholders to approve the Placing;
“Placing Price”	means the price of HK\$1.00 per Placing Share;
“Placing Share(s)”	up to a maximum 400,000,000 new Shares proposed to be placed pursuant to the Placing Agreement comprising 100,000,000 new Shares under Tranche I, 60,000,000 new Shares each of the other five tranches;
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 18 December 2007 entered into between the Company and the Vendor in respect of the acquisition of the entired issued and fully paid share capital of 北京中民安園投資有限公司 (Beijing Zhongmin Anyuan Investment Company Limited);
“Share(s)”	means ordinary share of HK\$0.04 in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share;

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## DEFINITION

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“SFC”	means the Securities and Futures Commission of Hong Kong;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Subsidiaries”	has the meaning ascribed thereto in Section 2 of the Companies Ordinance;
“Tranche”	each of the tranches of Placing;
“Tranche I”	initial placing of a maximum of 100,000,000 new Shares pursuant to the terms of the Placing Agreement;
“Vendor”	中民實業有限公司 (Zhongmin Industry Company Limited), a company incorporated in the PRC;
“Warrants”	means the warrant issued by the Company of Stock Code 8359 being listed and traded on the GEM;
“%”	per cent

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## LETTER FROM THE BOARD

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### **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)

(Warrant Code: 8359)

*Executive Directors:*

Mr. Wong Chun Keung  
Mr. An Jinping  
Mr. Li Heguo  
Mr. Chu Hon Pong  
Ms. Tong Pui Chi Lucia  
Mr. Wong Mo Wah Gordon

*Registered Office:*

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

*Independent Non-executive Directors:*

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

*Head Office and Principal Place  
of Business:*

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

7 January 2008

*To the Shareholders*

Dear Sir or Madam,

### **CONNECTED TRANSACTION: PLACING OF 400,000,000 NEW SHARES SUBJECT TO SHAREHOLDERS' APPROVAL**

#### **INTRODUCTION**

In the announcement dated 12 December 2007, the Company announced that it has entered into the Placing Agreement with the Placing Agent for placing, on a best effort basis, of an aggregate of up to 400,000,000 new Shares in six separate tranches upon which (a) a maximum of 100,000,000 new Shares at HK\$1.00 per Placing Share will be placed under the Tranche I; and (b) a maximum of 60,000,000 new Shares at HK\$1.00 per Placing Share will be placed in each of the other five tranches.

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 Placing and to give you notice of the EGM.

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## LETTER FROM THE BOARD

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### THE PLACING

The Company has entered into the Placing Agreement with the Placing Agent on the terms summarized below.

### THE PLACING AGREEMENT

#### Date

10 and 12 December 2007

#### Parties

- (1) The Company; and
- (2) Placing Agent.

The Placing Agent will receive a placement commission of 0.25% from the Company on the gross proceeds of the actual number of the Placing Shares being placed on each Tranche. As at the Latest Practicable Date, the Placing Agent does not beneficially hold any Shares of the Company.

Mr. Wong Mo Wah Gordon (“Mr. Wong”), an executive Director is also a director of the Placing Agent and the ultimate beneficial owners of the Placing Agent are Mrs. Wong Chiu Hung Bik Betsy, Mr. Wong’s mother and Mr. Wong Mo Kit Bernard, Mr. Wong’s brother. Therefore, the Placing Agent is a connected person of the Company. As the maximum placing commission to be received by the Placing Agent is HK\$1,000,000, i.e. each of the percentage ratios (other than the profits ratio) is equal to or more than 2.5% but less than 25% and the total consideration is less than HK\$10,000,000, the entering into of the Placing Agreement constitutes a connected transaction that is exempt from independent shareholders’ approval under Rule 20.32 of the Listing Rules and is only subject to the reporting and announcement requirements under Rules 20.45 to 20.47 of the Listing Rules.

As at the Latest Practicable Date, Mr. Wong is interested in 7,000,000 Shares. Mr. Wong and his associates will abstain from voting in respect of the proposed resolution to approve the Placing at the EGM.

#### Placees

The Placing Agent has agreed to place, on a best effort basis, a maximum of 400,000,000 new Shares at HK\$1.00 per new Share which shall be placed to not less than six independent individual, corporate, institutional or other professional investors who will not be connected persons (as defined in the Listing Rules) of the Company and their ultimate beneficial owners are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

It is expected that none of the placees will become a substantial shareholder of the Company as a result of the Placing.

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## LETTER FROM THE BOARD

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### Number of Placing Shares

A maximum of 400,000,000 new Shares will be placed on a best effort basis by the Placing Agent in six separate tranches upon which (a) a maximum of 100,000,000 new Shares will be placed under the Tranche I; and (b) a maximum of 60,000,000 new Shares will be placed in each of the other five tranches.

The Tranche I Placing Shares represent (a) approximately 9.5% of the issued share capital of the Company of 1,052,634,535 Shares at the Latest Practicable Date; (b) approximately 8.7% of the issued share capital of the Company as enlarged by the issue of 100,000,000 new Shares pursuant to the Tranche I; and (c) approximately 6.9% of the issued share capital of the Company as enlarged by the issue of an aggregate of 400,000,000 new Shares pursuant to the Placing.

The Placing Shares of an aggregate of 400,000,000 new Shares represents (a) approximately 38.0% of the issued share capital of the Company of 1,052,634,535 Shares at the Latest Practicable Date; and (b) approximately 27.5% of the issued share capital of the Company as enlarged by the issue of an aggregate of 400,000,000 new Shares pursuant to the Placing.

The Placing Shares to be issued, when fully paid, will rank, upon issue, pari passu in all respects with the existing issued Shares.

### Placing Price

The Placing Price of HK\$1.00 per Placing Share represents:

- (i) a discount of approximately 13.0% to the closing price of HK\$1.15 per Share as quoted on the Stock Exchange on 10 December 2007;
- (ii) a discount of approximately 12.3% to HK\$1.14, being the average closing price for the last five trading days immediately prior to and including 10 December 2007; and
- (iii) a discount of approximately 10.4% to HK\$1.12, being the average closing price for the last ten trading days prior to and including 10 December 2007.

The Placing Price of HK\$1.00 per Tranche I Placing Share also represents a premium of approximately 4,900% to the net asset value of the Company of HK\$0.02 per Share as at 31 March 2007.

The Placing Price was determined with reference to the prevailing market price of the Shares and was agreed after arm's length negotiations between the Company and the Placing Agent. Having taken into account (i) the prevailing market price of the Share; (ii) the substantial premium of the Placing Price over the net asset value of the Company; (iii) the thin trading volume of the Share in the last three months; and (iv) the time required for the negotiations of the proposed acquisition of all or part of the equity interest of 北京中民安園投資有限公司 (Beijing Zhongmin Anyuan Investment Company Limited) pursuant to the Letter of Intent and the Sale and Purchase Agreement, the Directors consider that the terms of the Placing Agreement, including the Placing Price of HK\$1.00 for all six Tranches and the time limit for the completion of Placing (as stated in the paragraph "Conditions of the Placing" below), are on normal commercial terms and are fair and reasonable and in the interest of the Company and its shareholders as a whole.

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## LETTER FROM THE BOARD

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### Conditions of the Placing

Completion of each Tranche of the Placing is conditional upon, inter alia, (i) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Placing Shares in respect of such Tranche and (ii) the passing of a resolution by the Shareholders to approve the allotment, issue and dealing with the Placing Shares at the EGM.

Application will be made to the Listing Committee for the listing of, and permission to deal in, the Placing Shares.

Completion of the Placing Agreement which includes all six tranches shall take place within three months from the date of passing of the relevant resolution by the Shareholders or such earlier date as may be agreed between the Placing Agent and the Company.

Further announcement will be made upon completion of each Tranche of the Placing.

### Termination and Force Majeure

- (A) If prior to the Placing Agreement becoming unconditional or after the Placing Period, as the case may be, the Placing Agent is still unable to place all the Placing Shares in respect of a particular Tranche as set out therein, the Placing Agreement shall terminate with respect to that Tranche and all subsequent tranches, if any, and no party shall have any claim against any other party in respect of any matter arising out of or in connection with the Placing Agreement except for any breach of the Placing Agreement arising prior to such termination.
- (B) Notwithstanding anything contained in the Placing Agreement, if, at any time prior to 5:00 p.m. on the Business Day preceding the relevant date of Completion, in the reasonable opinion of the Placing Agent the success of the Placing or the business or financial prospects of the Group would or might be adversely affected in any material respect by:
  - (i) any material breach of any of the warranties and undertakings set out in Clause 7 of the Placing Agreement; or
  - (ii) any of the following events:
    - (a) the introduction of any new law or regulation or any change in existing laws or regulations or change in the interpretation or application thereof; or
    - (b) the occurrence of any event, development or change (whether or not local, national or international or forming part of a series of events or changes occurring or continuing before, on and/or after the date hereof and including an event or change in relation to or a development of an existing state of affairs) of a political, military, industrial, financial, economic or other nature, whether or not sui generis with any of the foregoing, resulting in a material adverse change in, or which might be expected to resulting a material adverse change in, political, economic or stock market conditions; or

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## LETTER FROM THE BOARD

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- (c) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange occurring due to exceptional financial circumstances or otherwise; or
- (d) a change or development involving a prospective change in taxation in Hong Kong, the Cayman Islands or the PRC or the implementation of exchange controls which shall or might materially and adversely affect the Group (as a whole) or its present or prospective shareholders in their capacity as such; or
- (e) any change or deterioration in the conditions of local, national or international securities markets occurs,

then and in any such case, the Placing Agent may terminate the Placing Agreement without liability to the Company by giving notice in writing to the Company, provided that such notice is received prior to 5:00 p.m. on the Business Day preceding the date of Completion.

- (C) In the event that the Placing Agent terminates the Placing Agreement pursuant to (B) above, all obligations of each of the parties under the Placing Agreement, shall cease and determine and no party shall have any claim against any other party in respect of any matter arising out of or in connection with the Placing Agreement except for any breach arising prior to such termination.

### EFFECT ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company as at the Latest Practicable Date and the shareholding structure of the Company upon issue of the Placing Shares are set out below:

Name of shareholder	As at the Latest Practicable Date		Immediately after completion of the Placing	
	Number of Shares	%	Number of Shares	%
Excel Point Holdings Limited ( <i>Note 1</i> )	354,980,000	33.72	354,980,000	24.44
Chinese People Holdings Company Limited and parties acting in concert with it ( <i>Note 2</i> )	187,000,000	17.77	187,000,000	12.87
Mr. Chu Hon Pong and parties acting in concert with him ( <i>Note 3</i> )	196,311,095	18.65	196,311,095	13.52
Mr. Wong Mo Wah Gordon and parties acting in concert with him	7,000,000	0.66	7,000,000	0.48
Placees of Tranche I	0	0.00	100,000,000	6.88
Placees of other tranches	0	0.00	300,000,000	20.65
Other public shareholders	307,343,440	29.20	307,343,440	21.16
<b>Total</b>	<b>1,052,634,535</b>	<b>100.00</b>	<b>1,452,634,535</b>	<b>100.00</b>

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## LETTER FROM THE BOARD

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*Notes :*

1. Excel Point Holdings Limited is wholly and beneficially owned by Mr. Wong Chun Keung, the Chairman and an executive Director. Mr. Wong Mo Wah Gordon is not a connected person with Excel Point Holdings Limited and its ultimate beneficial owner as defined under the Listing Rules. Save for the fact that both are Directors and Shareholders, Mr. Wong Mo Wah Gordon confirms that he does not have any relationship with Mr. Wong Chun Keung and Excel Point Holdings Limited.
2. Mr. Wong Ching, an executive director of Chinese People Holdings Company Limited, held 37,000,000 Shares and is a party acting in concert with Chinese People Holdings Company Limited. Mr. Wong Mo Wah Gordon is not a connected person with Chinese People Holdings Company Limited and its controlling shareholder as defined under the Listing Rules. Save for the fact that both are Shareholders, Mr. Wong Mo Wah Gordon confirms that he does not have any relationship with Mr. Wong Ching and Chinese People Holdings Company Limited and its substantial shareholders.
3. Ms. Chu Cheong Hing Jenny, Mr. Chu Hon Pong's daughter, and Mr. Pang Wing Keung, Mr. Chu Hon Pong's son-in-law, held 25,331,292 Shares and 14,828,836 Shares respectively. They are parties acting in concert with Mr. Chu Hon Pong but are not connected or acting in concert with Excel Point Holdings Limited and Chinese People Holdings Company Limited.

### REASONS FOR THE PLACINGS AND USE OF PROCEEDS

The Directors consider that the Placing provides a good opportunity for the Group to raise funds to strengthen its capital base and improve its financial position to provide flexibility for the Group's future development and expansion.

Despite of the dilutive effect and the best effort basis of the Placing, having considered factors including (i) the Placing enable the Company to broaden its shareholder base and give the Company an opportunity to introduce various investors; and (ii) the Company is not able to secure either bank financing or underwriting for rights issue or obtain such financing at better terms than those of the Placing Agreement, the Company considers that the Placing is appropriate in the circumstances.

If materialise, the aggregate gross proceeds from the Placing is HK\$400 million and the aggregate net proceeds from the Placing of approximately HK\$398 million will be used as working capital of the Group to support the proposed acquisition of all or part of the equity interest of 北京中民安園投資有限公司 (Beijing Zhongmin Anyuan Investment Company Limited) pursuant to the Letter of Intent, details of which was disclosed in the Company's announcement dated 4 December 2007; and the Sale and Purchase Agreement.

The Directors consider that the Placing is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

### FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save for the subscription of 150,000,000 new Shares by Mr. Chu Hon Pong, an executive director of the Company and the subscription of 150,000,000 new Shares by Chinese People Holdings Company Limited as announced on 16 August 2007, the Company does not have any fund raising exercises during the 12-month period prior to the Latest Practicable Date. The net proceeds of the two subscriptions of Shares of approximately HK\$59 million were intended to be applied to strengthen the capital base of the Group in order to seize any investment opportunities to be identified by the Company and any remaining balance will be utilized as the Group's general working capital. As at the Latest Practicable Date, all net proceeds has not yet been utilized.

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## LETTER FROM THE BOARD

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### EXTRAORDINARY GENERAL MEETING

A general mandate was granted to the Directors by the Shareholders at the annual general meeting of the Company held on 30 August 2007 to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of the annual general meeting. No Share has been allotted or issued under the general mandate as at the Latest Practicable Date.

In view of the fact that the number of Placing Shares exceeds the number of Shares granted under the general mandate, the Placing Shares cannot be issued under the general mandate and the Shareholder's approval on the Placing at the EGM is required.

Set out on pages 23 to 24 of this circular is the notice convening the EGM at which an ordinary resolution will be proposed to the Shareholders to consider, if thought fit, approve the Placing contemplated thereunder. The ordinary resolution will be conducted by way of poll.

A form of proxy for the EGM is enclosed with this circular and published on the GEM website ([www.hkgem.com](http://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 EGM 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. Mr. Wong Mo Wah Gordon and his associates, who held 7,000,000 Shares as at the Latest Practicable Date, will abstain from voting in respect of the proposed resolution to approve the Placing at the EGM.

### PROCEDURES FOR DEMANDING A POLL

Pursuant to article 66 of the articles of association 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

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## LETTER FROM THE BOARD

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- (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 Placing is fair and reasonable and 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.

### GENERAL INFORMATION

An application will be made by the Company to the Listing Committee of the GEM for the listing of, and permission to deal in the Placing Shares. No part of the issued share capital of the Company is listed or dealt in, nor is any listing of or permission to deal in the Shares being or proposed to be sought on, any other stock exchange.

The Company was listed on GEM on 7 March 2002. The principal activities of the Group are the sales of healthcare products in Hong Kong.

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

## 1. 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 Placing 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:*

1,052,634,535	Shares in issue as at the Latest Practicable Date	42,105,381
400,000,000	Placing Shares to be issued upon completion of the Placing	16,000,000
<u>1,452,634,535</u>	Shares in issue upon completion of the Placing	<u>58,105,381</u>

As at the Latest Practicable Date, the Company has 150,047,778 outstanding bonus warrants (“Warrants”) which entitle holders thereof to subscribe for 195,714,493 new Shares at an adjusted subscription price of HK\$0.46 per new Share, subject to adjustment, at any time during the period from 29 June 2007 to 30 June 2010 (both dates inclusive). In order to exercise his subscription rights, a holder of Warrants must complete and sign the subscription form and deliver the Warrants certificate to Tricor Standard Limited in Hong Kong together with a remittance for the relevant subscription monies.

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

## 2. 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:

(1) *Long positions in the shares of the Company*

<b>Name of directors</b>	<b>Type of interest</b>	<b>Number of share</b>	<b>Interest in the Company's share capital</b>
Mr. Wong Chun Keung	Corporate <i>(Note)</i>	354,980,000	33.72%
Mr. Wong Mo Wah Gordon	Personal	7,000,000	0.66%
Mr. Chu Hon Pong	Personal	156,150,967	14.83%
Ms. Tong Pui Chi Lucia	Personal	1,300,000	0.12%

*Note:*

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

(2) *Long positions in the underlying shares of the Company*

(a) Warrants

<b>Name of directors</b>	<b>Type of interest</b>	<b>Number of shares entitled pursuant to the full exercise of the warrants held as at the Latest Practicable Date</b>
Mr. Chu Hon Pong	Personal	730,434
Mr. An Jinping	Personal	1,304,347
Mr. Li Heguo	Personal	1,304,347
Ms. Tong Pui Chi Lucia	Personal	339,130

## (b) Share Options

Name of Directors	Date of grant of share options	Exercise price per share <i>HK\$</i>	Outstanding as at 01/04/2007	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Outstanding	Expiry Date
							as at the Latest Practicable Date	
Mr. Li Heguo	16/11/2007	1.10	-	7,500,000	-	-	7,500,000	16/11/2010
Ms. Tong Pui Chi Lucia	16/11/2007	1.10	-	7,500,000	-	-	7,500,000	16/11/2010
Mr. Chu Kar Wing	16/11/2007	1.10	-	1,000,000	-	-	1,000,000	16/11/2010
Dr. Loke Hoi Lam	16/11/2007	1.10	-	1,000,000	-	-	1,000,000	16/11/2010
Mr. Ku Ling Yu John	16/11/2007	1.10	-	1,000,000	-	-	1,000,000	16/11/2010

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.

As at the Latest Practicable Date, save for the interest of Mr. Wong Chun Keung through his shareholding interests in Excel Point Holdings Limited, none of the Directors has any interest in any assets which have been, since 31 March 2007, being the date to which the latest published audited accounts of the Company were made up, acquired, disposed of or leased to any member of the Group, or are proposed to be acquired, disposed of or leased to any member of the Group.

**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:

*(1) Long positions in the shares of the Company*

Name	Number of Shares held	Approximate percentage of shareholding
Excel Point Holdings Limited ( <i>Note 1</i> )	354,980,000	33.72%
Mr. Wong Chun Keung ( <i>Note 1</i> )	354,980,000	33.72%
Mr. Chu Hon Pong	156,150,967	14.83%
Mr. Mo Shikang ( <i>Note 2</i> )	150,000,000	14.25%
Asian Allied Limited (“Asian Allied”, <i>Note 2</i> )	150,000,000	14.25%
Super Win Development Limited (“Super Win”, <i>Note 2</i> )	150,000,000	14.25%
Chinese People Holdings Company Limited (“Chinese People”, <i>Note 2</i> )	150,000,000	14.25%

*Notes:*

- Excel Point Holdings Limited is wholly and beneficially owned by Mr. Wong Chun Keung, the Chairman and an executive director of the Company.
- As Chinese People is a subsidiary of Super Win, Super Win is deemed to have interest in the ordinary shares of the Company held by Chinese People for the purpose of the Securities and Future Ordinance. For the purpose of the SFO, Asian Allied is deemed to have interest in the Shares held by Super Win and Mr. Mo Shikang is deemed to have interest in the Shares held by Asian Allied.

(2) *Long positions in the underlying shares of the Company*

Name of shareholder	Number of shares entitled pursuant to the full exercise of the warrants held as at the Latest Practicable Date
Mr. Chu Hon Pong	730,434

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.

**3. 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.

**4. DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

As at the Latest Practicable Date, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 5. MATERIAL CHANGE

Save for the information disclosed in this circular, the Directors are not aware of any material change in the financial or trading position of the Group since 31 March 2007, the date to which the latest published audited accounts of the Group as at 31 March 2007 were made up.

## 6. LITIGATION

As at the Latest Practicable Date, the Directors were aware that:

- (a) A writ of summons was filed by two plaintiffs against, among others, Wondergold Limited (“Wondergold”), a 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. It was adjudged and declared by the High Court of Hong Kong on 16 June 2006, the goods and those remaining unsold as pleaded in the Amended Statement of Claim as at 22 November 2004 are the property of one of the plaintiff. It was further adjudged that Wondergold has to give an account as at 22 November 2004 of all sales of the goods achieved on the premises, of the net proceeds of those sales and of the goods remaining unsold on the premises and an order for payment to one of the plaintiff, of all sum found due on the taking of the account and all further proper accounts, inquiries and directions as pleaded in the Amended Statement of Claim; damages for detinue and/or conversion to be assessed; and costs of the High Court action. On 8 August 2006, Wondergold’s monthly profit and loss accounts were presented to the plaintiff’s lawyer. As at the Latest Practicable Date, no further action was taken by the two plaintiffs. The directors consider that no further provision in respect of the claim is necessary.
- (b) 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. It was adjudged by the District Court of Hong Kong on 6 March 2006 that Wondergold has to pay the plaintiff the sum of HK\$568,371.55 together with interest thereon, which had been fully provided for in Wondergold’s financial statements. As at the Latest Practicable Date, no further action was taken by the plaintiff.

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**

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years which will continue thereafter until terminated by either party by giving to the other not less than three months prior written notice. Each of the independent non-executive directors has entered into a service agreement with the Company which shall expire on 30 June 2008. The agreement may be terminated by either party by giving to the other not less than one month prior written notice.

**8. GENERAL**

- (a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, 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 Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (d) The principal bankers of the Company are Hong Kong and Shanghai Banking Corporation Limited and Bank of China (Hong Kong) Limited.
- (e) The secretary and qualified accountant of the Company is Mr. Law Kwok Chung, an associate member of Hong Kong Institute of Certified Public Accountants and The Institute of Chartered Accountants in England and Wales.
- (f) The compliance officer of the Company is Mr. Wong Mo Wah Gordan.
- (g) The Company has established an audit committee with written terms of reference in compliance with the relevant GEM Listing Rules. The duties of the audit committee are to review and to provide supervision over the financial reporting system and internal control procedures of the Group. The audit committee of the Company comprises the three independent non-executive Directors, namely, Mr. Chu Kar Wing, Dr. Loke Hoi Lam and Mr. Ku Ling Yu John. The chairman of the audit committee is Dr. Loke Hoi Lam.
- (h) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

**9. MATERIAL CONTRACTS**

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, only the following contracts that are or may be material, not being contracts entered into in the ordinary course of business, were entered into by the Company or its subsidiaries:

- (a) a subscription agreement dated 13 August 2007 and a supplemental agreement dated 16 August 2007 (the “First Subscription Agreements”) entered into between the Company and Chinese People Holdings Company Limited in relation to the issue of 150,000,000 new Shares at HK\$0.20 per subscription share to Chinese People Holdings Company Limited;
- (b) a subscription agreement dated 13 August 2007 and a supplemental agreement dated 16 August 2007 (the “Second Subscription Agreements”) entered into between the Company and Mr. Chu Hon Pong in relation to the issue of 150,000,000 new Shares at HK\$0.20 per subscription share to Mr. Chu Hon Pong; and
- (c) the Placing Agreement.

Save as disclosed above, no contracts were entered by into the Company or its subsidiaries which were not in the ordinary course of business and are or may be material in the two years immediately preceding the date of this circular and up to the Latest Practicable Date.

**10. 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 the date of EGM:

- (1) the memorandum and articles of association of the Company;
- (2) the annual reports of the Company for the two years ended 31 March 2006 and 31 March 2007;
- (3) the Company’s circular dated 8 June 2007 in relation to the proposed bonus issue of listed warrants;

- (4) the Company's circular dated 24 October 2007 in relation to the refreshment of the scheme mandate limit of the share option scheme;
- (5) the First Subscription Agreements;
- (6) the Second Subscription Agreements;
- (7) the Placing Agreement; and
- (8) this circular.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### **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)

(Warrant Code: 8359)

**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 Thursday, 31 January 2008 at 10:00 a.m. for the following purposes:

#### **ORDINARY RESOLUTION**

“**THAT** (i) the Placing Agreement (as defined in the circular dated 7 January 2008 despatched to the shareholders of the Company (the “Circular”)), a copy of which has been produced to this meeting marked “A” and signed by the Chairman hereof for the purpose of identification, and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; (ii) the allotment and issue of the Placing Shares (as defined in the Circular) pursuant to the Placing Agreement (as defined in the Circular) and the appointment of the Placing Agent (as defined in the Circular) be and is hereby approved; and (iii) the directors of the Company be and are hereby authorized to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things, as the case may be, as they may in their discretion consider necessary desirable or expedient to carry and implement the Placing Agreement (as defined in the Circular) and all the transactions contemplated thereunder into full effect.”

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

Hong Kong, 7 January 2008

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*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. 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](http://www.hkgem.com)).
4. Completion and deposit of the form of proxy will not preclude members from attending and voting at the meeting or any adjournment thereof should they so wish, and in such event, the form of proxy will be deemed to be revoked.
5. Where there are joint registered holders of any share(s) of the Company, any one of such joint holders may attend and vote at the meeting, either in person or by proxy, in respect of such share(s) as if he/she were solely entitled thereto, but if more than one of such joint holders are present, 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. For this purpose, seniority shall be determined by the order in which the names are stated in the registered of members of the Company in respect of the joint holding.