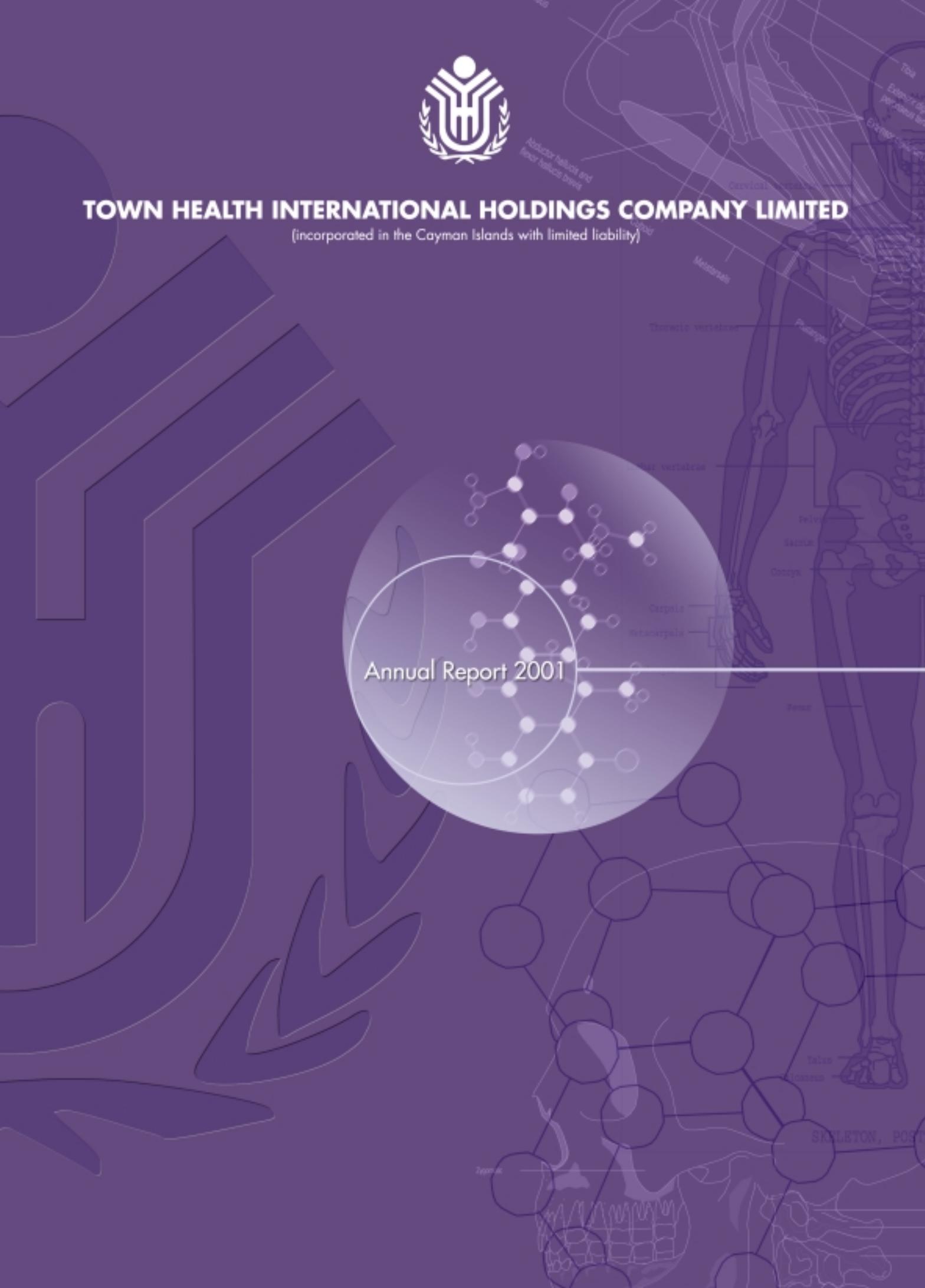




TOWN HEALTH INTERNATIONAL HOLDINGS COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Annual Report 2001

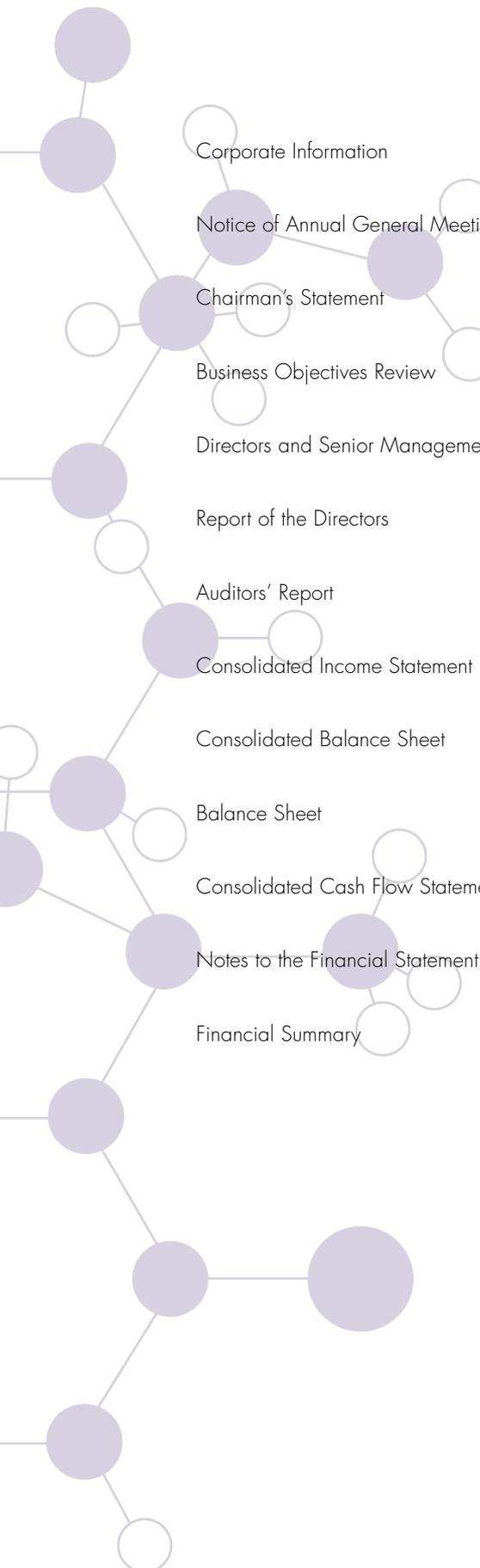


Characteristics of the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (THE “STOCK EXCHANGE”)

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

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

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



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Corporate Information

Executive Directors:

Dr. Cho Kwai Chee (*Chairman*)
 Dr. Chan Wing Lok, Brian (*Vice-chairman*)
 Mr. Sum Kwong Yip, Derek (*Vice-chairman*)
 Dr. Cheng Chor Ho
 Dr. Fung Yiu Tong, Bennet
 Dr. Leung Chi Sang
 Dr. Chik Fu Fai
 Dr. Ho Chung Yin
 Mr. Cho Kam Luk
 Mr. Chow Kai Wah, Gary
 Mr. Chun Hu Hing

Non-executive Directors:

Mr. Ip Tak Chuen, Edmond
 Mr. Chan Kin Fung, Phil

Independent Non-executive Directors:

Dr. Lui Chi Keung, Charles *D.B.M., M.B.E., J.P.*
 Mr. Choy Kan Pui *B.B.S., J.P.*

Company Secretary and Qualified Accountant:

Mak Yau Hing *AHKSA, ACCA*

Compliance Officer:

Dr. Cho Kwai Chee

Audit Committee:

Mr. Choy Kan Pui *B.B.S., J.P.*
(Chairman of Audit Committee)
 Dr. Lui Chi Keung, Charles *D.B.M., M.B.E., J.P.*
 Mr. Chan Kin Fung, Phil

Authorized Representatives:

Dr. Cho Kwai Chee
 Dr. Fung Yiu Tong, Bennet

Joint Sponsors:

First Shanghai Capital Limited
 CEF Capital Limited

Auditors:

Arthur Andersen & Co. Certified Public Accountants

Principal Bankers:

The Hong Kong and Shanghai Banking Corporation Limited
 Hang Seng Bank Limited

Principal Share Registrar and Transfer Office:

Bank of Bermuda (Cayman) Limited
 36C Bermuda House – 3rd Floor
 P.O. Box 513 G.T.
 Dr. Roy's Drive, George Town
 Grand Cayman, Cayman Islands
 British West Indies

Hong Kong Branch Share Registrar and Transfer Office:

Tengis Limited
 4th Floor, Hutchison House
 10 Harcourt Road, Central
 Hong Kong

Registered Office:

Ugland House
 P.O. Box 309
 George Town
 Grand Cayman
 Cayman Islands
 British West Indies

Head Office and Principal Place of Business:

No. 616 & 617
 On Level 6 of Tower II
 Grand Central Plaza
 Shatin
 Hong Kong



Town Health International Holdings Company Limited

康健國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the "Meeting") of the shareholders of Town Health International Holdings Company Limited (the "**Company**") will be held at The Derby Suite H11, Royal Park Hotel, 8 Pak Hong Ting Street, Shatin, New Territories, Hong Kong on Tuesday, 24th July 2001, at 8:00 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and Auditors of the Company for the year ended 31st March 2001;
2. To elect Directors of the Company and authorize the Board of Directors to fix their remuneration;
3. To re-appoint Auditors of the Company and authorize the Board of Directors to fix their remuneration; and
4. To consider as special business and, if thought fit, to pass the following resolutions ("**Resolutions**") as ordinary resolutions:

A. "**THAT:**

- (a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorize the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

Notice of Annual General Meeting

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:

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

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, or any other applicable laws to be held; or
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company under this Resolution;

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares on the Register on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors of the Company 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, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company)."

B. **"THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase issued shares in the capital of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the issued shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the date of passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, or any other applicable laws to be held; or
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company under this Resolution."

Notice of Annual General Meeting

C. **"THAT:**

conditional upon the passing of the Ordinary Resolutions Nos. 4A and 4B, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares pursuant to Resolution No. 4A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 4B."

By order of the Board

Cho Kwai Chee

Chairman

Hong Kong, 28th June 2001

Principal Place of Business:

No. 616 & 617
Level 6, Tower II
Grand Central Plaza
Shatin
Hong Kong

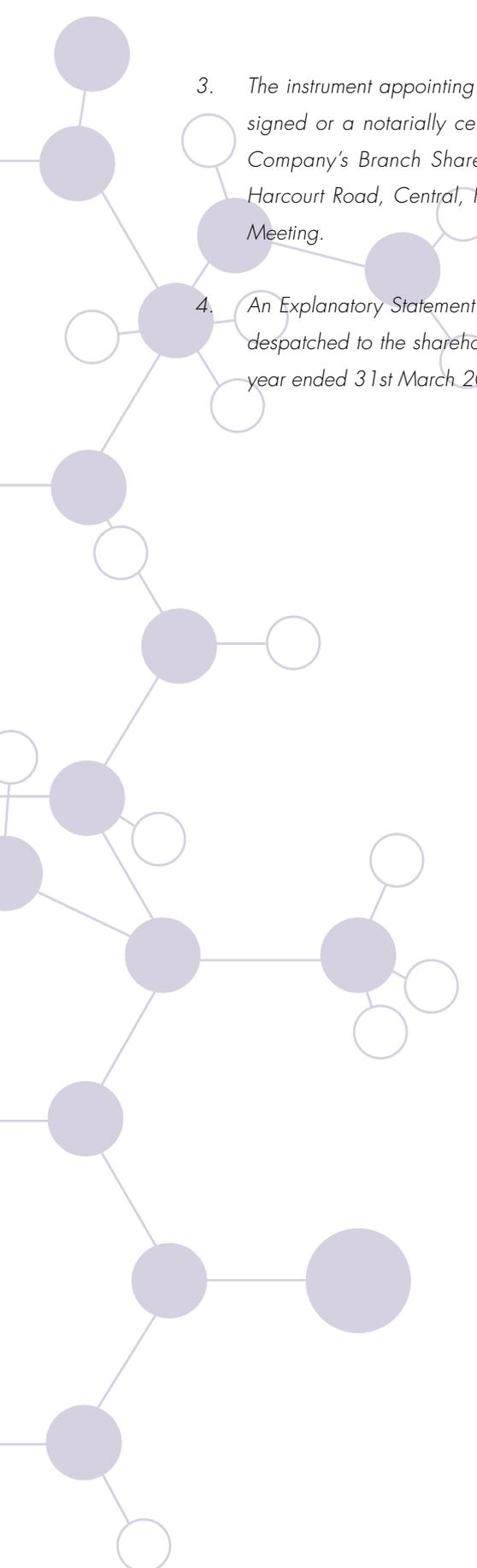
Registered Office:

Ugland House
P.O. Box 309
George Town, Grand Cayman
Cayman Islands
British West Indies

Notes:

1. *The Register of Members of the Company will be closed from Wednesday, 18th July 2001 to Tuesday, 24th July 2001 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending the Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Tuesday, 17th July 2001.*
2. *A shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and, on a poll, vote on his behalf. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.*

Notice of Annual General Meeting



3. *The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.*

4. *An Explanatory Statement containing further details regarding Ordinary Resolution No. 4 above will be despatched to the shareholders of the Company together with the Annual Report of the Company for the year ended 31st March 2001.*

Chairman's Statement

On behalf of the Board of Directors (the "Board") of Town Health International Holdings Company Limited (the "Company"), I am very pleased to present the first annual report of the Company and its subsidiaries (collectively, the "Group"), for the year ended 31st March 2001, following the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited on 18th October 2000.

Results and dividends

For the year ended 31st March 2001, the Group recorded a turnover of approximately HK\$102,531,000 and a net profit attributable to shareholders of approximately HK\$32,050,000. The basic and fully diluted earnings per share were approximately HK9.5 cents and approximately HK9.3 cents respectively.

On 30th April 2000, the Directors declared a special dividend of approximately HK\$18,117,000 to its then shareholders whose names appeared on the register of members as at 1st April 2000. The special dividend has been fully paid up by 31st August 2000. The Directors do not recommend the payment of a final dividend for the year ended 31st March 2001. All earnings will be retained to finance the continuing development of the Group's businesses.

Business review

During the year under review, the Group has been principally engaged in the provision of management and administrative services to private medical and dental practitioners, licensing of the name "Town Health Centre", operations of its own dental practices and provision of healthcare services to corporates. As at 31st March 2001, the Group licensed, managed and/or operated a total of 25 medical centres, 2 integrated medical centres and 12 dental practices.

For the year ended 31st March 2001, the Group recorded a turnover of approximately HK\$102,531,000, representing an increase of approximately HK\$31,214,000 or 43.8% as compared to the pro-forma information in the previous year detailed in the accompanying financial summary. The increase in turnover was largely attributable to the increase in management and administrative service fee income from the medical centres and integrated medical centres (collectively the "Town Health Centres") managed by the Group from approximately HK\$53,186,000 for the year ended 31st March 2000 to approximately HK\$72,893,000 for the year ended 31st March 2001. Such an increase was in turn attributable mainly to the following reasons:

- (1) In October 1999, overnight general medical services were introduced at an integrated medical centre managed by the Group. Since then, three additional Town Health Centres had begun to offer such overnight services. For the year ended 31st March 2001, revenue generated from overnight services amounted to approximately HK\$8,619,000 (2000 – approximately HK\$2,959,000), representing an increase of approximately 191.3% from the previous financial year.

Business review (Continued)

- (2) Starting from the second half of the financial year ended 31st March 2000, additional practitioners were employed and stationed in certain medical centres to tap the growing demand for medical services. For the year ended 31st March 2001, revenue attributable to these additional practitioners amounted to approximately HK\$9,423,000 (2000 – approximately HK\$7,332,000), representing an increase of approximately 28.5% from the previous financial year.
- (3) Additional revenue, amounted to approximately HK\$4,061,000, was recorded by the newly established medical centres.
- (4) Growth in revenue of those existing medical centres.

The gross profit margins for the years ended 31st March 2001 and 2000 were approximately 58.6% and 56.5% respectively. The increase was mainly due to an effective control on the consumption of pharmaceutical supplies during the current year. Operating expenses, for the year ended 31st March 2001, accounted for approximately 24.5% of the turnover, which is higher than that of approximately 16.5% as recorded in the previous financial year. The increase was mainly due to the increase in administrative staff costs, rental expenses and legal and professional fees incurred to meet the Group's business expansion.

On 8th February, 2001, the Group, through a wholly-owned subsidiary, acquired from an independent third party not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or any of their respective associates (as defined in the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules")) an approximately 46.43% shareholding interest in Luxembourg Medicine Company Limited ("LMCL"). LMCL is principally engaged in the manufacture and sale of cough syrup under the brandname "Madame Pearl's". Moreover, on 26th March 2001, the Group, through another wholly-owned subsidiary, acquired from an independent third party not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) a 24.0% shareholding interest in Wai Yuen Tong Medicine Company Limited ("WYT"). WYT is principally engaged in the business of manufacture, process and retail of traditional Chinese medicine sold under its own brandname "Wai Yuen Tong" which includes a range of products manufactured by selected medicinal materials with traditional prescription. WYT also retails other herbs and medicinal products and operates a number of traditional Chinese medicine consultation centres.

For the year ended 31st March 2001, the Group shares a net profit after taxation from its associated companies of approximately HK\$2,655,000 (2000 – net loss of approximately HK\$509,000) in aggregate.

The profit attributable to shareholders for the year ended 31st March 2001 was approximately HK\$32,050,000, representing an increase of approximately 35.4% from the previous financial year. Net profit margins for the year ended 31st March 2001 and 2000 were approximately 31.3% and 33.2% respectively.

Chairman's Statement

Future plan and prospect

It is the Group's strategy to expand both its scale and scope of operations to achieve rapid growth. The Group aims to become one of the leading healthcare service providers in the Asian region through itself and the network of Town Health Centres (the "Town Health Centre Network"). In order to realize this objective, the following plans will be undertaken:

(1) Current businesses

In respect of its existing core businesses (i.e. the provision of management and administrative services to private medical and dental practitioners, licencing of the name "Town Health Centre" and operations of its own dental practices), the Group will continue to expand the number of medical and dental centres of the Town Health Centre Network to meet the growing demand from the public for comprehensive, high quality and generally affordable healthcare services. The Group will review, from time to time, the pace of expansion based on the supply of doctors, the market demand and the overall profitability of the business.

(2) Marketing and distribution of healthcare and pharmaceutical products

Given the general public in Hong Kong has become more aware of the importance of maintaining good health and are more receptive to buying healthcare products over the counter for minor ailments, the Board believes that there is a potentially profitable market in Hong Kong for over-the-counter ("OTC") healthcare products. The Board also believes that, with the open up of the China market as a result of China's accession to World Trade Organization in the foreseeable future, the market for OTC healthcare products in China will grow tremendously.

The Board believes that it is beneficial to the Group to explore the markets for OTC healthcare products in Hong Kong and the mainland China. This is in line with the Group's direction of strengthening and broadening its business of sales and distribution of healthcare and pharmaceutical (both OTC and ethical) products, as stated in the section headed "Future plan and prospect" of the Company's interim results announcement for the six months ended 30th September 2000 issued on 13th November 2000. This is also in line with the Company's corporate strategies, namely that the Company would review and expand its product portfolio to broaden its customer base as set out in the Company's prospectus issued on 9th October 2000 (the "Prospectus") under paragraph 2(e) headed "Development of preventive healthcare business" in the section headed "Business objectives – Corporate strategies and implementation plan".

The Board believes that the acquisition of an approximately 46.43% shareholding in LMCL is a move to strengthen the Group's presence in the markets for OTC healthcare products in Hong Kong and the mainland China. Given that "Madame Pearl's" is a well-known and long established brandname of OTC healthcare products in Hong Kong and the mainland China, the Board is of the view that the future growth prospect of LMCL is promising and that the business of LMCL will complement the existing businesses of the Group and provide meaningful contribution to the Group's operation performance.

Future plan and prospect (Continued)

(3) Traditional Chinese medicine

The principal activity of the Group includes the provision of management services to a number of medical centres providing western medical treatments. The Board believes that certain patients having minor or prolonged illness are reluctant to receive western medical treatments and most of them prefer treatments through traditional Chinese medicine as such treatments are thought to be more suitable for the orientals and prolonged illnesses. The Board believes that it is beneficial to the Group to capture this market segment, not only for the open up of new source of income to the Group, but also for the enlarged customer bases which will in turn bring benefit to the Group's existing principal business. As a step to achieve this end, the Group acquires a 24% shareholding interest in WYT in March 2001.

The Board believes that the acquisition of WYT will provide the Group with a good opportunity to expand into areas of traditional Chinese medicine and further enhance the image of the "Town Health Centre" brand as a comprehensive medical services provider. This is in line with the Group's plan, as set out in the Prospectus, to promote the concept of "holistic" healthcare services by diversifying into the traditional Chinese medicine business through the marketing of traditional Chinese medicine-based products in both raw and proprietary presentations. Given also that WYT is currently operating a number of traditional Chinese medicine consultation centres, the acquisition of WYT is also in line with the Company's business plan to utilize HK\$5,000,000 from the proceeds received from the initial public offering by the Company in October 2000 to partially fund the establishment and/or acquisition of not less than three traditional Chinese medicine consultation centers as mentioned in the Prospectus under the heading "Use of proceeds" in the section headed "Business objectives".

As "Wai Yuen Tong" is a well-known and long established brandname of Chinese medicinal products in Hong Kong, the Board is of the view that the future growth prospect of WYT is promising. Such growth will in turn bring considerable benefits to the Group, as described in the first paragraph of this section.

(4) Research and development of bio-medical projects and advanced diagnostic medical equipment

As mentioned in an announcement of the Company dated 4th May 2001 in relation to a placing of existing shares and subscription of new shares by the Company's controlling shareholder, the Group intends to invest in potential research and development of bio-medical projects and advanced diagnostic medical equipment, of which the Board considers to represent attractive investment opportunities on account of their growth and profitability potential and synergy with the Group's existing business and is complementary to the business objectives of the Group as set out in the Prospectus. The Group may consider setting up a professional team, at suitable time, focusing on the research and development, implementation and commercialization of such projects.

Chairman's Statement

Future plan and prospect (*Continued*)

(5) Other developments

The Group also plans to develop elderly and child care services business and pharmaceutical related business. The reasons for such plans are that they are all health care related which fits into the Group's business objective in developing quality health care for the public. In respect of these new developments, the Board is in the process of formulating the detailed implementation strategies and operation plans. As at the date of this report, no concrete plan is devised to acquire or commence any business in these areas of service.

Appreciation

On behalf of the Board, I would like to take this opportunity to express my gratitude to all the employees of the Group who made the year 2000/2001 a successful year. I would also like to extend my thanks to our shareholders for their support.

Dr. Cho Kwai Chee

Chairman

Hong Kong, 18th June 2001



An analysis comparing the business objectives as stated in the Company's prospectus issued on 9th October 2000 (the "Prospectus") with the Group's actual business progress up to 31st March 2001 is set out below:

Business objectives as stated in the Prospectus

Additional medical centres:
Increase the number of medical centres by four

Additional integrated medical centre:
Establish one integrated medical centre

Additional dental practices:
Increase the number of dental practices by two

Actual business progress/change in business objectives (if any)

The Group has been providing management and administrative services to four new medical centres in Ma On Shan, Shek Kip Mei, Tuen Mun and Wanchai. The Group is currently inviting other practitioners to join the Town Health Centre Network.

Due to the difficulty in securing suitable shop premises in strategic location at which the Board considers that there will be a high demand for quality and affordable private healthcare services, and given the difficulty in recruiting quality medical practitioners, the Group was unable to establish the integrated medical centre during the period ended 31st March 2001 as planned. However, a suitable shop premise in Hung Hom has been identified by the Board and a tenancy agreement has already been signed with the landlord. Decoration works will be commenced soon. It is expected that operations of this integrated medical centre will be commenced in around August 2001.

The Board considers that the delay in establishing the integrated medical centre will not have any material impact on the business and financial position of the Group.

The Group has been operating two more dental practices, one located in Shek Kip Mei and the other in Tuen Mun.

Business Objectives Review

Electronic clinic and healthcare information database:

- Further develop the health portal www.health-easy.com
- Establish a medical and dental database
- Introduce inter-medical centre consultation services
- Introduce on-line sale of healthcare products

The Group continues to update and enrich the content of the portal.

In view of the heavy workload for digitizing all the patient records of the medical and dental practices managed by the Group for the establishment of the medical and dental database, and networking the practices for introducing inter-medical centre consultation services, the Group decided to out-source these projects to outside contractors so as to allocate the Group's resources more efficiently to other development projects of the Group. In order to smoothen the transition and maintain privacy of the patients' personal data, the Group has been cautious in selecting suitable contractors. The Group is currently finalizing short-listed candidates for further consideration.

Owing to the adverse sentiment towards internet and e-commerce, the Group has been cautious in launching on-line sale of healthcare products. The Group is considering the feasibility of different operation models with a view to selecting the one which is most beneficial to the Group.

The Board considers that the delay in establishing the medical and dental database, introducing the inter-medical centre consultation services and introducing the on-line sale of healthcare products will not have any material impact on the business and financial position of the Group.

Traditional Chinese medicine development:

Establish or acquire one traditional Chinese medicine consultation centre through strategic alliance and/or opportunistic acquisition

The Group acquired a 24% shareholding interest in Wai Yuen Tong Medicine Company Limited ("WYT") during the year under review. WYT is currently operating 3 traditional Chinese medicine consultation centres in Hong Kong.

Elderly care services:

Establish and/or acquire not less than 500 beds in licensed elderly homes

The Group plans to develop its elderly homes business through acquisition of or investment in quality elderly homes. The Group has been cautious in scrutinizing investment opportunities. Although preliminary discussions had been held with a number of potential targets, no consensus on the form of investment and cooperation were reached during the year under review. The Board decided to put this project on hold, until new opportunity arises.

The Board considers that the delay in establishing and/or acquiring beds in licensed elderly homes will not have any material impact on the business and financial position of the Group.

Healthcare products:

- Review and expand the product portfolio to broaden the customer base
- Introduce on-line sale of healthcare products

In respect of product portfolio, the Group continuously monitors the demand and taste of its customers and assess the need to source new/improved products to meet the customers' changing needs.

During the year, the Group acquired a 46.43% shareholding interest in Luxembourg Medicine Company Limited ("LMCL") which is principally engaged in the manufacture and sale of over-the-counter products under the brandname "Madame Pearl's".

Owing to the adverse sentiment towards internet and e-commerce, the Group has been cautious in launching on-line sale of healthcare products. The Group is considering the feasibility of different operation models with a view to selecting the one which is most beneficial to the Group.

The Board considers that the delay in introducing the on-line sale of healthcare products will not have any material impact on the business and financial position of the Group.

Business Objectives Review

Use of proceeds:

The actual use of proceeds from the initial public offering by the Group for the year ended 31st March 2001 as compared to the proposed amount set out in the Prospectus are as follows:

	Proposed HK\$'000	Actual HK\$'000	
Additional medical centres	4,000	4,000	(see Note)
Additional integrated medical centre	2,000	-	
Additional dental practices	1,000	1,000	(See Note)
Electronic clinic and healthcare information database	1,000	60	
Traditional Chinese medicine development	5,000	5,000	(see Note)
Elderly care services	10,000	-	
	<u>23,000</u>	<u>10,060</u>	

Note: The actual amount incurred to implement this particular project was larger than the proposed amount. The excess portion was funded by the Group's internal resources.

Executive Directors

Dr. Cho Kwai Chee, aged 37, is the Chairman and Chief Executive Officer of the Company as well as the founder of the Group. Dr. Cho graduated from the University of Hong Kong and holds the qualifications of MBBS (HK), FHKCFP, FRACGP, DCH (London), DCH (RCP&SI) and DCH (Glasgow). He is also the president and founder of Town Health Children's Club, honorary president of Hong Kong Women Development Association, vice president of Hong Kong Scout Club – Shatin East Division, A Supt (Surg) of The St. John Ambulance Brigade, a director of Hong Kong Industrial Districts Industry & Commerce Associations Limited and a director of Hong Kong Shatin Industries and Commerce Association Limited. Dr. Cho founded the Group in December 1989 and is now responsible for directing the Group's overall business and development strategies. He is a son of Mr. Cho Kam Luk, an Executive Director of the Company. Dr. Cho is also a director of Origin Limited, an initial management shareholder and the substantial shareholder of the Company.

Dr. Chan Wing Lok, Brian, aged 37, is the Vice-chairman of the Company. He graduated from the University of Hong Kong and holds the qualifications of MBBS (HK) and DCH (RCP&SI). He joined the Group in 1991. Dr. Chan is responsible for the supervision and training on continued professional developments of the medical practitioners of the Group.

Mr. Sum Kwong Yip, Derek, aged 38, is the Vice-chairman of the Company. He is a qualified pharmacist from the United Kingdom and currently holds the qualifications of B. Pharm (Hons) and MRPS (UK). Mr. Sum has extensive experience in the healthcare industry and has previously held a number of senior management positions with various multi-national corporations. He is the managing director of Jacobson Medical (Hong Kong) Limited, an associate of Jacobson Medical Corporation (an initial management shareholder of the Company as at 31st March 2001) and an executive director of Suwa International Holdings Limited, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr. Sum also serves in the Biotechnology Vetting Committee of the Innovation and Technology Commission of the Hong Kong Government. He has a 15% interest in and is a director of Jacobson Medical Corporation. Mr. Sum was appointed as an Executive Director of the Company in May 2000 and is now actively involved in the overall strategic development and operational planning of the business of the Group.

Dr. Cheng Chor Ho, aged 37, is the Director of Medical Services of the Group. He graduated from the University of Hong Kong and holds the qualifications of MBBS (HK), FRACGP, FHKCFP, DCH (London) and DFM (CUHK). He joined the Group in 1992. He is currently responsible for the development and maintenance of the quality of services of the medical practitioners of the Group. Dr. Cheng is also responsible for ensuring that the medical and dental practitioners of the Group adhere to the professional ethical guidelines laid down by the Medical Council and Dental Council respectively.

Directors and Senior Management

Dr. Fung Yiu Tong, Bennet, aged 33, is the Director of Medical Services of the Group. He graduated from the University of Hong Kong and holds the qualifications of MBBS (HK), MRCGP, DCH (London) and DFM (CUHK). He joined the Group in 1994 and is responsible for the strategic development of information technology-related operation of the Group. He also assists Dr. Chan Wing Lok, Brian in the supervision and training of the medical practitioners of the Group. Dr. Fung is also a director of Origin Limited, an initial management shareholder and the substantial shareholder of the Company.

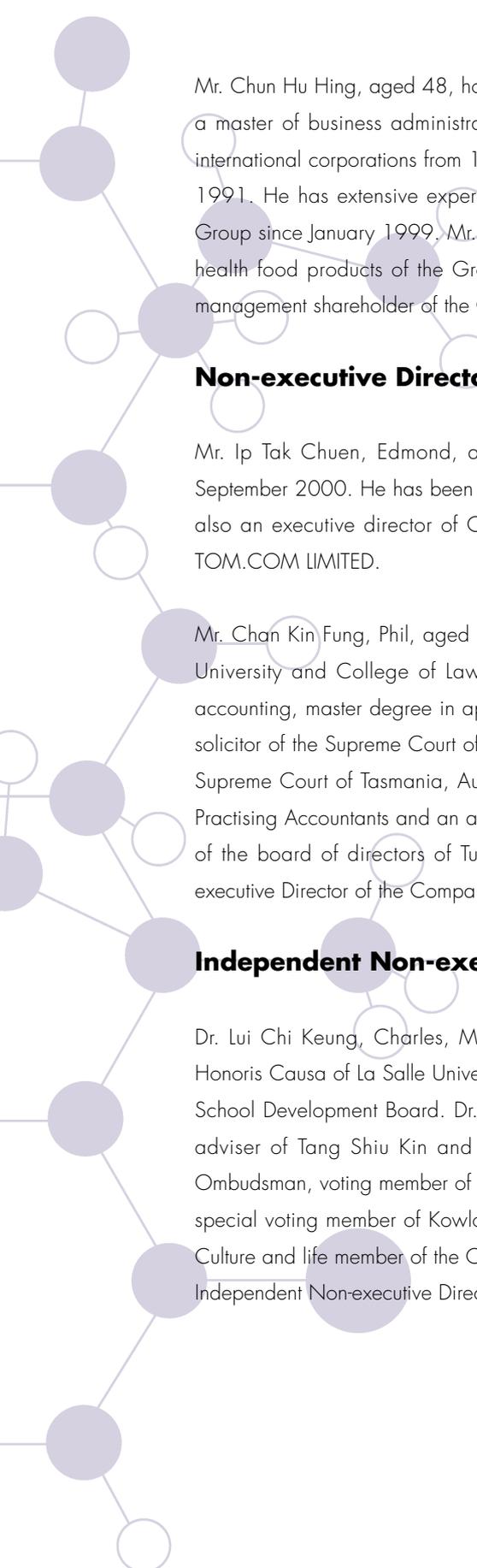
Dr. Leung Chi Sang, aged 37, graduated from the University of Hong Kong and holds the qualification of BDS (HK). He joined the Group in December 1989. He is responsible for the management of the dental practices of the Group and planning and organising continuing professional education for the dental practitioners of the Group.

Dr. Chik Fu Fai, aged 40, is the Director of Dental Services of the Group. He is a dental surgeon by profession. He has been working with the Group since July 1998. He is responsible for the corporate planning of the dental practices of the Group.

Dr. Ho Chung Yin, aged 53, graduated from the University of Hong Kong and holds the qualifications of MBBS (HK), FRCOG (UK), FHKCOG and FHKAM (Obstetrics & Gynaecology). He is a director of Pharmahealth (Far East) Limited. He has been working with the Group since July 1998 and was appointed as an Executive Director on 4th November 1999.

Mr. Cho Kam Luk, aged 67, is the father of Dr. Cho Kwai Chee. He has over forty years' experience in interior design and decoration. Over the past ten years, he is responsible for engaging contractors, supervising administrative staff on constructing the premises of the medical centres and integrated medical centres of the Group and the overall design and decoration of such premises. He has been working with the Group since December 1989. He is a director of Hong Kong Industrial Districts Industry and Commerce Associations Limited, a director of Hong Kong Shatin Industries and Commerce Association Limited, a consultant to Shatin JPC Farm and the Vice-chairman of Shatin Livelihood Concern Group. He is also a director of Origin Limited, an initial management shareholder and the substantial shareholder of the Company.

Mr. Chow Kai Wah, Gary, aged 45, holds a bachelor degree in social sciences from the University of Hong Kong in 1977 majoring in economics, accounting and business management. He has been involved in trading, sales and marketing of consumer products in the past 24 years and has been holding various senior executive positions in a number of large commercial corporations and running his own companies as an entrepreneur. Mr. Chow has extensive experience in trading with countries in North, East and Southeast Asia. He is currently one of the owners of an investment company managing a diversified portfolio of businesses. He has been working with the Group since January 1999. Mr. Chow is a director of Man Cheong International Limited, an initial management shareholder of the Company.



Mr. Chun Hu Hing, aged 48, holds a bachelor of social sciences degree from the University of Hong Kong and a master of business administration degree from INSEAD, France. Mr. Chun was employed by one of the international corporations from 1977 to 1988 and a major Canadian bank in Toronto, Canada from 1988 to 1991. He has extensive experience in the fields of marketing and finance. He has been working with the Group since January 1999. Mr. Chun is mainly responsible for the development of the sales and distribution of health food products of the Group. Mr. Chun is a director of Man Cheong International Limited, an initial management shareholder of the Company.

Non-executive Directors

Mr. Ip Tak Chuen, Edmond, aged 49, was appointed as a Non-executive Director of the Company in September 2000. He has been an executive director of Cheung Kong (Holdings) Limited since 1993. Mr. Ip is also an executive director of Cheung Kong Infrastructure Holdings Limited and a non-executive director of TOM.COM LIMITED.

Mr. Chan Kin Fung, Phil, aged 38, a solicitor and professional accountant, read law in England at Lancaster University and College of Law, and holds a bachelor of laws degree, a master degree in professional accounting, master degree in applied finance and master degree of science in financial engineering. He is a solicitor of the Supreme Court of England and Wales, Hong Kong and Brunei. He is a legal practitioner in the Supreme Court of Tasmania, Australia, a certified practising accountant of the Australian Society of Certified Practising Accountants and an associate member of the Hong Kong Society of Accountants. He was a member of the board of directors of Tung Wah Group of Hospitals (2000-2001). He was appointed as a Non-executive Director of the Company in November 1999.

Independent Non-executive Directors

Dr. Lui Chi Keung, Charles, M.B.E., J.P., aged 69, holds a doctor of business management degree from Honoris Causa of La Salle University. He was Chairman of Tung Wah Group of Hospitals and La Salle Primary School Development Board. Dr. Lui is currently Chairman of the Tung Wah Group of Hospitals (Kwai Chou), adviser of Tang Shiu Kin and Ho Tim Charitable Fund, member of promoting the work of office of the Ombudsman, voting member of the Hong Kong Jockey Club, Honorary Racing Steward of Macau Jockey Club, special voting member of Kowloon Tong Club, Governor of the Hong Kong Institute for Promotion of Chinese Culture and life member of the Chinese General Chamber of Commerce, Hong Kong. He was appointed as an Independent Non-executive Director of the Company in November 1999.

Directors and Senior Management

Mr. Choy Kan Pui, B.B.S., J.P., aged 71, is the Regional Councillor from 1988 to 1991, Legislative Councillor from 1995 to 1997, Provisional Legislative Councillor from 1997 to 1998, Chairman of Shatin District Board from 1991 to 1997 and Chairman of Shatin Provisional District Board from 1997 to 1999. He was appointed as an Independent Non-executive Director of the Company in November 1999.

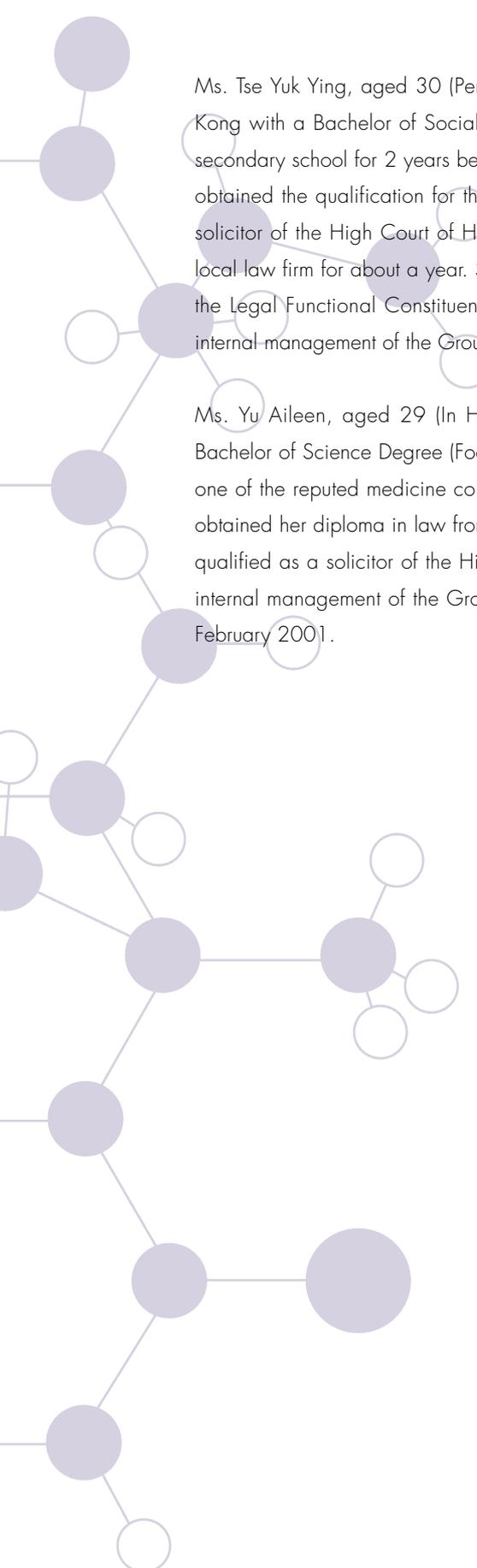
Senior Management

Dr. So Chi Kin, aged 34 (Director of Dental Services), graduated from the University of Hong Kong and holds the qualification of BDS(HK). He joined the Group in April 1991. He is responsible for the development and management of the dental practices of the Group.

Mr. Siu Kam Chau, aged 36 (Chief Financial Officer), joined the Group in March 2001. He is responsible for the overall supervision on the accounting, company secretarial and corporate finance functions of the Group. He holds a bachelor degree in accountancy from the City University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He is also a certified public accountant. Before joining the Group, he has worked as a senior executive in two companies which shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited.

Mr. Chan Kam Keung, aged 37 (General Manager), possesses a bachelor of science degree awarded by a university in the United States. Mr. Chan has 12 years of experience gained from Hong Kong major hospitality management companies upon joining the Group in April 2000. His major responsibility is to build up the infrastructure of the whole Group while putting emphasis on customer service and staff development.

Mr. Mak Yau Hing, aged 32 (Financial Controller), is also the company secretary and the qualified accountant of the Company and is responsible for the financial and accounting management and secretarial affairs of the Group. Mr. Mak graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy and is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants, the United Kingdom. Before joining the Group in July 1999, he worked in an international accounting firm in Hong Kong.



Ms. Tse Yuk Ying, aged 30 (Personal Assistant to Chairman), graduated from the Chinese University of Hong Kong with a Bachelor of Social Science (Government and Public Administration) in 1992. She taught in the secondary school for 2 years before she pursued her study in law in the University of Hong Kong in 1994. She obtained the qualification for the Postgraduate Certificate in Laws (P.C.L.L.) in 1996 and was qualified as a solicitor of the High Court of Hong Kong in December 1998. She practised as a civil litigation lawyer in a local law firm for about a year. She then worked as a LegCo Assistant to the Legislative Councillor representing the Legal Functional Constituency before joining the Group in December 2000. She is responsible for the internal management of the Group and assisting the Chairman in dealing with the Group's business in general.

Ms. Yu Aileen, aged 29 (In House Counsel), graduated from University of Manitoba of Canada with a Bachelor of Science Degree (Foods and Nutrition) in 1992. She worked as an assistant marketing manager in one of the reputed medicine companies for a period and decided to pursue her career in law in the UK. She obtained her diploma in law from Kingston University and Legal Practice Course from College of Law. She was qualified as a solicitor of the High Court of Hong Kong in 2001. She is responsible for the legal affairs and internal management of the Group and had worked in a law firm in Hong Kong before joining the Group in February 2001.

Report of the Directors

(Amount expressed in HK dollars except otherwise stated)

The Directors are pleased to present their first report together with the audited financial statements of Town Health International Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st March 2001.

GROUP REORGANISATION AND BASIS OF PRESENTATION

Town Health International Holdings Company Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law (1998 Revision) of the Cayman Islands on 24th August 1999 as an exempted company with limited liability. On 6th April 2000, pursuant to a group reorganisation scheme (the "Reorganisation"), the Company acquired the equity interests of Town Health (BVI) Limited and its subsidiaries ("Town Health (BVI) Group") through a share exchange described in Note 21(b) to the accompanying financial statements. Since then the Company has become the holding company of Town Health (BVI) Group. The Company and Town Health (BVI) Group are companies under common control. The Company's shares were listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited on 18th October 2000.

Details of the Reorganisation and the basis of presentation of the financial statements are set out in Note 1 to the accompanying financial statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the subsidiaries are detailed in Note 14 to the accompanying financial statements.

An analysis of the Group's turnover by service category for the year ended 31st March 2001, is as follows:

	Turnover
	\$
By service category	
– Management and administrative service fee income	76,199,809
– Licence fee income	13,930,000
– Dental consultation income	9,801,401
– Corporate healthcare service income	<u>2,600,000</u>
Total	<u><u>102,531,210</u></u>

No analysis of the Group's profit before taxation by service category is presented as it is generally in line with the distribution of turnover as set out above.

No analysis of the Group's turnover and profit before taxation by geographical location is presented as all the Group's turnover was derived from operations conducted in Hong Kong.

CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2001, the five largest customers accounted for approximately 82% of the Group's total turnover. The five largest suppliers of the Group accounted for approximately 51% of the Group's total purchases. In addition, the Group's largest customer accounted for approximately 78% of the Group's total turnover while the largest supplier accounted for approximately 19% of the Group's total purchases.

During the year, the Group purchased pharmaceutical suppliers from one of the five largest suppliers which was controlled and owned by an initial management shareholder who had approximately 8.7% of indirect effective equity interests in the Company's shares. On 23rd January 2001, such shareholder disposed of all his equity interests in this supplier.

Included in the five largest customers are Dr. Cho, Chan, Fung & Associates (the "Partnership"), a corporate dental practice operated and 50% owned by Dr. Chik Fu Fai, and two medical practices operated by Dr. Cho Kwai Chee and Dr. Fung Yiu Tong, Bennet respectively. Certain partners of the Partnership are employee-doctors of the Group. Dr. Chik Fu Fai, Dr. Cho Kwai Chee and Dr. Fung Yiu Tong, Bennet are the Executive Directors of the Company. Details of the transactions are set out in Notes 11(a) and (b) to the accompanying financial statements.

Other than the aforementioned, at no time during the year, the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, own more than 5% of the Company's share capital) had a beneficial interest in any one of the Group's top five customers or suppliers.

Report of the Directors

(Amount expressed in HK dollars except otherwise stated)

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st March 2001 are set out in the consolidated income statement on page 36 of this annual report.

On 30th April 2000, a special dividend of approximately \$18,117,000 was declared to the shareholders then registered prior to the Reorganisation described in Note 1 to the accompanying financial statements.

The Directors do not recommend the payment of a final dividend, and recommend that the retained profits of approximately \$32,050,000 at 31st March 2001 be carried forward.

SHARE CAPITAL AND SHARE OPTIONS

Details of share capital and share options of the Company are set out in Notes 21 and 23 respectively to the accompanying financial statements.

RESERVES AND RETAINED PROFITS

Movements in retained profits of the Group during the year are set out in the consolidated income statement on page 36 of this annual report.

Movements in other reserves of the Group during the year are set out in Note 22 to the accompanying financial statements.

As at 31st March 2001, approximately \$26,257,000 of the Company's reserves were available for distribution to its shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in the Cayman Islands in relation to the issue of new shares by the Company.

PENSION SCHEME

Details of the Group's pension scheme are set out in Note 25 to the accompanying financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in Notes 14 and 15 to the accompanying financial statements respectively.

PROPERTIES AND EQUIPMENT

Movements in properties and equipment during the year are set out in Note 12 to the accompanying financial statements.

BANK LOAN

Particulars of bank loan as at 31st March 2001 are set out in Note 19 to the accompanying financial statements.

CONVERTIBLE NOTES

On 29th May, 2000, convertible notes with principal amounts of \$4,000,000 and \$2,000,000 were issued to Dao Heng Securities Limited and Dao Heng Insurance Co., Ltd. respectively for cash at face value. On 25th September 2000, Dao Heng Securities Limited and Dao Heng Insurance Co., Ltd. transferred the two convertible notes to Geswin Limited, a wholly-owned subsidiary of Wang On Group Limited. These convertible notes were converted into ordinary shares of the Company on 29th September 2000 and 10,714,286 shares were allotted and issued to Geswin Limited.

On 31st August 2000, a convertible note with a principal amount of US\$3,000,000 was issued to The SCM Growth Fund II L.P. for cash at face value. The note was converted into ordinary shares of the Company on 3rd October 2000 and 24,961,714 shares were allotted and issued to The SCM Growth Fund II L.P.

Moreover, on 17th October 2000, a convertible note with a principal amount of \$31,562,500 was issued to Topson Profits Limited (formerly known as Topson Limited ("Topson")), on the terms set out in an agreement dated 20th September 2000. Details of the principal terms of the convertible note are set out in Note 20 to the accompanying financial statements.

Report of the Directors

(Amount expressed in HK dollars except otherwise stated)

CONNECTED TRANSACTIONS

(a) Significant related party transactions entered into by the Group during the year ended 31st March 2001 are set out in Note 11 to the accompanying financial statements.

(b) The following transactions constitute non-exempted continuing connected transactions for the Company under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and are required to be disclosed herein:

- (i) The Group has granted licences to medical and dental practices for the use of the name "Town Health Centre" and provides them with limited scope services. Of which, a medical practice is carried on by Dr. Cheng Chor Ho, two dental practices are owned by Dr. Chik Fu Fai and a dental practice is owned by Dr. Leung Chi Sang. Dr. Cheng, Dr. Chik and Dr. Leung are the Executive Directors of the Company.

For the year ended 31st March 2001, the licence fee income charged by the Group to Dr. Cheng, Dr. Chik and Dr. Leung amounted to \$1,920,000 (2000 – \$1,920,000). Details are set out in Note 11(b) to the accompanying financial statements.

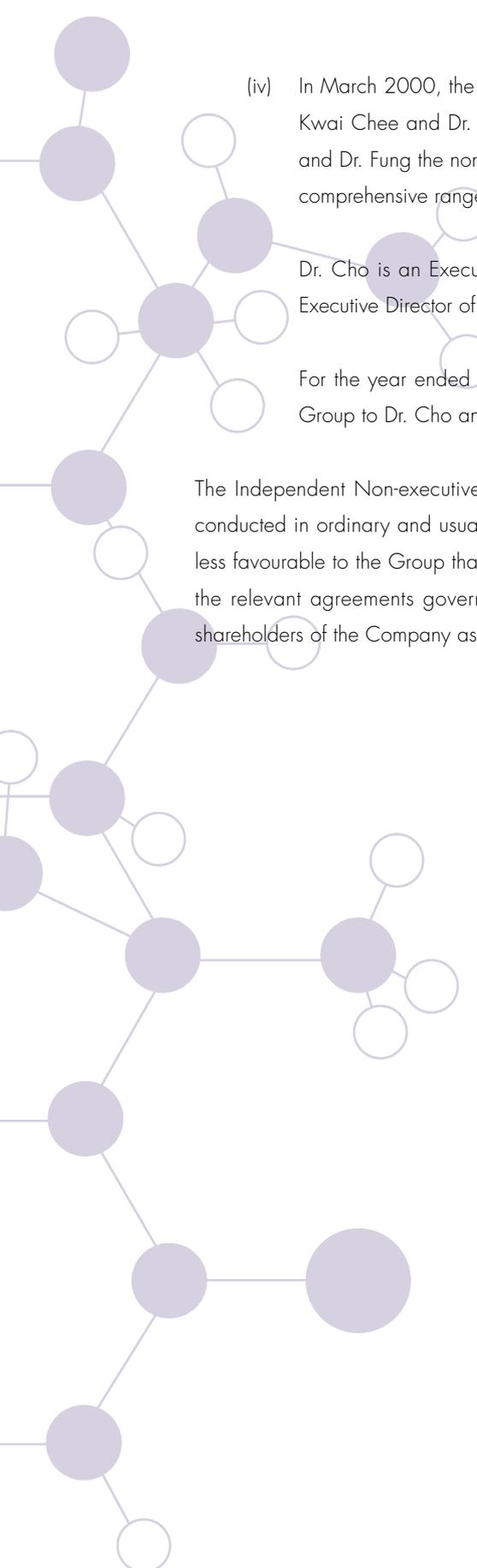
- (ii) The Group entered into a management services agreement with Health Matrix International Limited ("Health Matrix") on 6th April 2000. According to this agreement, the Group will provide to Health Matrix all financial management, administrative and support services. In consideration of the provision of these services, Health Matrix will pay a fixed monthly service fee to the Group.

Health Matrix is beneficially owned as to 20% by the Company, 56.3% by Mr. Cho Kam Luk, an Executive Director of the Company, and 8.4% by other three Executive Directors of the Company.

For the year ended 31st March 2001, the service fee income charged by the Group to Health Matrix amounted to \$840,000 (2000 – \$490,000). Details are set out in Note 11(c) to the accompanying financial statements.

- (iii) The Group entered into a distribution agreement with Health Matrix. According to the agreement, the Group acts as a distributor of and receives commission from Health Matrix.

For the year ended 31st March 2001, commission income received by the Group from Health Matrix amounted to approximately \$28,000 (2000 – \$13,000).



(iv) In March 2000, the Group entered into licence and management services agreements with Dr. Cho Kwai Chee and Dr. Fung Yiu Tong, Bennet. Under these agreements, the Group grants to Dr. Cho and Dr. Fung the non-exclusive licence to use the name "Town Health Centre" and provide to them a comprehensive range of services.

Dr. Cho is an Executive Director and the controlling shareholder of the Company. Dr. Fung is an Executive Director of the Company.

For the year ended 31st March 2001, the licence and management fee income charged by the Group to Dr. Cho and Dr. Fung amounted to approximately HK\$2,341,000 (2000 - Nil).

The Independent Non-executive Directors of the Company confirmed that the above transactions had been conducted in ordinary and usual course of business of the Company, on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Report of the Directors

(Amount expressed in HK dollars except otherwise stated)

SUBSEQUENT EVENTS

Details of significant subsequent events are set out in Note 28 to the accompanying financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Dr. Cho Kwai Chee

Dr. Chan Wing Lok, Brian

Mr. Sum Kwong Yip, Derek

(Appointed on 28th May 2000)

Dr. Cheng Chor Ho

Dr. Fung Yiu Tong, Bennet

Dr. Leung Chi Sang

Dr. Chik Fu Fai

Dr. Ho Chung Yin

Mr. Cho Kam Luk

Mr. Chow Kai Wah, Gary

Mr. Chun Hu Hing

Mr. Chan Yiu Keung, Victor

(Appointed on 28th May 2000 and
resigned with effect from 18th August 2000)

Non-executive Directors

Mr. Ip Tak Chuen, Edmond

(Appointed on 20th September 2000)

Mr. Chan Kin Fung, Phil

Independent Non-executive Directors

Dr. Lui Chi Keung, Charles

Mr. Choy Kan Pui

Each of the Executive Directors have entered into a service contracts with the Company for a term of two years commencing on 28th September 2000.

Each of the Non-executive and Independent Non-executive Directors has been appointed for a term expiring on 27th September 2002. An annual director fee of \$3,000 is payable to each of them.

In accordance with the Article 116 of the Company's Articles of Association, Dr. Chik Fu Fai, Dr. Ho Chung Yin, Mr. Chow Kai Wah, Gary and Mr. Chun Hu Hing will retire from office. The retiring Directors will not offer themselves for re-election. All other remaining Directors continue in office.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st March 2001, the interests of the Directors and their respective associates in the securities of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange under Rule 5.40 of the GEM Listing Rules, were as follows:

(1) Company

Name	Number of shares	Nature of interests	Percentage of interests
Dr. Chan Wing Lok, Brian	–	Other interests (a)	–
Dr. Cheng Chor Ho	–	Other interests (a)	–
Dr. Chik Fu Fai	–	Other interests (a)	–
Mr. Cho Kam Luk	–	Other interests (a)	–
Dr. Cho Kwai Chee	196,475,846	Corporate interests (a)	49.12%
Mr. Choy Kan Pui	126,720	Personal interests	0.03%
Dr. Fung Yiu Tong, Bennet	–	Other interests (a)	–
Dr. Ho Chung Yin	1,110,080	Personal interests	0.28%
Dr. Leung Chi Sang	–	Other interests (a)	–
Dr. Lui Chi Keung, Charles	304,638	Personal interests	0.08%
Mr. Sum Kwong Yip, Derek	–	Other interests (b)	–
Mr. Chun Hu Hing	–	Corporate interests (c)	0.89%
Mr. Chow Kai Wah, Gary	–	Corporate interests (c)	0.89%

Notes:

(a) An aggregate of 196,475,846 shares were held by Origin Limited, representing 49.12% of the Company's shares in issue as at 31st March 2001. The entire issued share capital of Origin Limited is owned as to approximately 90.50% by Dr. Cho Kwai Chee, 3.59% by Dr. Chan Wing Lok, Brian, 0.96% by Dr. Cheng Chor Ho, 1.56% by Dr. Chik Fu Fai, 0.71% by Mr. Cho Kam Luk, 1.49% by Dr. Fung Yiu Tong, Bennet and 1.19% by Dr. Leung Chi Sang.

Report of the Directors

(Amount expressed in HK dollars except otherwise stated)

- (b) An aggregate of 34,924,479 shares were held by Jacobson Medical Corporation, representing 8.72% of the Company's shares in issue as at 31st March 2001. Mr Sum Kwong Yip, Derek has 15% equity interests in Jacobson Medical Corporation.
- (c) An aggregate of 3,551,678 shares were held by Man Cheong International Limited, representing 0.89% of the Company's shares in issue as at 31st March 2001. Man Cheong International Limited is owned as to 65% by Martnell Limited and as to 35% by Cindex Management Services Limited. Martnell Limited is wholly-owned by Mr. Chow Kai Wah, Gary. Cindex Management Services Limited is owned as to 99% by Mr. Chun Hu Hing and as to 1% by his spouse. The interests of Mr. Chun Hu Hing and Mr. Chow Kai Wah, Gary were duplicated.

(2) Associated corporation

Name	Number of shares held in Health Matrix International Limited		Nature of interests	Percentage of interests
Mr. Cho Kam Luk	5,600,000		Corporate interests <i>(Note)</i>	80%
Dr. Chik Fu Fai	–		Other interests <i>(Note)</i>	–
Dr. Chan Wing Lok, Brian	–		Other interests <i>(Note)</i>	–
Dr. Leung Chi Sang	–		Other interests <i>(Note)</i>	–

Note: An aggregate of 5,600,000 shares were held by True Destination Incorporated, representing 80% of the shares of Health Matrix International Limited in issue as at 31st March 2001. True Destination Incorporated is owned as to approximately 70.36% by Mr. Cho Kam Luk, 6.25% by Dr. Chik Fu Fai, 1.79% by Dr. Chan Wing Lok, Brian and 2.50% by Dr. Leung Chi Sang.

Other than disclosed above, as at 31st March 2001, none of the Directors, the Chief Executive of the Company, nor their respective associates had any interest in any equity or debt securities of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has adopted a share option scheme approved at an extraordinary general meeting of the Company held on 20th September 2000 under which the Directors of the Company may invite any full-time Director (other than Non-executive Directors of the Company appointed from time to time) to take up options to subscribe for shares of the Company. No option had been granted to the Directors during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Except for the transactions disclosed in Note 11 to the accompanying financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

SUBSTANTIAL SHAREHOLDER

As at 31st March 2001, the following entity had registered an interest in 10% or more of the issued share capital of the Company:

Name	Number of shares held in the Company	Nature of interests	Percentage holding
Origin Limited	196,475,846	Corporate interest	49.12%

The entire issued share capital of Origin Limited is owned as to approximately 90.50% by Dr. Cho Kwai Chee, 3.59% by Dr. Chan Wing Lok, Brian, 0.96% by Dr. Cheng Chor Ho, 1.56% by Dr. Chik Fu Fai, 0.71% by Mr. Cho Kam Luk, 1.49% by Dr. Fung Yiu Tong, Bennet and 1.19% by Dr. Leung Chi Sang.

Other than disclosed above, the Company had no notice of any interest required to be recorded under Section 16(1) of the SDI Ordinance as at 31st March 2001.

MANAGEMENT SHAREHOLDERS

Other than the substantial shareholder disclosed above and Topson, the Directors are not aware of any persons who is directly or indirectly interested in 5% or more of the Company's shares then in issue and who is able, as a practical-matter, to direct or influence the management of the Company.

Report of the Directors

(Amount expressed in HK dollars except otherwise stated)

SPONSORS' INTERESTS

Pursuant to the agreement dated 5th October 2000 entered into between the Company and the Sponsors, namely First Shanghai Capital Limited ("First Shanghai") and CEF Capital Limited ("CEF"), the Sponsors have received and will receive a fee for acting as the sponsors of the Company for the period commenced from 18th October 2000 and ending on 31st March 2003.

As at 31st March 2001, an employee of First Shanghai had 10,000 shares in the capital of the Company.

CEF is an associate of Cheung Kong (Holdings) Limited ("Cheung Kong") and Topson Profits Limited (formerly known as Topson Limited) ("Topson"), an indirect wholly-owned subsidiary of Cheung Kong. Cheung Kong, through Topson, was interested in 39,600,000 shares of the Company representing approximately 9.9% of the issued share capital of the Company as at 31st March 2001. The Company has also issued to Topson a convertible note for a principal amount of HK\$31,562,500 which upon full conversion, assuming that Topson does not dispose of any of its initial holdings and no additional share is issued or repurchased by the Company subsequent to the date of this report, will result in Topson being interested in an aggregate of approximately 18.8% of the issued share capital of the Company as enlarged by the allotment and issue of the shares of the Company pursuant to the conversion of the said convertible note.

Other than disclosed above, as at 31st March 2001, neither First Shanghai nor CEF nor their respective directors or employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the shares of the Company, including options or rights to subscribe for any such shares.

As at 31st March 2001, Mr. Ip Tak Chuen, Edmond, a Non-executive Director of the Company, was an executive director of Cheung Kong, and a non-executive director of CEF.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rules 5.23 to 5.27 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, interim reports and quarterly reports and to provide advice and comments thereon to the Board of Directors. The audit committee will also be responsible for reviewing and supervising the Group's financial reporting and internal control procedures.

The audit committee comprises two Independent Non-executive Directors, namely Dr. Lui Chi Keung, Charles and Mr. Choy Kan Pui, and a Non-executive Director, namely Mr. Chan Kin Fung, Phil. Mr. Choy Kan Pui is the chairman of the audit committee. The audit committee has met two times since its establishment.

AUDITORS

The accompanying financial statements have been audited by Arthur Andersen & Co. A resolution for their re-appointment as auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Dr. Cho Kwai Chee

Chairman

Hong Kong,
18th June 2001

Auditors' Report

TO THE SHAREHOLDERS OF TOWN HEALTH INTERNATIONAL HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 36 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.



OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Arthur Andersen & Co

Certified Public Accountants

Hong Kong,
18th June 2001

Consolidated Income Statement

For the year ended 31st March 2001

(Amounts expressed in Hong Kong dollars)

		For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
	<i>Note</i>		
Turnover	3	\$102,531,210	\$ 52,517,233
Cost of services rendered			
– Pharmaceutical supplies		(6,400,880)	(4,500,372)
– Medical salaries		(35,998,674)	(17,536,775)
Gross profit		60,131,656	30,480,086
Other revenue	3	2,091,387	117,166
Operating expenses		(25,122,597)	(8,665,653)
Profit from operations	4	37,100,446	21,931,599
Finance costs	5	(1,965,136)	(14,092)
Share of profit (loss) of associates		2,655,944	(508,520)
Profit before tax		37,791,254	21,408,987
Taxation	7	(5,710,079)	(3,292,393)
Profit after taxation but before minority interests		32,081,175	18,116,594
Minority interests		(30,892)	–
Profit attributable to shareholders	8	32,050,283	18,116,594
Retained profits, beginning of year/period		18,116,594	–
Dividend	9	(18,116,594)	–
Retained profits, end of year/period		\$ 32,050,283	\$ 18,116,594
Earnings per share – Basic	10a	9.5 cents	6.5 cents
Earnings per share – Diluted	10b	9.3 cents	N/A

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the profit attributable to shareholders.

Consolidated Balance Sheet

As at 31st March 2001

(Amounts expressed in Hong Kong dollars)

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ASSETS

Non-current assets

Properties and equipment

Goodwill

Interests in associates

Investment in equity securities

Current assets

Pharmaceutical supplies

Accounts receivable

Prepayments, deposits and other current assets

Amounts due from related parties

Cash and bank balances

LIABILITIES

Current liabilities

Accounts payable and accruals

Provision for taxation

Bank loan

Amount due to a director

Net current assets

Total assets less current liabilities

Non-current liability

Convertible note

Minority interests

NET ASSETS

CAPITAL AND RESERVES

Share capital

Retained profits

Other reserves

Note

2001

2000

		\$ 7,268,218	\$ 4,242,228
		76,450,057	–
		11,818,082	2,681,480
		1,027,755	225,000
		96,564,112	7,148,708
		3,187,583	2,287,606
	17	10,165,251	5,487,135
	18	16,359,298	9,198,446
	11 (e)	2,694,773	–
		39,011,652	11,195,648
		71,418,557	28,168,835
		(4,592,790)	(2,416,129)
		(3,234,514)	(3,292,393)
	19	(12,000,000)	–
	11 (e)(ii)	–	(1,109,605)
		(19,827,304)	(6,818,127)
		51,591,253	21,350,708
		148,155,365	28,499,416
	20	(33,162,500)	–
		(31,128)	–
		\$114,961,737	\$ 28,499,416
	21	\$ 40,000,000	\$ 10,382,822
		32,050,283	18,116,594
	22	42,911,454	–
		\$114,961,737	\$ 28,499,416

Approved by the Board of Directors on 18th June 2001, and signed on behalf of the Board by

Dr. Cho Kwai Chee

Director

Dr. Fung Yiu Tong, Bennet

Director

Balance Sheet

As at 31st March 2001

(Amounts expressed in Hong Kong dollars)

ASSETS

Non-current assets

Interests in subsidiaries

Note 14 **\$139,720,152** \$ -

Amount due from an associate

15 **260,254** -

139,980,406 -

Current assets

Prepayment, deposits and other current assets

18 **4,543,875** -

Cash and bank balances

733,756 -

5,277,631 -

LIABILITIES

Current liabilities

Accounts payable and accruals

19 **(960,218)** -

Bank loan

(12,000,000) -

(12,960,218) -

Net current liabilities

(7,682,587) -

Total assets less current liabilities

132,297,819 -

Non-current liabilities

Amount due to a related company

11 (e) (ii) - (30,183)

Convertible note

20 **(33,162,500)** -

(33,162,500) (30,183)

NET ASSETS (LIABILITIES)

\$ 99,135,319 \$ (30,183)

CAPITAL AND RESERVES

Share capital

21 **\$ 40,000,000** \$ -

Accumulated losses

(1,922,912) (30,183)

Other reserves

22 **61,058,231** -

\$ 99,135,319 \$ (30,183)

Approved by the Board of Directors on 18th June 2001, and signed on behalf of the Board by

Dr. Cho Kwai Chee

Director

Dr. Fung Yiu Tong, Bennet

Director

Consolidated Cash Flow Statement

For the year ended 31st March 2001

(Amounts expressed in Hong Kong dollars)

39

	Note	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Net cash inflow from operating activities	26 (a)	\$ 28,769,401	\$ 15,679,451
Returns on investments and servicing of finance			
Dividend paid		(18,116,594)	–
Interest received		1,685,139	117,166
Interest paid		(365,136)	(14,092)
Net cash (outflow) inflow from returns on investments and servicing of finance		(16,796,591)	103,074
Taxation			
Hong Kong profits tax paid		(5,766,820)	–
Investing activities			
Additions of properties and equipment		(5,242,732)	(3,117,844)
Acquisition of equity interest in a subsidiary	26 (b)	(2,999,000)	–
Acquisitions of equity interests in associates		(70,037,753)	(1,400,000)
Increase in amounts due from associates		(1,665,739)	–
Acquisitions of interests in medical and dental practices		(8,768,000)	–
Cash and bank balances acquired under the Transfer Agreement	26 (d)(ii)	–	619,417
Deposit for initial assessment of investment opportunities		(4,394,000)	–
Deposit for purchase of an equity security		(4,500,000)	(481,660)
Investment in equity securities		(321,095)	–
Net cash outflow from investing activities		(97,928,319)	(4,380,087)
Net cash (outflow) inflow before financing		(91,722,329)	11,402,438
Financing	26 (c)		
Proceeds from issuance of shares		65,305,000	8
Share issuance expenses		(18,709,067)	–
New bank loan		14,000,000	–
Repayment of bank loan		(2,000,000)	–
Issuance of convertible notes		60,942,400	–
Repayment of instalment loan		–	(206,798)
Net cash inflow (outflow) from financing		119,538,333	(206,790)
Increase in cash and bank balances		27,816,004	11,195,648
Cash and bank balances			
Beginning of year/period		11,195,648	–
End of year/period		\$ 39,011,652	\$ 11,195,648

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. GROUP REORGANISATION AND BASIS OF PRESENTATION

Town Health International Holdings Company Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law (1998 Revision) of the Cayman Islands on 24th August 1999 as an exempted company with limited liability. On 6th April 2000, pursuant to a group reorganisation scheme (the "Reorganisation"), the Company acquired the equity interests of Town Health (BVI) Limited and its subsidiaries ("Town Health (BVI) Group") through a share exchange described in Note 21(b). Since then the Company has become the holding company of Town Health (BVI) Group. The Company and Town Health (BVI) Group are companies under common control. The Company and its subsidiaries are collectively referred to as the "Group". The Company's shares were listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited on 18th October 2000.

Prior to the Reorganisation, in August 1999, Town Health (BVI) Group entered into an agreement for the transfer of business (the "Transfer Agreement") with certain medical doctors and dental practitioners, who for the purpose of this report are collectively referred to as Dr. Cho & Associates. Prior to entering into the Transfer Agreement, Dr. Cho & Associates operated, inter alia, medical practices and dental practices under the names of "Town Health Centre", "Town Health Integrated Medical Centre", "Concord Medical Centre", "康健診所", "康健醫務中心", "康健綜合醫務中心", "康健西醫診所", "康健西醫牙醫診所" and "康和醫務所", referred to hereinafter as the "Original Practices".

Under the Transfer agreement, Town Health (BVI) Group acquired substantially all of the assets and assumed substantially all of the liabilities of the Original Practices as at 31st July 1999. In addition, Town Health (BVI) Group acquired the rights to operate the dental practices carried on by the Original Practices. Consideration for this transaction was the issuance by Town Health (BVI) Limited of 1,302,284 shares of US\$1 each credited as fully paid. These shares were exchanged for 3,424,149 shares of the Company on 6th April 2000.

As described above, the Reorganisation involved companies under common control, and the Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Reorganisation and the Transfer Agreement have been accounted for on the basis of merger accounting. Under the merger accounting method, the consolidated financial statements have been prepared as if the Company had been the holding company of the Group throughout the year ended 31st March 2001, rather than from the date on which the Reorganisation was completed. The comparative figures for the period from 24th August 1999 (date of incorporation) to 31st March 2000 are presented on the same basis to include Town Health (BVI) Group's operating results of the business transferred into the Group under the Transfer Agreement since August 1999.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of management and administrative services to private medical and dental practitioners, licensing of the name TOWN HEALTH CENTRE, operations of the Group's own dental practices and provision of healthcare services to corporates.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM. Principal accounting policies are summarised below:

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Group, together with the Group's share of post-acquisition profit (loss) and reserves of its associates under the equity method of accounting. For subsidiaries and associates acquired or disposed of during the year, their results are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

(b) Turnover

Turnover represents management and administrative service fee income, licence fee income, dental consultation income and corporate healthcare service income.

(c) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

- (i) Management and administrative service fee income is recognised when services are rendered.
- (ii) Licence fee income is recognised with reference to the gross revenue of the licensee or a fixed monthly charge as specified in the agreement.
- (iii) Dental consultation income is recognised when the related services are rendered.
- (iv) Corporate healthcare service income is recognised with reference to a fixed monthly charge as specified in the agreements.
- (v) Other consultancy fee income is recognised when the related services are rendered.
- (vi) Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Properties and equipment and depreciation

Properties and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset.

Leasehold improvements are depreciated over the unexpired period of the lease. Depreciation of other assets is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

Furniture and fixtures	20%
Motor vehicle	20%
Tools and equipment	20% – 33 $\frac{1}{3}$ %

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The carrying amount of an asset is assessed annually and when factors indicating an impairment are present. The Group determines the recoverable amount of an asset by measuring discounted future cash flows. If an impairment is present, the asset is reported at the lower of carrying amount or recoverable amount.

(e) Subsidiaries

An enterprise is a subsidiary if more than 50% of the issued voting capital is held long-term, directly or indirectly. Investment in subsidiaries in the Company's balance sheet is carried at cost less provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the Company's income statement to the extent of dividends declared by the subsidiaries.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Associates

An associate is a company, not being a subsidiary, in which the Group holds 20% or more of its issued voting share capital as a long-term investment and can exercise significant influence over its management. In the consolidated financial statements, investment in associates is stated at the Group's share of the fair value of the separable net assets of the associates at the time of acquisition, plus/less the Group's share of undistributed post-acquisition profits/losses and reserves of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

(g) Investment securities

Investment securities are equity securities intended to be held on a continuing basis and are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense in the income statement unless there is evidence that the decline is temporary.

Provisions against the carrying value of investment securities are reversed to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal or transfer of the investment securities, any profit and loss thereon is accounted for in the income statement.

(h) Goodwill

Goodwill arising on acquisition of interests in subsidiaries, associates and medical and dental practices represents the excess of the cost of acquisition over the Group's share of the fair value of the separable net assets (liabilities) acquired. Goodwill is amortised on a straight-line basis over the estimated economic useful lives of 20 years. The Company's directors review and evaluate, taking into consideration current results and future prospects of the related subsidiaries, associates and the medical and dental practices, the carrying value of goodwill periodically.

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Pharmaceutical supplies

Pharmaceutical supplies consist of medications prescribed in the provision of medical services to the patients of medical clinics and are carried at cost less any necessary provision for obsolescence.

Cost is calculated on the first-in, first-out basis and comprises all costs of purchase and other costs incurred in bringing the pharmaceutical supplies to their present location and condition.

(i) Provisions and contingencies

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(k) Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance costs recognised in the income statement in respect of the convertible notes, including the premium payable upon the final redemption of the convertible notes, are calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible notes of each accounting period.

(l) Operating leases

Leases are accounted for as operating leases where substantially all the risks and rewards of ownership remain with the lessor. Rental payments under operating leases are charged to the income statement on a straight-line basis over the lease term. The aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Website development costs

Website development costs are charged to the income statement in the period in which they are incurred.

(n) Staff retirement benefits

Costs of staff retirement benefits are charged to the income statement in the period in which they are incurred.

(o) Deferred taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND REVENUE

An analysis of each significant category of revenue is detailed as follows:

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Turnover		
– Management and administrative service fee income	\$ 76,199,809	\$ 39,385,977
– licence fee income	13,930,000	8,910,000
– Dental consultation income	9,801,401	4,221,256
– Corporate healthcare service income	2,600,000	–
	<hr/>	<hr/>
Total turnover	102,531,210	52,517,233
Other revenue		
– Interest income		
– bank deposits	715,722	117,166
– subscription monies	691,165	–
– other	278,252	–
	<hr/>	<hr/>
	1,685,139	117,166
– Other consultancy fee income	406,248	–
	<hr/>	<hr/>
Total other revenue	2,091,387	117,166
Total revenue	<u>\$104,622,597</u>	<u>\$ 52,634,399</u>

All of the Group's turnover was derived from operations conducted in Hong Kong.

4. PROFIT FROM OPERATIONS

Profit from operations is determined after charging the following:

Depreciation
 Staff costs (including directors' emoluments and medical salaries paid to doctors, dentists and nurses)
 Loss on disposal of properties and equipment
 Operating lease rental
 Auditors' remuneration
 Website development costs
 Amortisation of goodwill

For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
\$ 2,216,742	\$ 771,532
40,937,242	19,162,032
-	81,663
8,990,588	3,573,626
773,000	600,000
316,950	125,000
538,875	-
<u>40,937,242</u>	<u>19,162,032</u>

5. FINANCE COSTS

Interest expense on

- bank overdraft
- bank loan repayable within one year
- convertible notes
- instalment loans

For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
\$ 78,727	\$ -
209,543	-
1,676,866	-
-	14,092
<u>\$ 1,965,136</u>	<u>\$ 14,092</u>

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

- (a) Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Executive directors		
– Fees	\$ 24,000	\$ –
– Other emoluments		
– Basic salaries and allowances	2,532,267	1,535,550
– Performance bonus	495,954	701,870
– Contribution to pension scheme	12,130	–
Non-executive and independent non-executive directors		
– Fees	12,000	–
	<u>\$ 3,076,351</u>	<u>\$ 2,237,420</u>

No directors waived any emoluments during the year. No payment as inducement to join or upon joining the Group or as compensation for loss of office was paid or is payable to any directors.

An analysis of directors' emoluments by number of directors and emolument range is as follows:

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Executive directors		
– Nil to \$1,000,000	10	10
– \$1,000,001 to \$1,500,000	1	–
Non-executive and independent non-executive directors		
– Nil to \$1,000,000	4	3
	<u>15</u>	<u>13</u>

6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

(b) Details of emoluments paid to the five highest paid individuals (including directors and other employees) are as follows:

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Fees	\$ -	\$ -
Basic salaries and allowances	4,886,800	2,714,483
Performance bonus	2,069,997	2,095,114
Contribution to pension scheme	15,163	-
	<u>\$ 6,971,960</u>	<u>\$ 4,809,597</u>

One (2000 – 2) of the highest paid individuals was a director of the Company, whose emoluments are included in Note 6(a) above.

During the year, no emoluments of the five highest paid individuals (including directors and other employees) were incurred as inducement to join or upon joining the Group or as compensation for loss of office.

An analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument range is as follows:

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Nil to \$1,000,000	-	4
\$1,000,001 to \$1,500,000	4	1
\$1,500,001 to \$2,000,000	1	-
	<u>5</u>	<u>5</u>

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. TAXATION

Hong Kong profits tax has been provided at 16% of the estimated assessable profits for the year.

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Taxation attributable to the Group		
– Current tax	\$ 5,708,941	\$ 3,292,393
Taxation attributable to an associate		
– Current tax	1,138	–
	<u>\$ 5,710,079</u>	<u>\$ 3,292,393</u>

There was no significant unprovided deferred taxation for the year/period ended and as at year/period end because there were no significant timing differences.

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a profit of approximately \$16,224,000 (2000 – loss \$30,000) dealt with in the financial statements of the Company.

9. DIVIDEND

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Special dividend	<u>\$ 18,116,594</u>	<u>\$ –</u>

On 30th April 2000, a special dividend of approximately \$18,117,000 was declared to the shareholders then registered prior to the Reorganisation described in Note 1.

10. EARNINGS PER SHARE

(a) Basic

The calculation of basic earnings per share for the year ended 31st March 2001 is based on the consolidated profit attributable to shareholders of approximately \$32,050,000 (2000 – \$18,117,000) and on the weighted average of approximately 337,000,000 shares (2000 – 280,400,000), after adjusting for the effects of capitalisation issue deemed to be in issue throughout the year on the assumption that the Reorganisation had been completed on 31st March 1999.

(b) Diluted

The calculation of diluted earnings per share for the year ended 31st March 2001 is based on the consolidated profit attributable to shareholders of approximately \$33,727,000 and on approximately 364,000,000 shares, being the weighted average number of shares outstanding during the year, adjusted for the effects of the capitalisation issue and all potential ordinary shares.

Since there were no potential dilutive shares outstanding during the period ended 31st March 2000, no diluted earnings per share is presented.

(c) Reconciliation

Reconciliation of the number of ordinary shares for calculation of basic and diluted earnings per share:

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Weighted average number of ordinary shares used in calculating basic earnings per share	337,000,000	280,400,000
Effect of dilutive potential shares in respect of convertible notes	27,000,000	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>364,000,000</u>	<u>280,400,000</u>

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

Particulars of significant transactions and balances between the companies comprising the Group and related parties during the year are summarised below:

- (a) On 1st August 1999, the Group entered into licence and management services agreements with Dr. Cho, Chan, Fung & Associates (the "Partnership"), certain partners of which are employee-doctors of the Group. Under the agreements, the Group granted a licence to the medical practices owned and operated by the Partnership to use the name TOWN HEALTH CENTRE and all proprietary rights and know-how owned by the Group in relation thereto and also agreed to provide a comprehensive range of management and administrative services to the medical practices to assist them to carry on their medical business for an initial period of three years with automatic renewal upon expiry of the agreement. Such services include the provision of medical and administrative staff, properties and equipment, pharmaceutical supplies and, in certain cases, premises. The Group receives management and administrative service fee income and licence fee income in return.

During the year, the Group also entered into similar licence and management services agreements with three medical practices owned and operated by two executive directors of the Company and an employee-doctor of the Group respectively. As consideration, the Group receives management and administrative service fee income and licence fee income.

Management and administrative service fee income and licence fee income from the Partnership and the three medical practices are as follows:

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
– Management and administrative service fee income	\$ 72,508,727	\$ 38,895,977
– Licence fee income	<u>9,730,000</u>	<u>5,790,000</u>

11. RELATED PARTY TRANSACTIONS (Continued)

- (b) The Group also has limited scope licence and management services agreements with medical and dental practices, which are considered to be related parties. Under the agreements, the Group granted a licence to the medical or dental practices to use the name TOWN HEALTH CENTRE and all proprietary rights and know-how owned by the Group in relation thereto and also agreed to provide limited scope management services to those practices to assist them to carry on their medical or dental business for a term of three years. Such services include monitoring the administrative and financial performance of the practice and provision of internal audit and training and seminars to practitioners. The Group receives licence fee income in return.

Licence fee income from the respective related parties is as follows:

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
– Medical and dental practices which are owned and operated by the medical and dental practitioners who are executive directors of the Company	\$ 960,000	\$ 960,000
– A dental practice, which is a limited liability company, with one of its two shareholders being an executive director of the Company	960,000	960,000

- (c) In addition, the Group has an administrative and support services agreement with an associate of the Group. Under the agreement, the Group has agreed to provide financial management, accounting, administrative and support services to the associate for an initial period of three years with automatic renewal upon expiry of the agreement. In return the Group receives management and administrative service fee income. The service fee income charged to the associate is \$70,000 per month. During the year, the management and administrative service income charged to the associate amounted to \$840,000 (2000 – \$490,000). In addition, during the year, two staff were seconded to the associate. The related staff cost amounting to \$718,000 (2000 – Nil) was fully recharged to the associate.

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. RELATED PARTY TRANSACTIONS (Continued)

(d) Other significant related party transactions include the following:

- (i) Patient referral fee received from a dental practice, which is a limited liability company, with one of its shareholders being an executive director of the Company
- (ii) Rental expenses charged by a company of which Dr. Cho Kwai Chee, an executive director of the Company, is a director
- (iii) Purchase of pharmaceutical supplies from a supplier controlled and owned by an initial management shareholder of the Company. The initial management shareholder disposed of all his interests in the supplier on 23rd January 2001

For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
\$ 144,600	\$ -
600,000	400,000
<u>1,322,401</u>	<u>747,576</u>

(e) (i) Details of the amounts due from related parties as at 31st March 2001 are summarised below:

Management and administrative service fee income receivable from the Partnership	\$ 648,795
Licence fee income receivable from related parties	1,924,140
Advances to Origin Limited, a substantial shareholder of the Company	121,838
	<u>2,694,773</u>

**Group
2001**

- (ii) Balances with the related parties are unsecured, non-interest bearing and have no fixed repayment terms.

In the opinion of the directors, all the above transactions were conducted in the ordinary course of business and on normal commercial terms.

12. PROPERTIES AND EQUIPMENT**Group**

Movement of the properties and equipment is as follows:

	2001				2000	
	Leasehold improvements	Furniture and fixtures	Motor vehicle	Tools and equipment	Total	
Cost						
Beginning of year/period	\$2,321,861	\$ 182,254	\$ 88,925	\$2,413,294	\$5,006,334	\$ -
Transferred from						
Dr. Cho & Associates	-	-	-	-	-	1,977,579
Additions	2,820,573	209,799	-	2,212,360	5,242,732	3,117,844
Disposals	(106,150)	-	-	(20,060)	(126,210)	(89,089)
End of year/period	5,036,284	392,053	88,925	4,605,594	10,122,856	5,006,334
Accumulated depreciation						
Beginning of year/period	336,073	23,676	68,850	335,507	764,106	-
Charge for the year/period	1,208,569	64,100	20,075	923,998	2,216,742	771,532
Disposals	(106,150)	-	-	(20,060)	(126,210)	(7,426)
End of year/period	1,438,492	87,776	88,925	1,239,445	2,854,638	764,106
Net book value						
Beginning of year/period	\$1,985,788	\$ 158,578	\$ 20,075	\$2,077,787	\$4,242,228	\$ -
End of year/period	\$3,597,792	\$ 304,277	\$ -	\$3,366,149	\$7,268,218	\$ 4,242,228

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. GOODWILL

Group

Details and movement of goodwill arising on acquisition of interests in a subsidiary, two associates, one medical and two dental practices are summarised below:

	2001			
	Subsidiary	Medical and Associates dental practices	Subsidiary	Total
Cost				
Addition and end of year	\$ 2,999,236	\$65,221,696	\$ 8,768,000	\$76,988,932
Amortisation				
Addition and end of year	<u>(24,995)</u>	<u>(330,080)</u>	<u>(183,800)</u>	<u>(538,875)</u>
Net book value				
End of year	<u>\$ 2,974,241</u>	<u>\$64,891,616</u>	<u>\$ 8,584,200</u>	<u>\$76,450,057</u>

The directors are of the opinion that the underlying value of the goodwill is not less than the carrying value at 31st March 2001.

14. INTERESTS IN SUBSIDIARIES

Details of the interests in subsidiaries in the Company's balance sheet are as follows:

	2001	2000
Unlisted shares, at cost	\$ 28,537,379	\$ –
Amounts due from the subsidiaries	128,135,649	–
Amounts due to the subsidiaries	<u>(16,952,876)</u>	–
	<u>\$139,720,152</u>	<u>\$ –</u>

The balances with the subsidiaries are unsecured, interest free and have no fixed repayment terms.

The directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying value at 31st March 2001.

14. INTERESTS IN SUBSIDIARIES (Continued)

The following is a list of subsidiaries as at 31st March 2001:

Name	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Town Health (BVI) Limited (a)	British Virgin Islands	US\$1,331,131	100%	Investment holding
Town Health Sourcing Limited	British Virgin Islands	US\$1	100%	Holder of trade name and other intellectual property rights
Town Health Trademark Limited	British Virgin Islands	US\$1	100%	Holder of trade name and other intellectual property rights
Town Health Management and Services Limited	Hong Kong	\$2	100%	Provision of management and administrative services
Town Health Medical & Dental Services Limited	Hong Kong	\$2	100%	Provision of management services, premises and facilities to medical practitioners
Town Health Para-medical Services Limited	Hong Kong	\$2	100%	Provision of para-medical services
Town Health Preventive Healthcare Services Limited	British Virgin Islands	US\$1	100%	Investment holding
Town Health Dental Limited	Hong Kong	\$2	100%	Provision of dental consultation services
Town Health IT Resources Limited	Hong Kong	\$2	100%	Investment holding

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Health-easy.com Limited	Hong Kong	\$2	100%	Operation of website
Health Matrix Network Limited	Hong Kong	\$2	100%	Provision of network services to medical practitioners
Town Health Elderly Services Limited	Hong Kong	\$2	100%	Dormant
Town Health Pediatric Healthcare Services Limited	Hong Kong	\$2	100%	Dormant
Town Health Research Centre Limited	Hong Kong	\$2	100%	Dormant
Town Health Traditional Chinese Medicine Services Limited	Hong Kong	\$2	100%	Investment holding
Town Health Children's Club Limited	Hong Kong	\$2	100%	Dormant
Town Health Bio-Medical Technology Limited (a)	British Virgin Islands	US\$1,000	100%	Investment holding
Plenty Time Investments Limited	British Virgin Islands	US\$1,000	100%	Investment holding
Wisesure Limited	Hong Kong	\$1,000	76.4%	Provision of management service, premises and facilities to medical practitioners

Note:

- (a) Town Health (BVI) Limited and Town Health Bio-Medical Technology Limited are directly held by the Company, while all other subsidiaries are indirectly held by the Company through Town Health (BVI) Limited.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

15. INTERESTS IN ASSOCIATES

Details of the interests in associates are as follows:

Group		Company	
2001	2000	2001	2000
\$8,362,343	\$ 891,480	\$ -	\$ -
3,455,739	1,790,000	260,254	-
<u>\$11,818,082</u>	<u>\$ 2,681,480</u>	<u>\$ 260,254</u>	<u>\$ -</u>

Share of net assets
Amounts due from
associates (a)

The following is a list of associates as at 31st March 2001:

Name	Place of incorporation	Indirect equity interest held by the Group	Principal activities
Health Matrix International Limited	Hong Kong	20%	Distribution of healthcare products
Luxembourg Medicine Company Limited	Hong Kong	46.43%	Manufacturing and distribution of cough syrup
Wai Yuen Tong Medicine Company Limited	Hong Kong	24%	Manufacturing and distribution of traditional Chinese medicine
Wise Hope Limited	Hong Kong	50%	Dormant

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INTERESTS IN ASSOCIATES (Continued)

Note:

- (a) Of the total amounts due from associates, \$950,000 is due from Health Matrix International Limited ("Health Matrix"). The amount due from Health Matrix is unsecured and has no fixed repayment dates. Of the total \$950,000 of the amount due from Health Matrix, approximately \$700,000 is interest free and the remaining \$250,000 relating to the monthly management and administrative service fees receivable is interest bearing. Interest is charged at prime rate plus 2% per annum on any outstanding amount receivable from the associate for more than 30 days after it falls due. During the year, the interest of approximately \$35,000 that would have been charged on overdue balances was considered immaterial and was waived by the directors.

Except the amount due from Health Matrix disclosed above, the balances with other associates are unsecured, interest-free and have no fixed repayment dates.

The directors are of the opinion that the underlying value of the associates is not less than the carrying amount at 31st March 2001.

16. INVESTMENT IN EQUITY SECURITIES

Group

Details of the investment in equity securities are as follows:

	2001	2000
Unlisted, at cost	\$ 980,000	\$ 225,000
Amount due from an investee	47,755	-
	<u>\$1,027,755</u>	<u>\$ 225,000</u>

The amount due from an investee is unsecured, non-interest bearing and has no fixed repayment date.

The directors are of the opinion that the underlying value of the equity securities is not less than the carrying amount at 31st March 2001.

17. ACCOUNTS RECEIVABLE

Group

Accounts receivable consists of:

Accounts receivable

2001	2000
<u>\$ 10,165,251</u>	<u>\$ 5,487,135</u>

In the opinion of the directors, no provision for bad and doubtful debts is considered necessary.

18. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS

Details of prepayments, deposits and other current assets are as follows:

	Group		Company	
	2001	2000	2001	2000
Deposit for purchase of an equity security	\$ 4,500,000	\$ 481,660	\$ 4,500,000	\$ -
Rental deposits	4,457,926	3,050,977	-	-
Deposit for initial assessment of investment opportunities	4,394,000	-	-	-
Tendering deposits	615,882	1,848,224	-	-
Utility deposits	162,357	125,134	-	-
Deferred share issuance expenses	-	3,447,201	-	-
Deposit for decoration work	1,035,538	151,000	-	-
Others	1,193,595	94,250	43,875	-
	<u>\$16,359,298</u>	<u>\$ 9,198,446</u>	<u>\$ 4,543,875</u>	<u>\$ -</u>

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. BANK LOAN

	Group and Company	
	2001	2000
Bank loan	<u>\$12,000,000</u>	\$ —

The bank loan is unsecured and repayable by monthly instalments of \$1,000,000 extending to March 2002. Interest is charged at the higher of the best lending rate offered by the lender or the lender's cost of fund.

20. CONVERTIBLE NOTE

Details of the convertible note as at 31st March 2001 are as follows:

	Group and Company		
	Principal amount	Accrued interest	Carrying value
Proceeds from issuance of convertible note	\$ 31,562,500	\$ —	\$ 31,562,500
Finance costs	—	1,600,000	1,600,000
	<u>\$ 31,562,500</u>	<u>\$ 1,600,000</u>	<u>\$ 33,162,500</u>

On 20th September 2000, the Company entered into a subscription agreement with Topson Profits Limited (formerly known as Topson Limited ("Topson")), an indirect wholly-owned subsidiary of Cheung Kong (Holdings) Limited. Pursuant to the agreement, the Company has agreed to issue a convertible note with a principal amount of \$31,562,500 to Topson for cash at face value on 17th October 2000.

The convertible note or any part thereof is convertible into the Company's shares at a price \$0.625 per share (subject to adjustments), at the option of the noteholder at any time during the period commencing from 18th July 2001 and up to and including 31st July 2002 (i.e. maturity date).

Unless previously converted, the convertible notes will be redeemed by the Company on the maturity date at redemption amounts equal to 125% of the principal account, which implies a yield-to-maturity rate of approximately 13% per annum to the noteholder.

21. SHARE CAPITAL

	Number of shares	Amount
Authorised (ordinary shares of \$0.10 each) –		
Upon incorporation of the Company (a)	3,500,000	\$ 350,000
Increase in authorised share capital (b)	996,500,000	99,650,000
	<u>1,000,000,000</u>	<u>\$ 100,000,000</u>
Issued and fully paid (ordinary shares of \$0.10 each) –		
Issue of shares upon incorporation (a)	2	\$ –
Issue of shares arising from the Reorganisation (b)	3,499,998	350,000
Exercise of convertible notes on 29th September 2000 (c)	10,714,286	1,071,429
Private placement on 6th July 2000 (d)	494,294	49,429
Exercise of a convertible note on 3rd October 2000 (e)	24,961,714	2,496,171
Issue of shares through placing and public offering (f)	44,324,000	4,432,400
Capitalisation of share premium (g)	316,005,706	31,600,571
	<u>400,000,000</u>	<u>\$ 40,000,000</u>

Notes:

- (a) The Company was incorporated on 24th August 1999 in the Cayman Islands with authorised share capital of \$350,000 divided into 3,500,000 shares of \$0.10 each, of which two subscriber shares were issued.
- (b) On 6th April 2000, the authorised share capital of the Company was increased to \$50,000,000, by the creation of an additional 496,500,000 ordinary shares of \$0.10 each, ranking pari passu with the then existing ordinary shares in all respects.

On the same date, 3,499,998 shares were issued at par and credited as fully paid, as consideration for the exchange of the entire share capital of Town Health (BVI) Limited, a subsidiary, in connection with the Reorganisation referred to in Note 1.

On 20th September 2000, the authorised share capital of the Company was increased from \$50,000,000 to \$100,000,000, by the creation of an additional 500,000,000 shares of ordinary shares of \$0.10 each, ranking pari passu with the then existing ordinary shares in all respects.

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. SHARE CAPITAL (Continued)

- (c) On 29th September 2000, 10,714,286 ordinary shares of \$0.10 each were issued to the convertible noteholders to convert the convertible notes which were issued on 29th May 2000 for cash at face value with principal amounts of \$4,000,000 and \$2,000,000 respectively.
- (d) Pursuant to a subscription agreement dated 6th July 2000, 494,294 shares of \$0.10 each were issued and allotted to Topson for a cash consideration of \$9,900,000.
- (e) On 3rd October 2000, 24,961,714 ordinary shares of \$0.10 each were issued to the convertible noteholder to convert the convertible note which was issued on 31st August 2000 for cash at face value with a principal amount of US\$3,000,000.
- (f) On 16th October 2000, 44,324,000 shares of \$0.10 each were issued at \$1.25 per share through placing and public offering (the "New Issue"), resulting in net cash proceeds of approximately \$33,249,000.
- (g) Immediately after the New Issue, share premium of \$31,600,571 were capitalised for the issuance of 316,005,706 shares of \$0.10 each on a pro-rata basis to the Company's shareholders registered on 3rd October 2000.

The comparative figure of the Company's share capital as at 31st March 2000 represents the nominal value of the share capital of Town Health (BVI) Limited, the then holding company of the Group and the amounts due to related parties of approximately \$10,383,000 as if the capitalisation of such amounts had taken place as at that date. Details of the capitalisation of the amounts due to related parties are described in Note 26(d)(i).

22. OTHER RESERVES

Movement of other reserves is as follows:

Group	Share premium	Capital reserve (a)	Contributed surplus (b)	Total
Balance as at 31st March 1999 and 2000	\$ -	\$ -	\$ -	\$ -
Effect of the Reorganisation	-	10,032,822	-	10,032,822
Exercise of convertible notes on 29th September 2000 (Note 21(c))	4,928,571	-	-	4,928,571
Private placement on 6th July 2000, (Note 21(d))	9,850,571	-	-	9,850,571
Exercise of a convertible note on 3rd October 2000 (Note 21(e))	20,883,729	-	-	20,883,729
Issue of shares through placing and public offering (Note 21(f))	50,972,600	-	-	50,972,600
Share issuance expenses	(22,156,268)	-	-	(22,156,268)
Capitalisation of share premium (Note 21(g))	(31,600,571)	-	-	(31,600,571)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31st March 2001	<u>\$ 32,878,632</u>	<u>\$ 10,032,822</u>	<u>\$ -</u>	<u>\$ 42,911,454</u>

22. OTHER RESERVES (Continued)

Under the Companies Law of the Cayman Islands, a company's reserves are distributable to shareholders subject to the provisions of the Company's Memorandum and Articles of Association, and provided that immediately following the distribution or payment of dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, no dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution. As at 31st March 2001, approximately \$26,257,000 of the Company's reserves (represented by the contributed surplus less accumulated losses) were available for distribution to shareholders (2000 - Nil).

23. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Share Option Scheme") adopted by the Company on 20th September 2000, the Company may grant options to employees of the Group (including directors of the Company) to subscribe for shares of the Company, subject to a maximum of 10% of the nominal value of the issued share capital. The subscription price will be determined by the Board of Directors of the Company, and will not be less than the higher of (i) the nominal value of the shares, (ii) the average of the closing price of the shares quoted to the GEM on the five trading days immediately preceding the date of offer of the option, and (iii) the closing price of shares quoted on the GEM on the date of grant. No options under the Share Option Scheme were granted during the year ended 31st March 2001.

24. OPERATING LEASE COMMITMENTS

As at 31st March 2001, the Group had commitments in respect of rented premises under various non-cancellable operating lease agreements amounting to approximately \$15,388,000 (2000 - \$9,297,000) of which \$10,513,000 (2000 - \$4,744,000) is payable in the next twelve months. The commitments payable within the next twelve months, analysed according to the period in which the leases expire, are as follows:

Leases expiring

- in the first year
- in the second to fifth years inclusive

2001	2000
\$ 238,000	\$ 1,325,000
10,275,000	3,419,000
<u>\$ 10,513,000</u>	<u>\$ 4,744,000</u>

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. PENSION SCHEME – MANDATORY PROVIDENT FUND SCHEME

Since 1st December 2000, the Group has arranged for its employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"). The MPF Scheme is a defined contribution scheme managed by an independent trustee. Under the MPF scheme, each of the Group and its employees make monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employee's contribution are subject to a cap of monthly earnings of \$20,000 and thereafter contributions are voluntary. During the year, the aggregate amount of employer's contribution made by the Group to the MPF Scheme was approximately \$328,000.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation and minority interests to net cash inflow from operating activities

	For the year ended 31st March 2001	For the period from 24th August 1999 (date of incorporation) to 31st March 2000
Profit before taxation and minority interests	\$ 37,791,254	\$ 21,408,987
Share of (profit) loss of associates	(2,655,944)	508,520
Interest income	(1,685,139)	(117,166)
Interest expense	1,965,136	14,092
Depreciation	2,216,742	771,532
Amortisation of goodwill	538,875	-
Loss on disposal of properties and equipment	-	81,663
Increase in pharmaceutical supplies	(899,977)	(165,907)
Increase in accounts receivable	(4,678,116)	(1,341,018)
Increase in prepayments, deposits and other current assets	(2,195,713)	(6,531,921)
Increase in amounts due from related parties	(2,694,773)	(1,376,177)
Increase in accounts payable and accruals	2,176,661	1,317,241
(Decrease) Increase in amount due to a director	(1,109,605)	1,109,605
Net cash inflow from operating activities	<u>\$ 28,769,401</u>	<u>\$ 15,679,451</u>

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of equity interest in a subsidiary

During the year, the Group acquired a 76.4% equity interest in Wisasure Limited for a cash consideration of \$3,000,000. Details of the acquisition are as follows:

Cash and bank balances
Minority interests

Share of net assets acquired
Goodwill

Cash consideration paid

Net cash outflow in respect of the acquisition:

Cash consideration
Less: Cash and bank balances acquired

	2001
	\$ 1,000
	(236)
	<hr/>
	764
	2,999,236
	<hr/>
	\$ 3,000,000
	<hr/>
	\$ 3,000,000
	(1,000)
	<hr/>
	\$ 2,999,000
	<hr/>

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Analysis of changes in financing is as follows:

	Share capital and share premium	Convertible notes	Instalment loan/ bank loan	Total
Balance as at 31st March 1999	\$ -	\$ -	\$ -	\$ -
Issue of share of Town Health (BVI) Limited, then holding company of the Group	8	-	-	8
Assumption under the Transfer Agreement	-	-	206,798	206,798
Repayment of instalment loan	-	-	(206,798)	(206,798)
Capitalisation of amounts due to related parties	10,382,814	-	-	10,382,814
Balance as at 31st March 2000	10,382,822	-	-	10,382,822
Net effect of the Reorganisation	(10,032,822)	-	-	(10,032,822)
Issue of shares through public offering and placing	65,305,000	-	-	65,305,000
Reversal of deferred share issuance expenses	(3,447,201)	-	-	(3,447,201)
Share issuance expenses	(18,709,067)	-	-	(18,709,067)
New bank loan	-	-	14,000,000	14,000,000
Repayment of bank loan	-	-	(2,000,000)	(2,000,000)
Issuance of convertible notes	-	60,942,400	-	60,942,400
Exercise of convertible notes	29,379,900	(29,379,900)	-	-
Accrued finance costs	-	1,600,000	-	1,600,000
Balance as at 31st March 2001	<u>\$ 72,878,632</u>	<u>\$ 33,162,500</u>	<u>\$ 12,000,000</u>	<u>\$ 118,041,132</u>

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Major non-cash transactions

- (i) On 6th April 2000, amounts due to related parties amounting to approximately \$10,383,000 were capitalised through the issuance of 1,331,130 new shares of Town Health (BVI) Limited, a subsidiary, at par value.

On the same date, the Company issued 3,499,998 ordinary shares of \$0.10 each credited as fully paid in exchange for the entire share capital of Town Health (BVI) Limited, pursuant to the Reorganisation described in Note 1.

- (ii) In August 1999, net assets of \$10,157,814 were acquired by the Group under the Transfer Agreement. Consideration for this transaction was the issuance by Town Health (BVI) Limited of 1,302,284 shares of US\$1 each credited as fully paid to Dr. Cho & Associates. These shares were exchanged for 3,424,149 shares of the Company on 6th April 2000. The details of the assets and liabilities acquired are as follows:

	2000
Properties and equipment	\$ 1,977,579
Pharmaceutical supplies	2,121,699
Accounts receivable	4,146,117
Amounts due from related parties	413,823
Prepayments, deposits and other current assets	2,184,865
Cash and bank balances	619,417
Instalment loan	(206,798)
Accounts payable	(1,098,888)
	<hr/>
	\$ 10,157,814

27. BANKING FACILITIES

As at 31st March 2001, the Group had aggregate facilities for a bank loan and an overdraft of \$20,000,000 (1999-\$3,000,000), of which \$12,000,000 was utilised as at the same date. These facilities were secured by the corporate guarantee given by the Company.

Notes to the Financial Statement

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the following significant events of the Group took place:

- (a) On 6th April 2001, the Group acquired a 19.9% equity interest in Concept Best Limited from an independent third party for a consideration of \$4,500,000.
- (b) On 18th June 2001, the Company issued 34,000,000 new shares to one of its existing shareholders at \$0.45 per share. The net proceeds from the share issue amounted to approximately \$14,280,000.

1. THREE YEAR FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for the three years ended 31st March 2001.

Turnover

Profit attributable to shareholders

Total assets

Total liabilities

Minority interests

Surplus on shareholders' funds

2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
102,531	71,317	54,714
32,050	23,666	16,478
167,983	35,318	
(52,990)	(6,818)	
(31)	–	
114,962	28,500	

Notes:

1. The Company was incorporated in the Cayman Islands on 24th August 1999 and became the holding company of the companies comprising the Group on 6th April 2000 as a result of a group reorganization. Accordingly, the only balance sheets for the Group that have been prepared are those set out on pages 37 and 38 of the accompanying financial statements.
2. The results of the Group for each of the two years ended 31st March 1999 and 2000 presented above have been extracted from the Company's prospectus dated 9th October 2000 when the listing of the Company's shares was sought on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.
3. The results for the year ended 31st March 2001 have been extracted from the consolidated income statement as set out on page 36 of the accompanying financial statements.
4. The financial summary of the Group, which is presented for information only, has been prepared on the basis that the structure and business activities of the Group immediately after the completion of the group reorganisation had been in existence throughout the three years ended 31st March 2001.

Financial Summary

For the year ended 31st March 2001

2. PRO-FORMA INFORMATION

As additional information, the pro-forma income statement of the Group for the year ended March 31, 2000 is also presented on the basis as if the Group structure had been in existence throughout the year and as if the Group had operated the business of the Original Practices and was engaged in the provision of management and administrative services through the current Group structure throughout the year.

Consolidated income statement

	For the year ended 31st March, 2001 HK\$'000	Pro-forma For the year ended 31st March, 2000 HK\$'000
Turnover	\$ 102,531	\$ 71,317
Cost of services rendered		
– Pharmaceutical supplies	(6,401)	(6,140)
– Medical salaries	(35,998)	(24,910)
Gross profit	60,132	40,267
Other revenue	2,091	117
Operating expenses	(25,123)	(11,800)
Profit from operations	37,100	28,584
Finance costs	(1,965)	(22)
Share of profit (loss) of associates	2,656	(509)
Profit before tax	37,791	28,053
Taxation	(5,710)	(4,387)
Profit after taxation but before minority interests	32,081	23,666
Minority interests	(31)	–
Profit attributable to shareholders	\$ 32,050	\$ 23,666
Earnings per share – Basic	9.5 cents	8.4 cents
Earnings per share – Diluted	9.3 cents	N/A