



Town Health International Holdings Company Limited

康健國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

QUARTERLY REPORT

For the three months ended 30th June 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 of the Stock Exchange 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 quarterly results in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this quarterly results, makes no representation as to its accuracy or completeness and expressly disclaims any liabilities whatsoever for any loss whatsoever arising from or in reliance upon the whole or any part of the contents of this quarterly results.

This quarterly results, for which the directors (the “Directors”) of Town Health International Holdings Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this quarterly results is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this quarterly results misleading; and (3) all opinions expressed in this quarterly results have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS (UNAUDITED)

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of Town Health International Holdings Company Limited and its subsidiaries (collectively, the “Group”) for the three months ended 30th June 2001, together with the comparative unaudited figures for the corresponding period in 2000, as follows:

| | | For the Three months ended 30th June | |
|--|--------------|---|-----------------|
| | | 2001 | 2000 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Turnover | b | 25,183 | 21,294 |
| Cost of pharmaceutical supplies | | (1,904) | (1,351) |
| Medical salaries | | (11,883) | (7,664) |
| | | <hr/> | <hr/> |
| Gross profit | | 11,396 | 12,279 |
| Other revenue | b | 255 | 152 |
| Operating expenses | | (8,917) | (4,142) |
| | | <hr/> | <hr/> |
| Profit from operations | | 2,734 | 8,289 |
| Finance costs | | (1,307) | (21) |
| Share of profit (loss) of associates | | 1,916 | (161) |
| | | <hr/> | <hr/> |
| Profit before tax | | 3,343 | 8,107 |
| Taxation | c | (1,004) | (1,141) |
| | | <hr/> | <hr/> |
| Profit after taxation but before minority interests | | 2,339 | 6,966 |
| Minority interests | | (42) | — |
| | | <hr/> | <hr/> |
| Profit attributable to shareholders | | <u>2,297</u> | <u>6,966</u> |
| Earnings per share - basic | d | 0.57 cents | 2.48 cents |
| - diluted | d | N/A | 2.46 cents |

Notes:

a. **Group reorganization and basis of preparation**

The Company was incorporated in the Cayman Islands under the Companies Law (1998 Revision) of the Cayman Islands as an exempted company with limited liability on 24th August 1999 and remained inactive until 6th April 2000 when a reorganization of the Group (the “Group Reorganization”) was completed and the Company became the holding company of the Group.

The Group Reorganization has been accounted for by the Company using the merger accounting method in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions".

The comparative figures for the three months ended 30th June 2000 have been prepared as if the Group Reorganization had been completed on 1st April 2000.

b. Turnover and revenue

Total revenue comprises:

| | For the Three months ended 30th June | |
|--|---|------------------|
| | 2001 | 2000 |
| | <i>HK\$ '000</i> | <i>HK\$ '000</i> |
| Turnover: | | |
| - Management and administrative service fee income | 18,347 | 16,307 |
| - License fee income | 3,430 | 3,340 |
| - Dental consultation income | 3,406 | 1,647 |
| | <hr/> | <hr/> |
| Total turnover | 25,183 | 21,294 |
| | <hr/> | <hr/> |
| Other revenue: | | |
| - Interest income | 211 | 144 |
| - Other consultancy fee income | 44 | 8 |
| | <hr/> | <hr/> |
| Total other revenue | 255 | 152 |
| | <hr/> | <hr/> |
| Total revenue | 25,438 | 21,446 |
| | <hr/> <hr/> | <hr/> <hr/> |

c. Taxation

Taxation comprises:

| | For the Three months ended 30th June | |
|--|---|------------------|
| | 2001 | 2000 |
| | <i>HK\$ '000</i> | <i>HK\$ '000</i> |
| Hong Kong profits tax attributable to the Group | | |
| - Current tax | 697 | 1,141 |
| Hong Kong profits tax attributable to associates | | |
| - Current tax | 307 | — |
| | <hr/> | <hr/> |
| | 1,004 | 1,141 |
| | <hr/> <hr/> | <hr/> <hr/> |

Hong Kong profits tax has been provided at the rate of 16% (2000 - 16%) of the estimated assessable profits arising in or derived from Hong Kong during the periods.

d. **Earnings per share**

The calculation of basic earnings per share for the three months ended 30th June 2001 was based on the unaudited profit attributable to shareholders of approximately HK\$2,297,000 (2000 — approximately HK\$6,966,000) and the weighted average number of approximately 404,857,000 shares (2000 — 280,400,000 shares) in issue during the period.

In determining the weighted average number of shares, 276,900,000 shares issued by way of a capitalization of the share premium account of the Company at the close of business on 3rd October 2000 were deemed to have been issued since 1st April 2000.

The dilutive earnings per share for the three months ended 30th June 2001 is not presented as the exercise of the conversion right of the convertible note issued by the Company would have an anti-dilutive effect.

The calculation of diluted earnings per share for the three months ended 30th June 2000 is based on the unaudited profit attributable to shareholders of approximately HK\$6,966,000 and on approximately 284,285,000 shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of capitalization issue as mentioned in the above paragraph and all potential dilutive shares.

e. **Movements in reserves**

The movements in reserves for the three months ended 30th June 2000 are as follows:

| | Share Premium <i>HK\$'000</i> | Capital Reserve <i>HK\$'000</i> | Retained Profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|---|--|---------------------------------|
| Balance, 1st April 2000 | — | — | 18,116 | 18,116 |
| Effect of the Group Reorganization | — | 10,033 | — | 10,033 |
| Profits for the three months ended 30th June 2000 | — | — | 6,966 | 6,966 |
| Special dividend | — | — | (18,116) | (18,116) |
| | <u>—</u> | <u>—</u> | <u>(18,116)</u> | <u>(18,116)</u> |
| Balance, 30th June 2000 | <u>—</u> | <u>10,033</u> | <u>6,966</u> | <u>16,999</u> |

The movements in reserves for the three months ended 30th June 2001 are as follows:

| | Share Premium <i>HK\$'000</i> | Capital Reserve <i>HK\$'000</i> | Retained Profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|---|--|---------------------------------|
| Balance, 1st April 2001 | 32,879 | 10,033 | 32,050 | 74,962 |
| Premium on issuance of ordinary shares | 11,900 | — | — | 11,900 |
| Share issuance expenses | (939) | — | — | (939) |
| Profits for the three months ended 30th June 2001 | — | — | 2,297 | 2,297 |
| | <u>—</u> | <u>—</u> | <u>2,297</u> | <u>2,297</u> |
| Balance, 30th June 2001 | <u>43,840</u> | <u>10,033</u> | <u>34,347</u> | <u>88,220</u> |

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30th June 2001 (2000 a special dividend of approximately HK\$18,116,000).

BUSINESS REVIEW

During the period under review, the Group was principally engaged in the provision of management and administrative services to private medical and dental practitioners, licensing of the name “Town Health Centre” and operations of its own dental practices. As at 30th June 2001, the Group licenses, manages and / or operates a total of 25 medical centres, 3 integrated medical centres and 14 dental practices.

Compared to the corresponding period in 2000, the Group provided management and administrative services to 8 more medical centres and operated 5 more dental practices (collectively, the “New Clinics”). For the three months ended 30th June 2001, the Group recorded a turnover of approximately HK\$25,183,000 (2000 — approximately HK\$21,294,000), representing an increase of approximately 18.3%. The increase was largely attributable to the additional management and administrative service fee income derived from the new medical centres, and the additional dental consultation income derived from the new dental practices.

Medical salaries, as compared to the corresponding period in 2000, increased by approximately HK\$4,219,000 or approximately 55.0%. The increase was mainly due to the employment of additional practitioners to work in the New Clinics and the general increase in remuneration paid to the practitioners.

Gross profit margin for the 2 three-month periods ended 30th June 2001 and 2000 are 45.3% and 57.7% respectively. As it normally takes certain period of time for a newly established clinic to be break-even financially, the additions in the New Clinics during the current period inevitably affected the overall profitability of the Group, resulting in a decrease in gross profit margin in the current period.

Operating expenses for the 2 three-month periods ended 30th June 2001 and 2000 are HK\$8,917,000 and HK\$4,142,000 respectively. Such increase was mainly due to the increase in rental and other operating expenses incurred in relation to the operations of the New Clinics. Moreover, as the Group continues to implement its business plan as stated in its prospectus issued on 9th October 2000 (the “Prospectus”), additional administrative and managerial staff were employed for the Group’s strategic planning, business development as well as operational and financial controls. The amortization of goodwill arising from the acquisition of various businesses by the Group is also a cause for the increase in operating expenses.

In addition to the core businesses as mentioned above, the Group was also engaged in the manufacture and sale of cough syrup and traditional Chinese medicine through its 46.43% shareholding in Luxembourg Medicine Company Limited (“LMCL”) and 24.0% shareholding in Wai Yuen Tong Medicine Company Limited (“WYT”) respectively. For the three months ended 30th June 2001, the net profit before tax attributable to these 2 associates amounted to approximately HK\$1,916,000.

The profit attributable to shareholders for the three months ended 30th June 2001 was approximately HK\$2,297,000 (2000 — approximately HK\$6,966,000).

During the period ended 30th June 2001, the Company has placed a total of 34,000,000 new share in its capital and raised approximately HK\$14 million for investment in potential bio-medical projects and the research and development of advanced diagnostic medical equipment.

FUTURE PLAN AND PROSPECT

As mentioned in the section headed “Business Review” above, additional administrative and managerial staff were employed for the Group’s strategic planning, business development as well as operational and financial controls. The Group targets to achieve a more effective and efficient mode of operations of its existing clinic business and to accomplish a systematic and well-organized approach to develop its healthcare businesses, including the management of the existing clinic network, the continuous development in the traditional Chinese medicine and healthcare and pharmaceutical product businesses, and the research and development of bio-medical projects. The Group is also looking for suitable opportunity to extend its businesses into the South East Asia regions, including China.

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) **Medical and dental consultation services**

In respect of its existing core businesses (i.e. the provision of management and administrative services to private medical and dental practitioners, licensing of the name “Town Health Centre” and operations of its own dental practices), the Group will continue to expand the number of medical centres and dental practices of the Town Health Centre Network to meet the growing demand from the public for comprehensive, high quality and generally affordable healthcare services.

The provision of overnight general medical consultation services has been proved to be popular to the general public. The Group will explore the opportunity to extend this service to other medical centres. However, the Group experiences difficulties in obtaining approval from the landlords and building management offices to allow its medical centres to be operated overnight. To solve this problem and avoid delay in promoting this service, the Board considers it beneficial to the Group to directly acquire premises at suitable locations. The Board will further evaluate this alternative in due course.

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

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. To facilitate and accelerate the Group's development in this area of healthcare services, the Group has re-allocated its resources and set up a team of medical professionals to identify, evaluate, develop, implement and commercialize such projects.

(3) Marketing and distribution of healthcare and pharmaceutical products

The Group continues to explore opportunities to strengthen its presence in healthcare and pharmaceutical products industry mainly through LMCL. In addition to the manufacture and sale of cough syrup under the renowned brand "Madame Pearl's", LMCL is in the process of expanding its product range to include other types of healthcare and pharmaceutical products. The new products will be marketed also under the brand "Madame Pearl's" so as to leverage the value of the brand.

In view of 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 healthcare and pharmaceutical products in China will grow tremendously. To respond to the increasing demand in the China market, LMCL will take positive steps to strengthen and broaden its distribution channel there.

(4) Traditional Chinese medicine

The Group plans to promote the concept of "holistic" healthcare services by diversifying into the traditional Chinese medicine through the provision of front-end consultation services as well as the marketing of traditional Chinese medicine-based products in both raw and proprietary presentations. In moving towards this end, the Group acquired 24% shareholding interest in WYT in March 2001. The Board considers that, as the general public is now more receptive to traditional Chinese medicine and given that the brand "Wai Yuen Tong" is well known and long-established, the future growth prospect of WYT is promising.

(5) Other developments

The Group also plans to develop its business in elderly care and childcare services. 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 announcement, no concrete plan is devised to acquire or commence any business in these areas of service.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June 2001, the interests of the directors and the chief executive of the Company in the share capital of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) which were notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests in which they were taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(A) The Company:

| Name | Number of shares of the Company | Nature of interests | Percentage of interests |
|----------------------------|---------------------------------|-------------------------------|-------------------------|
| Dr. Chan Wing Lok, Brian | — | Other interests (Note) | — |
| Dr. Cheng Chor Ho | — | Other interests (Note) | — |
| Mr. Cho Kam Luk | — | Other interests (Note) | — |
| Dr. Cho Kwai Chee | 180,475,846 | Corporate interests (Note) | 41.58% |
| Mr. Choy Kan Pui | 126,720 | Personal interests | 0.03% |
| Dr. Fung Yiu Tong, Bennet | — | Other interests (Note) | — |
| Dr. Leung Chi Sang | — | Other interests (Note) | — |
| Dr. Lui Chi Keung, Charles | 304,638 | Personal interests | 0.07% |

Note:

As at 30th June 2001, Origin Limited owns 180,475,846 shares of the Company, representing approximately 41.58% of the issued share capital of the Company. 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, 0.71% by Mr. Cho Kam Luk, 1.49% by Dr. Fung Yiu Tong, Bennet and 1.19% by Dr. Leung Chi Sang.

(B) Health Matrix International Limited (“Health Matrix”), an associated corporation (within the meaning of the SDI Ordinance) of the Company:

| | Number of shares of Health Matrix | Nature of interests | Percentage of interests |
|--------------------------|--|--------------------------------------|------------------------------------|
| Mr. Cho Kam Luk | 5,600,000 | Corporate interests <i>(Note)</i> | 80.00% |
| Dr. Chan Wing Lok, Brian | — | Other interests <i>(Note)</i> | — |
| Dr. Leung Chi Sang | — | Other interests <i>(Note)</i> | — |

Note:

As at 30th June 2001, True Destination Incorporated owns 5,600,000 shares of Health Matrix, representing 80% of the issued share capital of Health Matrix. The entire issued share capital of True Destination Incorporated is owned as to approximately 70.36% by Mr. Cho Kam Luk, 1.79% by Dr. Chan Wing Lok, Brian and 2.50% by Dr. Leung Chi Sang.

Save as disclosed above, as at 30th June 2001, none of the directors or chief executive of the Company had any interest in any shares in or debenture of, the Company or any associated corporations (within the meaning of the SDI Ordinance) which would have to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests in which he was taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS’ AND CHIEF EXECUTIVE’S RIGHTS TO ACQUIRE SHARES

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 any Directors since the adoption of the scheme.

SUBSTANTIAL SHAREHOLDER

As at 30th June 2001, according to the register maintained pursuant to Section 16(1) of the SDI Ordinance, the following person (other than those interests of Directors disclosed above) has an interest of 10% or more of the issued share capital of the Company:

| Name | Number of shares of the Company | Nature of interests | Percentage of interests |
|----------------|--|-------------------------------|--------------------------------|
| Origin Limited | 180,475,846 | Corporate interests (Note) | 41.58% |

Note:

As at 30th June 2001, Origin Limited owns 180,475,846 shares of the Company, representing approximately 41.58% of the total number of shares of the Company in issue as at that date. 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, 0.71% by Mr. Cho Kam Luk, 1.49% by Dr. Fung Yiu Tong, Bennet and 1.19% by Dr. Leung Chi Sang.

Saved as disclosed above, the Company had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 30th June 2001.

COMPETING INTERESTS

None of the Directors, initial management shareholders, substantial shareholder and significant shareholder of the Company and their respective associates had any interest in any business that directly or indirectly compete with the businesses of the Group as at 30th June 2001.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. 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. 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.

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 30th June 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 24,972,000 shares of the Company representing approximately 5.8% of the issued share capital of the Company as at 30th June 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, subsequent to 30th June 2001, Topson does not change its shareholding in the Company as at 30th June 2001, no additional share is issued or repurchased by the Company and that there is no change in the conversion price of the said convertible note) will result in Topson being interested in an aggregate of approximately 15.8% 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 30th June 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) has any interests in the shares of the Company, including options or rights to subscribe for any such shares.

As at 30th June 2001, Mr. Ip Tak Chuen, Edmond, a non-executive Director of the Company, is an executive director of Cheung Kong, and a non-executive director of CEF.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the three months ended 30th June 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

By order of the Board
**Town Health International
Holdings Company Limited**
Cho Kwai Chee
Chairman

Hong Kong, 13th August 2001