



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 nine months ended 31st December 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 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 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.

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

This report, 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 report 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 report misleading; and (3) all opinions expressed in this report 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 nine months ended 31st December 2001, together with the comparative unaudited figures for the corresponding period in 2000, as follows:

	Notes	For the Three months ended 31st December 2001		For the Nine months ended 31st December 2001	
		2000 HK\$'000	2000 HK\$'000	2000 HK\$'000	2000 HK\$'000
Turnover	<i>b</i>	24,732	24,082	73,708	67,895
Cost of pharmaceutical supplies		(1,816)	(811)	(5,576)	(3,522)
Medical salaries		(11,197)	(8,804)	(34,577)	(24,488)
Gross profit		11,719	14,467	33,555	39,885
Other revenue	<i>b</i>	248	2,296	958	2,478
Operating expenses		(8,987)	(6,895)	(25,399)	(16,623)
Profit from operations		2,980	9,868	9,114	25,740
Amortization of goodwill		(1,122)	(74)	(3,312)	(74)
Finance costs		(1,182)	(33)	(3,725)	(109)
Share of profit (loss) of associates		1,374	(237)	3,913	(508)
Profit before tax		2,050	9,524	5,990	25,049
Taxation	<i>c</i>	(758)	(1,484)	(2,202)	(3,941)
Profit after taxation but before minority interests		1,292	8,040	3,788	21,108
Minority interests		(33)	—	(108)	—
Profit attributable to shareholders		1,259	8,040	3,680	21,108
Earnings per share					
— basic	<i>d</i>	0.24 cents	2.11 cents	0.78 cents	6.72 cents
— diluted	<i>d</i>	N/A	1.90 cents	N/A	6.43 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 nine months ended 31st December 2000 have been prepared as if the Group Reorganization had been completed on 1st April 2000.

b. Turnover and other revenue

Total revenue comprises:

	For the Three months ended 31st December 2001		For the Nine months ended 31st December 2001	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Turnover:</i>				
— Management and administrative service fee income	17,666	17,858	52,816	51,119
— License fee income	3,550	3,440	10,510	10,250
— Dental consultation income	3,516	2,784	10,382	6,526
Total turnover	24,732	24,082	73,708	67,895
<i>Other revenue:</i>				
— Interest income	171	2,267	787	2,417
— Other consultancy fee income	74	29	168	61
— Dividend income	3	—	3	—
Total other revenue	248	2,296	958	2,478
Total revenue	24,980	26,378	74,666	70,373

c. Taxation

Taxation comprises:

	For the Three months ended 31st December 2001		For the Nine months ended 31st December 2001	
	<i>HK\$'000</i>	<i>2000 HK\$'000</i>	<i>HK\$'000</i>	<i>2000 HK\$'000</i>
Hong Kong profits tax attributable to the Group				
— Current tax	537	1,484	1,558	3,941
Hong Kong profits tax attributable to associates				
— Current tax	221	—	644	—
	758	1,484	2,202	3,941

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 period.

d. Earnings per share

The calculation of basic earnings per share for the three months ended 31st December 2001 was based on the unaudited profit attributable to shareholders of approximately HK\$1,259,000 (2000 — approximately HK\$8,040,000) and the weighted average number of approximately 528,891,000 shares (2000 — 380,500,000 shares) in issue during the period.

The calculation of basic earnings per share for the nine months ended 31st December 2001 was based on the unaudited profit attributable to shareholders of approximately HK\$3,680,000 (2000 — approximately HK\$21,108,000) and the weighted average number of approximately 469,651,000 shares (2000 — 313,888,000 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 and nine months ended 31st December 2001 respectively are not presented as the exercise of the conversion right of the convertible note issued by the Company will have an anti-dilutive effect.

The calculation of diluted earnings per share is based on the unaudited profit attributable to shareholders of approximately HK\$8,040,000 for the three months ended 31st December 2000 and approximately HK\$21,108,000 for the nine months ended 31st December 2000 and on approximately 422,766,000 and 328,028,000 shares respectively, being the weighted average number of shares outstanding during the periods, 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 nine months ended 31st December 2000 are as follows:

	Share Premium	Capital Reserve	Retained Profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance, 1st April 2000	—	—	18,116	18,116
Effect of the Group Reorganization	—	10,033	—	10,033
Profits for the six months ended 30th September 2000	—	—	13,068	13,068
Special dividend	—	—	(18,116)	(18,116)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 30th September 2000	—	10,033	13,068	23,101
Premium on issuance of ordinary shares	86,636	—	—	86,636
Capitalization of share premium	(31,601)	—	—	(31,601)
Share issuance expenses	(22,156)	—	—	(22,156)
Profits for the three months ended 31st December 2000	—	—	8,040	8,040
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 31st December 2000	<u>32,879</u>	<u>10,033</u>	<u>21,108</u>	<u>64,020</u>

The movements in reserves for the nine months ended 31st December 2001 are as follows:

	Share Premium	Capital Reserve	Retained Profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance, 1st April 2001	32,879	10,033	32,050	74,962
Premium on issuance of ordinary shares	33,520	—	—	33,520
Share issuance expenses	(2,010)	—	—	(2,010)
Profits for the six months ended 30th September 2001	—	—	2,421	2,421
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 30th September 2001	64,389	10,033	34,471	108,893
Premium on issuance of ordinary shares	15,110	—	—	15,110
Share issuance expenses	(501)	—	—	(501)
Profits for the three months ended 31st December 2001	—	—	1,259	1,259
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 31st December 2001	<u>78,998</u>	<u>10,033</u>	<u>35,730</u>	<u>124,761</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December 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. For the nine months ended 31st December 2001, the Group licensed, managed and/or operated a total of 24 medical centres, 4 integrated medical centres and 15 dental practices. As compared with the corresponding period in 2000, 10 new medical/dental practices (the “New Practices”) were added into the Town Health Centre Network.

During the nine-month period ended 31st December 2001, the Group has experienced pressure on revenue growth due to the downturn of the Hong Kong economy. As compared with the corresponding period in the prior year, turnover increased only by approximately 8.6%. Though there is no significant increase in turnover, the medical salaries of the Group did increase as additional practitioners were recruited to work in the New Practices. Taking the effects together, the gross profit of the Group decreased by approximately 15.9% as compared with the corresponding period in the prior year.

Operating expenses for the 2 nine-month periods ended 31st December 2001 and 2000 were approximately HK\$25,399,000 and approximately HK\$16,623,000 respectively. Such an increase was mainly due to (1) the increase in rental and other operating expenses incurred in relation to the operations of the New Practices; and (2) additional administrative, marketing and managerial staff employed for strategic planning, business development and operational and financial controls in order to cope with the rapid and continuing growth of the Group’s operations.

In addition to the increase in operating expenses, during the nine-month period ended 31st December 2001, the Group also recorded (1) an increase in finance cost which is mainly attributable to the issuance of a convertible note in October 2000; and (2) an increase in amortization of goodwill arising from the acquisitions of various businesses during the period.

Owing to the above, the profit before tax for the nine-month period ended 31st December 2001 decreased by approximately 76.1% as compared with the corresponding period in the prior year.

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 and 24.0% shareholding in Wai Yuen Tong Medicine Company Limited respectively. For the nine months ended 31st December 2001, these 2 associates provided positive contribution to the Group's net profit.

The profit attributable to shareholders for the nine months ended 31st December 2001 was approximately HK\$3,680,000 (2000 — approximately HK\$21,108,000).

FUTURE PLAN AND PROSPECT

The Group continues to implement its business plan as stated in its prospectus issued on 9th October 2000 so as to accomplish its mission to become a provider of high quality, generally affordable and comprehensive private healthcare services including physical, social and psychological care in primary, secondary and tertiary levels for preventive healthcare and maintenance of health to citizens of all ages in Hong Kong and eventually to people in other regions in Asia.

The Group plans to establish a "one-stop" integrated healthcare services centre in Shatin, Hong Kong. On top of general medical and dental consultation services, this new centre will also provide other healthcare services and products such as traditional Chinese medicine, acupuncture and soup and meals with medical benefits. A pharmacy will also be incorporated in this new centre. Operations of this new centre are expected to commence in mid-2002.

The Group is actively exploring strategic locations for setting up new Town Health Centres. Should there be suitable target clinics in those identified strategic locations, the Group will also offer to acquire such targets. The Board considers that an expansion through acquisition can achieve a rapid growth of the Town Health Centre Network while avoiding the loss-making startup period usually associated with newly established clinics. The Board considers that such a saving in startup costs is important to the Group during the current disappointing economic environment of Hong Kong.

The Group is also exploring the feasibility to build up the "Town Health" brand in China through the establishment of clinic chain and/or hospital in China. The Group is currently identifying suitable local partners to realize this planned expansion.

The Group has invested in a number of advanced diagnostic medical equipments and bio-medical technologies (such as positron emission tomography (PET) scanner and magnetic resonance imaging (MRI) machine). The Group plans to establish a molecular genomic diagnostic centre so as to centralize the different services on offer and facilitate the inter-clinic/ laboratory patient referrals. The Group is also actively exploring the opportunity to promote such diagnostic services to the middle-class in China.

To cope with the expansion of operations, the Group has been recruiting additional administrative, marketing and managerial staff for strategic planning, business development and 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 other new and prosperous lines of business.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31st December 2001, the interests of the directors and the chief executive of the Company in the share capital of the Company and its associated corporations (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 (<i>Note</i>)	—
Mr. Cho Kam Luk	—	Other interests (<i>Note</i>)	—
Dr. Cho Kwai Chee	180,475,846	Corporate interests (<i>Note</i>)	31.33%
Mr. Choy Kan Pui	126,720	Personal interests	0.02%
Dr. Fung Yiu Tong, Bennet	—	Other interests (<i>Note</i>)	—
Dr. Lui Chi Keung, Charles	304,638	Personal interests	0.05%

Note:

As at 31st December 2001, Origin Limited owns 180,475,846 shares of the Company, representing approximately 31.33% 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, 0.71% by Mr. Cho Kam Luk and 1.49% by Dr. Fung Yiu Tong, Bennet.

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

Name	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>)	—

Note: As at 31st December 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 and 1.79% by Dr. Chan Wing Lok, Brian.

Save as disclosed above, as at 31st December 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 31st December 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 (<i>Note</i>)	31.33%

Note: As at 31st December 2001, Origin Limited owns 180,475,846 shares of the Company, representing approximately 31.33% 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, 0.71% by Mr. Cho Kam Luk and 1.49% by Dr. Fung Yiu Tong, Bennet.

Save 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 31st December 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 31st December 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 an agreement dated 5th October 2000 (the "Sponsor Agreement") entered into between the Company, First Shanghai Capital Limited ("First Shanghai") and CEF Capital Limited ("CEF"), First Shanghai and CEF 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.

Pursuant to an agreement dated 24th October 2001 (the "Supplemental Agreement") entered into between the Company, First Shanghai and CEF, the appointment of CEF as one of the sponsors of the Company under the Sponsor Agreement has been terminated with effect from 24th October 2001. First Shanghai remains the sole sponsor of the Company under the Supplemental Agreement until 31st March 2003.

As at 31st December 2001, neither First Shanghai nor its 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the nine months ended 31st December 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
Siu Kam Chau
Executive Director

Hong Kong, 8th February 2002