



**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 2002**

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

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*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 the Company and its subsidiaries (the “Group”) for the three months ended 30th June 2002, together with the comparative unaudited figures for the corresponding period in 2001, as follows:

	<i>Notes</i>	<b>For the three months ended 30th June</b>	
		<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Turnover	<i>b</i>	33,935	25,228
Cost of Sales		<u>(17,367)</u>	<u>(13,787)</u>
Gross profit		16,568	11,441
Other revenue	<i>b</i>	70	575
Operating expenses		<u>(9,482)</u>	<u>(8,441)</u>
Profit from operations		7,156	3,575
Finance costs		(1,262)	(1,307)
Share of profit of associates		960	1,916
<i>Less: Amortisation of goodwill arising on acquisitions of associates</i>		(1,324)	(841)
Share of profits of associates, net of amortisation of goodwill arising on acquisitions of associates		<u>(364)</u>	<u>1,075</u>
Profit before tax		5,530	3,343
Taxation	<i>c</i>	<u>(883)</u>	<u>(1,004)</u>
Profit after tax but before minority interests		4,647	2,339
Minority interests		<u>(117)</u>	<u>(42)</u>
Profit attributable to shareholders		<u><u>4,530</u></u>	<u><u>2,297</u></u>
Earnings per share			
– basic	<i>d</i>	0.58 cents	0.57 cents
– diluted	<i>d</i>	N/A	N/A

Notes:

**a. 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. The Company's shares were listed on the GEM of the Stock Exchange on 18th October 2000.

The financial statements of the Group 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 GEM Listing Rules.

**b. Turnover and other revenue**

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

	<b>For the three months ended 30th June</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover:		
– Medical, dental and healthcare services	25,605	25,228
– Healthcare and pharmaceutical products and traditional Chinese medicine	8,330	–
	<hr/>	<hr/>
Total turnover	33,935	25,228
	<hr/>	<hr/>
Other revenue		
Interest income		
– Bank deposits	70	364
– Associates	–	211
	<hr/>	<hr/>
Total other revenue	70	575
	<hr/>	<hr/>
Total revenue	<u>34,005</u>	<u>25,803</u>

**c. Taxation**

	<b>For the three months ended 30th June</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Taxation attributable to the Group		
– Current tax	739	697
Taxation attributable to associates		
– Current tax	144	307
	<u>883</u>	<u>1,004</u>

Hong Kong profits tax has been provided at the rate of 16% (2001 – 16%) of the estimated assessable profits arising in or derived from Hong Kong during the period.

There was no significant unprovided deferred taxation as at 30th June 2002 and 2001 and for the three-month periods then ended because there were no significant timing differences.

**d. Earnings per share**

The calculation of basic earnings per share for the three months ended 30th June 2002 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$4,530,000 (2001 – approximately HK\$2,297,000) and the weighted average number of approximately 777,777,000 shares (2001 – approximately 404,857,000 shares) in issue during the period.

The dilutive earnings per share for the three-month periods ended 30th June 2002 and 2001 are not presented as the exercise of the conversion right of the convertible note issued by the Company will have an anti-dilutive effect.

**e. Movements in reserves**

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

	<b>Share premium</b>	<b>Capital reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<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	11,900	–	–	11,900
Share issuance expenses	(939)	–	–	(939)
Profit for the three months ended 30th June 2001	–	–	2,297	2,297
Balance, 30th June 2001	<u>43,840</u>	<u>10,033</u>	<u>34,347</u>	<u>88,220</u>

The movements in reserves for the three months ended 30th June 2002 are as follows:

	<b>Share premium</b> <i>HK\$'000</i>	<b>Capital reserve</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Balance, 1st April 2002	95,714	10,033	34,079	139,826
Premium on issuance of ordinary shares	22,983	–	–	22,983
Share issuance expenses	(2,336)	–	–	(2,336)
Profit for the three months ended 30th June 2002	–	–	4,530	4,530
	<u>116,361</u>	<u>10,033</u>	<u>38,609</u>	<u>165,003</u>

**f. Comparative figures**

Certain comparative figures have been reclassified to conform to current period presentation.

**DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June 2002 (2001 – Nil).

**BUSINESS REVIEW AND OUTLOOK**

The Group continues to implement its business plans 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.

**Medical, dental and healthcare services**

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 operation of its own dental practices. The Group has recently formed a co-operation alliance of over 100 medical practices and over 20 dental practices so as to deliver more effective and convenient services to its patient base.

However, the Group experienced pressure on revenue growth and there was a drop in the profit margin of its core business. This was a result of the economic downturn, competitive market situation, imbalanced distribution of resources between the public & private healthcare sectors and increased number of patients having shifted to the public healthcare sector. The Group is implementing measures to strategically reallocate the Group's scarce resources from those clinics that recorded a loss to new areas that possess greater growth potential. Certain clinics, which have persistently been running at loss, will be closed down in the near future so as to maximize the Group's profit.

To sharpen our competitive edge, the Group has established its first one-stop medical & healthcare centre – Town Health Place. Located at the hub of Shatin, Town Health Place will be a pioneer showcase of the Group's comprehensive medical and healthcare services. The new centre has been put into full operations since July 2002. On top of 24-hour medical consultation services, the new centre also provides a wide range of healthcare services and products such as traditional Chinese medicine, nutrition consultation, foot orthopedic services as well as audio health consultation and sale of hearing aid devices.

The Group believes that Town Health Place's "one-stop" concept will add extra value to the services the Group provides and will enhance the synergistic effect among the different business units of the Group.

### **Healthcare and pharmaceutical products and traditional Chinese medicine**

In addition to the core business as mentioned above, the Group also engages in the manufacture and sale of cough syrup and traditional Chinese medicine through its 49.88% shareholding in Luxembourg Medicine Company Limited and 24.0% shareholding in Wai Yuen Tong Medicine Company Limited ("WYT") respectively. This segment of business provided positive contributions to the Group's net profit during the three months period ended 30th June 2002.

On 9th July 2002, the Group completed the disposal of its entire interests in WYT to, among others, Dailywin Group Limited ("Dailywin"), a company listed on the main board of the Stock Exchange, for a consideration of approximately HK\$52.9 million, which has been satisfied by new shares and convertible notes of Dailywin. The Group is currently a substantial shareholder of Dailywin and continues to involve in the management of WYT.

## **Bio-medical technologies**

The Group has invested in a 28.75% and 45% equity interest in Plasmagene Limited and 3 Ben Genomics Hong Kong Limited respectively. These two companies are principally engaged in the R&D of cutting-edge molecular genomic diagnostic technology. Molecular genomic diagnostic (“MGD”) testing for early cancer detection has been launched in Hong Kong and received positive market response. The Group is actively exploring opportunities to promote such diagnostic services in Mainland China.

## **Para-medical services**

The Group have also invested in advanced diagnostic medical equipment including a positron emission tomography/computerised tomography (PET/CT) scanner and a magnetic resonance imaging (MRI) machine. Such investments have generated favourable returns.

## **Future Prospect**

The profitability of the Group’s core business, medical, dental and healthcare services, has been affected by the current economic downturn and the imbalance in resources allocation between the private and public healthcare sector. However, in view of the possible trend of increasing charges for the accident and emergency and selected specialties services provided by the public hospitals, the Group believes the prospect of the private medical sector will be more optimistic.

## **FINANCIAL REVIEW**

### **Results and dividends**

For the three months ended 30th June 2002, the Group recorded a turnover of approximately HK\$33,935,000 (2001 – approximately HK\$25,228,000) and a net profit attributable to shareholders of approximately HK\$4,530,000 (2001 – approximately HK\$2,297,000). The basic earnings per share were approximately HK0.58 cents (2001 – approximately HK0.57 cents). To retain cashflow for future business development, the Directors do not recommend the payment of an interim dividend for the period under review. All earnings will be retained to finance the continuing development of the Group’s business.

## **Turnover and gross profit**

The Group generates most of its revenue from its licensing and management and administrative services provided to medical centres, and consultation fee income derived from its dental practices. During the period under review, the Group has experienced pressure on revenue growth from this segment of business. Such pressure was mainly brought by (1) the general downturn of the Hong Kong economy; and (2) the loss of balance of resources between private and public healthcare sector so that more and more patients utilize the public services, especially when the economy was poor.

However, the Group successfully created new sources of income during the period under review. The Group recorded turnover of approximately HK\$1,319,000 from the provision of audio test and sale of hearing aid devices, and approximately HK\$8,330,000 from the sale and distribution of health food and precious traditional Chinese medicine.

Gross profit margin for the two three-month periods ended 30th June 2002 and 2001 were 48.8% and 45.4% respectively.

## **Operating expenses**

Operating expenses for the two three-month periods ended 30th June 2002 and 2001 were approximately HK\$9,482,000 and approximately HK\$8,441,000 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 newly established clinics; 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.

## **Amortization of goodwill**

Carrying cost of goodwill increases substantially during the current period as compared to the corresponding period in the previous year. Such increase was mainly due to the completion of a number of material acquisitions in the second half of the previous financial year. The charge of amortisation in the current period increased accordingly.

## **Share of profit of associated companies**

The Group shared profits from its associated companies of approximately HK\$960,000, which represents a decrease of 49.9% as compared to approximately HK\$1,916,000 in the corresponding period of the previous financial year. The decrease was mainly due to the deteriorated performance of one of the associated companies owing to seasonal fluctuation.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June 2002, the interests of the Directors, the chief executive of the Company and their respective associates in the securities of the Company and its associated corporations (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:

### (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> )	20.06%
Mr. Choy Kan Pui	126,720	Personal interests	0.01%
Dr. Fung Yiu Tong, Bennet	-	Other interests ( <i>Note</i> )	-
Dr. Lui Chi Keung, Charles	304,638	Personal interests	0.03%

#### *Note:*

An aggregate of 180,475,846 shares were held by Origin Limited, representing approximately 20.06% of the Company's shares in issue as at 30th June 2002. 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:*

An aggregate of 5,600,000 shares were held by True Destination Incorporated, representing 80% of the shares of Health Matrix in issue as at 30th June 2002. True Destination Incorporated is owned as to approximately 70.36% by Mr. Cho Kam Luk and 1.79% by Dr. Chan Wing Lok, Brian.

Other than disclosed above, as at 30th June 2002, 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' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

The Company had adopted a share option scheme (the "Old 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 under the Old Scheme since its adoption.

Pursuant to a resolution passed by the shareholders of the Company at an extraordinary general meeting held on 24th April 2002, the Old Scheme was superseded by a new share option scheme (the "New Scheme") in order to comply with the amended Chapter 23 of the GEM Listing Rules governing share option schemes, which become effective from 1st October 2001. Pursuant to the New Scheme, the Company may grant options to those eligible persons (including directors of the Company) to subscribe for shares of the Company.

No option was granted under the New Scheme to any Director, the chief executive of the Company or their respective associates during the three months ended 30th June 2002.

## **SUBSTANTIAL SHAREHOLDER**

As at 30th June 2002, 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:

<b>Name</b>	<b>Number of shares of the Company</b>	<b>Nature of interests</b>	<b>Percentage of interests</b>
Origin Limited	180,475,846	Corporate interests ( <i>Note</i> )	20.06%

*Note:*

An aggregate of 180,475,846 shares were held by Origin Limited, representing approximately 20.06% of the Company's shares in issue as at 30th June 2002. 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.

Other than 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 2002.

## **COMPETING INTERESTS**

None of the Directors or the management shareholders of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.

## **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, Mr. Wai Kwok Hung and Mr. Chan Kam Chiu. Mr. Chan Kam Chiu is the chairman of the audit committee.

## **SPONSORS' INTERESTS**

Pursuant to an agreement dated 5th October 2000 and a supplemental agreement dated 24th October 2001 entered into between, among others, the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai 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 2002, 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 three months ended 30th June 2002, 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, 13th August 2002