



Town Health International Holdings Company Limited
康健國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

For the six months ended 30th September 2002

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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.

INTERIM RESULTS (UNAUDITED)

The board of Directors (the “Board”) is pleased to announce the unaudited condensed consolidated results of Town Health International Holdings Company Limited and its subsidiaries (collectively, the “Group”) for the three and six months ended 30th September 2002, together with the comparative unaudited figures for the corresponding period in 2001, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	(Unaudited) For the Three months ended 30th September		(Unaudited) For the Six months ended 30th September	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	<i>b</i>	26,281	23,843	60,216	49,071
Cost of sales		(19,408)	(13,352)	(36,775)	(27,139)
Gross profit		6,873	10,491	23,441	21,932
Other revenue		308	41	378	616
Operating expenses		(16,674)	(8,506)	(26,156)	(16,947)
(Loss) Profit from operations		(9,493)	2,026	(2,337)	5,601
Finance costs		(841)	(1,236)	(2,103)	(2,543)
Gain on disposal of associates		16,030	–	16,030	–
Share of (loss) profit of associates		(2,534)	622	(1,574)	2,539
<i>Less:</i> Amortization of goodwill on acquisition of associates		(1,181)	(815)	(2,505)	(1,656)
Share of (loss) profits of associates, net of amortisation of goodwill arising on acquisitions of associates		(3,715)	(193)	(4,079)	883
Profit before taxation		1,981	597	7,511	3,941
Taxation	<i>d</i>	(299)	(440)	(1,182)	(1,444)
Profit after tax but before minority interests		1,682	157	6,329	2,497
Minority interests		(37)	(34)	(154)	(76)
Profit attributable to shareholders		<u>1,645</u>	<u>123</u>	<u>6,175</u>	<u>2,421</u>
Earnings per share – basic	<i>e</i>	0.18 cents	0.03 cents	0.74 cents	0.55 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	(Unaudited) 30th September 2002	(Audited) 31st March 2002
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS		
Non-current assets		
Properties and equipment	24,653	15,529
Intangible assets	8,112	8,336
Goodwill	28,218	32,813
Interests in associates	105,308	118,468
Investments in equity securities	19,230	5,830
Note receivable	20,000	–
	205,521	180,976
Current assets		
Inventories	15,124	10,228
Accounts receivable	<i>f</i> 11,972	9,107
Prepayments, deposits and other current assets	21,692	8,355
Amounts due from related parties	5,655	1,926
Prepaid tax	2,931	2,882
Cash and bank balances	56,213	49,347
	113,587	81,845
Current liabilities		
Bank overdraft	(39,809)	–
Amounts due to minority shareholders	(810)	(392)
Accounts payable and accruals	<i>g</i> (8,587)	(9,703)
Provision for taxation	(971)	(83)
Current portion of bank borrowings	<i>h</i> (6,507)	(2,576)
Convertible note	–	(37,702)
Deferred revenue	(475)	–
	(57,159)	(50,456)
Net current assets	56,428	31,389
Total assets less current liabilities	261,949	212,365

		(Unaudited) 30th September 2002 HK\$'000	(Audited) 31st March 2002 HK\$'000
	<i>Notes</i>		
Non-current liabilities			
Bank borrowings	<i>h</i>	(5,420)	(3,264)
		<u> </u>	<u> </u>
Minority interests		(214)	(175)
		<u> </u>	<u> </u>
NET ASSETS		<u>256,315</u>	<u>208,926</u>
CAPITAL AND RESERVES			
Share capital		89,968	69,100
Retained profits		40,254	34,079
Other reserves		126,093	105,747
		<u> </u>	<u> </u>
		<u>256,315</u>	<u>208,926</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 30th September 2002 <i>HK\$'000</i>	(Unaudited) Six months ended 30th September 2001 <i>HK\$'000</i>
Net cash outflow from operating activities	(28,304)	(10,912)
Net cash inflow (outflow) from returns on investments and servicing of finance	4,200	(1,927)
Net cash outflow from investing activities	<u>(19,216)</u>	<u>(24,384)</u>
Net cash outflow before financing	(43,320)	(37,223)
Net cash inflow from financing	<u>10,377</u>	<u>36,093</u>
Decrease in cash and cash equivalents	(32,943)	(1,130)
Cash and cash equivalents at beginning of the period	<u>49,347</u>	<u>39,012</u>
Cash and cash equivalents at the end of the period	<u><u>16,404</u></u>	<u><u>37,882</u></u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	56,213	37,882
Bank overdrafts	<u>(39,809)</u>	<u>–</u>
	<u><u>16,404</u></u>	<u><u>37,882</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

The movements in reserves for the six months ended 30th September 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	11,900	–	–	11,900
Share issuance expenses	(939)	–	–	(939)
Profits for the three months ended 30th June 2001	–	–	2,298	2,298
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 30th June 2001	43,840	10,033	34,348	88,221
Premium on issuance of ordinary shares	21,620	–	–	21,620
Share issuance expenses	(1,071)	–	–	(1,071)
Profits for the three months ended 30th September 2001	–	–	123	123
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 30th September 2001	<u>64,389</u>	<u>10,033</u>	<u>34,471</u>	<u>108,893</u>

The movements in reserves for the six months ended 30th September 2002 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 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)
Profits for the three months ended 30th June 2002	–	–	4,530	4,530
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 30th June 2002	116,361	10,033	38,609	165,003
Share issuance expenses	(301)	–	–	(301)
Profits for the three months ended 30th September 2002	–	–	1,645	1,645
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 30th September 2002	<u>116,060</u>	<u>10,033</u>	<u>40,254</u>	<u>166,347</u>

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 unaudited consolidated condensed financial statements are prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants ("HKSA").

The accounting policies and methods of computation used in the preparation of the condensed financial statements are consistent with those used in the annual financial statements for the year ended 31st March 2002 except that the Group has adopted the new and revised SSAPs which became effective on 1st January 2002. The adoption of these new and revised SSAPs has no material effect on the Group's results.

b. Turnover and revenue

An analysis of the turnover and other revenue by principal activities of the Group is as follows:

	For the Three months ended 30th September		For the Six months ended 30th September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Turnover:</i>				
- Provision of medical, dental and healthcare services	24,882	23,843	50,487	49,071
- Sale of healthcare and pharmaceutical products and traditional Chinese medicine	1,381	-	9,711	-
- Dividend income	18	-	18	-
Total turnover	<u>26,281</u>	<u>23,843</u>	<u>60,216</u>	<u>49,071</u>
<i>Other revenue:</i>				
Interest income				
- Bank deposits	133	-	203	364
- Others	175	41	175	252
Total other revenue	<u>308</u>	<u>41</u>	<u>378</u>	<u>616</u>
Total revenue	<u><u>26,589</u></u>	<u><u>23,884</u></u>	<u><u>60,594</u></u>	<u><u>49,687</u></u>

c. Segment information

The Group's segment results by principal activities is as follows:

	Provision of medical, dental and healthcare services		Sale of healthcare and pharmaceutical products and traditional Chinese Medicine		Corporate and others		Elimination		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	For the six months ended 30th September,									
REVENUE										
External revenue	51,200	47,967	8,581	-	435	1,104			60,216	49,071
Inter-segment revenue	927	962	-	-	6,544	4,185	(7,471)	(5,147)	-	-
	<u>52,127</u>	<u>48,929</u>	<u>8,581</u>	<u>-</u>	<u>6,979</u>	<u>5,289</u>			<u>60,216</u>	<u>49,071</u>
Other revenue	186	288	-	-	192	328			<u>378</u>	<u>616</u>
RESULTS										
Segment results	1,242	5,598	3,305	-	(6,884)	3			(2,337)	5,601
Finance costs									(2,103)	(2,543)
Gain on disposal of associates									16,030	-
Share of (losses) profits of associates									(1,574)	2,539
Amortisation of goodwill arising on acquisitions of associates									(2,505)	(1,656)
Taxation									(1,182)	(1,444)
Minority interests									(154)	(76)
Net profit attributable to shareholders									<u>6,175</u>	<u>2,421</u>

No geographic segment information is presented because the business activities of the Group are conducted principally in Hong Kong.

d. Taxation

	For the Three months ended 30th September		For the Six months ended 30th September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax attributable to the Group				
– Current tax	132	324	871	1,021
Hong Kong profits tax attributable to associates				
– Current tax	<u>167</u>	<u>116</u>	<u>311</u>	<u>423</u>
	<u>299</u>	<u>440</u>	<u>1,182</u>	<u>1,444</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 September 2002 and 2001 and for the three and six-month periods then ended because there were no significant timing differences

e. Earnings per share

The calculation of basic earnings per share for the three months ended 30th September 2002 was based on the unaudited profit attributable to shareholders of approximately HK\$1,645,000 (2001 – approximately HK\$123,000) and the weighted average number of approximately 899,682,000 shares (2001 – 474,500,000 shares) in issue during the period.

The calculation of basic earnings per share for the six months ended 30th September 2002 was based on the unaudited profit attributable to shareholders of approximately HK\$6,175,000 (2001 – approximately HK\$2,421,000) and the weighted average number of approximately 839,063,000 shares (2001 – 439,869,000 shares) in issue during the period.

The dilutive earnings per share for the three and six months ended 30th September 2002 and the three and six months ended 30th September 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.

f. Trade receivables

Accounts receivable consist of:

	As at 30th September 2002 HK\$'000	As at 31st March 2002 HK\$'000
Accounts receivable	12,948	9,581
<i>Less:</i> Provision for doubtful debts	<u>(976)</u>	<u>(474)</u>
	<u>11,972</u>	<u>9,107</u>

An aging analysis of accounts receivable is set out below:

	As at 30th September 2002 HK\$'000	As at 31st March 2002 HK\$'000
0-60 days	4,127	3,217
61-120 days	3,582	2,684
121-180 days	2,103	1,880
181-240 days	807	331
241- 360 days	310	688
Over 360 days	<u>2,019</u>	<u>781</u>
	12,948	9,581
<i>Less:</i> Provision for doubtful debts	<u>(976)</u>	<u>(474)</u>
	<u>11,972</u>	<u>9,107</u>

The normal credit period granted by the Group is an average of 120 to 270 days from the date of invoice.

g. Accounts payable and accruals

An aging analysis of accounts payable and accruals is set out below:

	As at 30th September 2002 HK\$'000	As at 31st March 2002 HK\$'000
0-60 days	4,618	8,063
61-120 days	3,969	1,547
121-240 days	–	–
Over 240 days	<u>–</u>	<u>93</u>
	<u>8,587</u>	<u>9,703</u>

h. Bank borrowings

Bank borrowings consist of the following:

	As at 30th September 2002 HK\$'000	As at 31st March 2002 HK\$'000
Repayable within one year		
Secured bank loan	68	68
Unsecured bank loans	6,439	2,508
	<u>6,507</u>	<u>2,576</u>
Included under current liabilities		
	<u>6,507</u>	<u>2,576</u>
Not repayable within one year but within two years		
Secured bank loan	68	68
Unsecured bank loans	4,671	2,492
	<u>4,739</u>	<u>2,560</u>
Not repayable within two years but within five years		
Secured bank loan	203	203
	<u>203</u>	<u>203</u>
Not repayable within five years		
Secured bank loan	478	501
	<u>478</u>	<u>501</u>
Included under non-current liabilities		
	<u>5,420</u>	<u>3,264</u>
	<u>11,927</u>	<u>5,840</u>

Notes:

- (i) As at 30th September 2002, the secured bank loan is secured by certain land and building of the Group and repayable by 180 equal monthly installments extending to March 2017. Interest is charged at Hong Kong Prime rate minus 2.5% per annum.
- (ii) The Group was granted two unsecured bank loans which are repayable by monthly installments extending to March 2004 and July 2004 respectively. Interest is charged at the best lending rate offered by the lender and the Hong Kong Prime Rate respectively.
- (iii) The Group was also granted an overdraft facility of HK\$40 million from a bank in Hong Kong. The facility was secured by a fixed deposit of the Company of HK\$40 million. As at 30th September 2002, approximately HK\$39.8 million has been utilized. The interest is calculated at 1% per annum over the fixed deposit rate of the bank.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th September 2002 (2001 – Nil).

BUSINESS REVIEW AND OUTLOOK

The Group aims 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.

Provision of 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 continues to face pressure on revenue growth. 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. In order to sustain this difficult environment, the Group has been implementing a series of cost-cutting measures such as the restructuring of staff remuneration package, as well as active negotiations with various landlords for rental reduction. Certain under-performing clinics have been closed down during the period so that the Group’s scarce resources can be re-allocated to other areas that possess greater growth potential.

On top of its core business – medical and dental consultation services, the Group is active in expanding its scope of services in the healthcare field. During the period under review, the Group started a number of new healthcare-related businesses in its brand-new Town Health Place located in Shatin. Such new businesses include audio diagnosis (including sale of hearing-aid devices) and beauty and skincare services. The performance of such new business ventures is satisfactory.

Sale of 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 equity interests in Luxembourg Medicine Company Limited (49.88%) and Wai Yuen Tong Medicine Company Limited (“WYT”) respectively.

During the period under review, the Group disposed 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. Notwithstanding the disposal, the Group continues to actively involve in the management of WYT through its shareholding in Dailywin.

To step in the retail market of the traditional Chinese medicine, the Group established its own Wai Yuen Tong franchise retail shop in the Town Health Place. The performance of the shop for its first few months of operations is encouraging.

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/computed 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 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, the Government of the HKSAR has indicated its intention to levy charges for the Accident and Emergency and selected specialty services in public hospitals. The Group welcomes this proposal as it can, to certain extent, restore the balance of resources allocation between the public and the private healthcare sectors.

FINANCIAL REVIEW

Results and dividends

For the six months ended 30th September 2002, the Group recorded a turnover of approximately HK\$60,216,000 (2001 – approximately HK\$49,071,000) and a net profit attributable to shareholders of approximately HK\$6,175,000 (2001 – approximately HK\$2,421,000). The basic earnings per share were approximately HK0.74 cents (2001 – approximately HK0.55 cents). To retain cashflow for future business development, the Board does 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.

However, the Group successfully created new sources of income during the period under review. The Group recorded turnover of approximately HK\$2,752,000 from the provision of audio test and sale of hearing aid devices, and approximately HK\$8,401,000 from the sale and distribution of precious and ordinary traditional Chinese medicine.

Gross profit margin for the two six-month periods ended 30th September 2002 and 2001 were 38.9% and 44.7% respectively.

Operating expenses

Operating expenses for the 2 six-month periods ended 30th September 2002 and 2001 were approximately HK\$26,156,000 and approximately HK\$16,947,000 respectively. The increase in operating expenses was mainly due to (1) the increase in rental, depreciation charges and other operating expenses incurred in relation to the operations of the Group's newly established clinics and business ventures; 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 Group's expansion.

Share of profit of associated companies

The Group shared a net loss from its associated companies of approximately HK\$1,574,000. The loss was mainly due to (1) the deteriorated performance of one of the associated companies owing to seasonal fluctuation; and (2) that the Group ceased to share the profit of WYT upon the completion of the disposal as mentioned in the section headed “Business review and outlook”.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September 2002, the Group held cash and bank balances of approximately HK\$56.2 million (31st March 2002 – approximately HK\$49.3 million). Net current assets amounted to approximately HK\$56.4 million (31st March 2002 – approximately HK\$31.4 million). Current ratio (defined as total current assets divided by total current liabilities) of the Group as at 30th September 2002 was 1.99 (31st March 2002 – 1.62).

As at 30th September 2002, the Group had the following outstanding bank loan:

- Secured bank loan of approximately HK\$817,000 which is secured by certain land and building of the Group and is repayable by 180 equal monthly installments extending to March 2017. Interest is charged at Hong Kong Prime rate minus 2.5% per annum.
- Two unsecured bank loans in aggregate amount of HK\$11.1 million which are repayable by monthly installments extending to March 2004 and July 2004 respectively. Interest is charged at the best lending rate offered by the lender and the Hong Kong Prime Rate respectively.

The Group has also been granted an overdraft facility of HK\$40 million from a bank in Hong Kong. The facility was secured by a fixed deposit of the Company of HK\$40 million. As at 30th September 2002, approximately HK\$39.8 million has been utilized. The interest is calculated at 1% per annum over the fixed deposit rate of the bank.

CAPITAL STRUCTURE

As at 30th September 2002, the Group had shareholders’ equity of approximately HK\$256 million (31st March 2002 – approximately HK\$209 million).

Debt-to-equity ratio (defined as total liabilities divided by shareholders’ equity) of the Group as at 30th September 2002 was 0.24 (31st March 2002 – 0.26).

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars. As at 30th September 2002, the Group had no significant exposure to foreign exchange and interest rate risks.

BUSINESS OBJECTIVES REVIEW

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 30th September 2002 is set out below:

<i>Business objectives as stated in the Prospectus</i>	<i>Actual business progress/change in business objectives (if any)</i>
--	--

Additional medical centres:

- | | |
|---|---|
| <ul style="list-style-type: none">- Increase the number of medical centres by 16- Explore the feasibility of introducing the Town Health Centre Network concept in China by setting up a "prototype" practice with a local partner | <p>Six new medical centres were established in strategic locations in Hong Kong. Given (1) the overall downturn of the Hong Kong economy; (2) the imbalance in resource allocation between the private and public healthcare sector; and (3) the difficulty in recruiting quality medical practitioners, the Group is cautious in establishing new medical centres.</p> |
|---|---|

Nevertheless, the Group will continue to keep track on the medical market development in Hong Kong and adjust its pace of expansion to respond to any market changes.

The Group is actively reviewing the healthcare market in China and is in the process of identifying and selecting suitable local partner for the setting up of a "prototype" practice there. No definite conclusion has been made at this moment in respect of the feasibility of introducing the Town Health Centre Network concept in China.

Business objectives as stated in the Prospectus

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

Additional integrated medical:

Establish four integrated medical

Two new integrated medical centres were established in strategic locations in Hong Kong. The Group will continue to keep track on the medical market in Hong Kong and adjust its pace of expansion to respond to market changes.

Additional dental practices:

Increase the number of dental practices by eight

The Group operates five more dental practices in various strategic locations in Hong Kong. The Group will continue to keep track on the dental consultation market development in Hong Kong and adjust its pace of expansion to respond to the market changes.

Business objectives as stated in the Prospectus

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

Electronic clinic and healthcare information database:

- Further develop and expand the Group's 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
- Set up business-to-business channels for sale and distribution of pharmaceutical products to medical and dental practitioners
- Introduce on-line follow-up consultation services for patients of the Town Health Centre Network

The Group was in the process of digitizing its patient records into electronic format.

The Group is also maintaining its health portal www.health-easy.com.

Owing to the adverse sentiment towards internet and e-commerce related business, the Group has been cautious in launching its on-line sale and distribution channels, as well as the introduction of inter-medical centre and on-line follow up consultation services. The Group is currently re-considering the commercial viability of these projects. The Group does not rule out the possibility of canceling these projects so as to concentrate its resources on other promising projects.

Business objectives as stated in the Prospectus

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

Traditional Chinese medicine development:

- Establish or acquire two traditional Chinese medicine consultation centres through strategic alliance and/or opportunistic acquisition

The Group currently holds a 13% shareholding interest in Dailywin which is the holding company of WYT. WYT is currently operating six traditional Chinese medicine consultation counters (located in its retail shops).

- Review the Group's business strategies for further expansion

The Group has also entered into a franchise agreement with WTT pursuant to which the Group operates its own franchised WYT retail shop. There is a traditional Chinese medicine consultation counter in the shop.

Business objectives as stated in the Prospectus

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

Elderly care services

- Establish and/or acquire not less than 2,000 beds in licensed elderly homes

The Group had been actively identifying suitable and promising investment opportunity and strategic partner in the market. However, up to the date of this report, the Group was unable to identify any specific opportunity or strategic partner for investment.

The Board is also in the view that the operating and marketing environment of the elderly home market is becoming more difficult, due to the following reasons:

- (1) The more stringent regulations currently imposed in the operation and management of elderly care services resulting in a very costly operation in that business;
- (2) The elderly care services market in Hong Kong had been dropped down in the past years, it would be difficult for the Group to make profit in this economic recession; and
- (3) The development would tie up the resources (financial and administrative) of the Group which might otherwise be applied to other more promising and profitable business of the Group, for example, the Group's core business – medical and dental care business.

Business objectives as stated in the Prospectus

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

The Group will continue implementing its business plan regarding the development of elderly care services. However, the Group has slowed down its pace to develop the business due to the generally difficult economic environment. The Group will re-adjust its strategy in this business to the best interest to its shareholders. This may include a temporary suspension of the development of this business until promising business opportunity arises.

Child care services development:

- Commence feasibility study for the acquisition of child care centres
- Identify suitable acquisition opportunities

The Group has been reviewing the child care market in Hong Kong and is actively searching for suitable investment opportunity and strategic partner in the market. However, as at the date of this report, the Group has not yet identified any specific opportunity or strategic partner for investment.

Business objectives as stated in the Prospectus

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

Health care products:

- Review and expand the product portfolio to broaden the customer base
- Introduce on-line sale of healthcare products
- Review the feasibility of acquiring the remaining 80% interest in Health Matrix International Limited (“Health Matrix”)
- Explore the feasibility of geographical expansion into Taiwan
- Further expand the geographical coverage into the PRC

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

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 currently re-considering the commercial viability of introducing the on-line sale platform. The Group does not rule out the possibility of canceling these projects so that resources can be re-allocated to other promising development projects of the Group.

The Group has reviewed the financial performance and position of Health Matrix and was in the view that, given the current performance of Health Matrix, an acquisition of the remaining 80% interests in Health Matrix is not beneficial to the Group at this moment. The Group will closely monitor the performance of Health Matrix and re-consider the feasibility of acquisition in a later stage.

Business objectives as stated in the Prospectus

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

The Group has studied the health food market in Taiwan. Given the keen market competition and the general downturn of the Taiwan economy, the Group is in the view that it is not the right time to enter into the Taiwan market. In respect of the PRC market, the Group is currently conducting market researches so as to ascertain the market acceptance to the Group's potential healthcare products, especially the health foods and nutrition supplements.

Use of proceeds:

The actual use of proceeds from the new shares issued for listing on GEM of the Exchange in October 2000 (the "IPO") for the period up to 30th September 2002 as compared to the proposed amount set out in the Prospectus are as follows:

	Proposed <i>HK\$'000</i>	Actual <i>HK\$'000</i>
Additional medical centers	8,000	6,000
Additional integrated medical center	4,000	4,000
Additional dental practices	2,000	2,000
Electronic clinic and healthcare information database	2,000	2,000
Traditional Chinese medicine development	5,000	5,000
Elderly care services	10,000	–
Child care services development	2,000	–
	<u>33,000</u>	<u>19,000</u>

Note:

The Company's business plan covers a period up to 31st March 2003. As mentioned in the Prospectus, it was the intention of the Group to finance the business plan partly by proceeds from the IPO and partly by the Group's internal resources. For this reason, the "Actual" amount shown above is in relation to those part of the business plan which were budgeted to be financed by the IPO proceeds. The "Actual" amounts do not represent the total funds spent by the Group to achieve the Actual Business Progress up to 30th September 2002.

The unutilized proceeds from the IPO are currently placed as deposits in banks in Hong Kong.

Except for the possible change in the usage of fund as mentioned in the section "Elderly care services" above (should such a change in business plan is considered appropriate by the Board in the future), the Group does not at this moment has any intention to alter the plan for the use of the unutilized proceeds raised in the Group's IPO.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th September 2002, the interests of the Directors, chief executive 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
Mr. Cho Kam Luk	–	Other interests (<i>Note</i>)	–
Dr. Cho Kwai Chee	180,475,846	Corporate interests (<i>Note</i>)	20.06%
Dr. Fung Yiu Tong, Bennet	–	Other interests (<i>Note</i>)	–

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 September 2002. The entire issued share capital of Origin Limited is owned as to approximately 90.50% by Dr. Cho Kwai Chee, 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%

Note:

An aggregate of 5,600,000 shares were held by True Destination Incorporated, representing 80% of the shares of Health Matrix in issues as at 30th September 2002. True Destination Incorporated is owned as to approximately 70.36% by Mr. Cho Kam Luk.

Other than disclosed above, as at 30th September 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 a extraordinary 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, chief executive or their respective associates during the six months ended 30th September 2002.

SUBSTANTIAL SHAREHOLDER

As at 30th September 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:

Name	Number of shares of the Company	Nature of interests	Percentage of interests
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 September 2002. The entire issued share capital of Origin Limited is owned as to approximately 90.50% by Dr. Cho Kwai Chee, 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 September 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 September 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 six months ended 30th September 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

BOARD PRACTICE AND PROCEDURES

For the six months ended 30th September 2002, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

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

Hong Kong, 13th November 2002