



**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 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 condensed consolidated results of Town Health International Holdings Company Limited and its subsidiaries (collectively, the “Group”) for the three and nine months ended 31st December 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		(Unaudited) For the	
		Three months ended 31st December 2002	2001	Nine months ended 31st December 2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<i>b</i>	27,512	24,809	87,728	73,880
Cost of sales		(17,059)	(13,013)	(53,834)	(40,153)
Gross profit		10,453	11,796	33,894	33,727
Other revenue		355	171	733	787
Operating expenses		(8,017)	(8,987)	(32,833)	(25,400)
Profit from operations		2,791	2,980	1,794	9,114
Amortization of goodwill on acquisition of subsidiaries and practices		(589)	(305)	(1,704)	(839)
Amortization of intangibles		(146)	–	(371)	–
Finance costs		(711)	(1,182)	(2,814)	(3,725)
Gain on disposal of associates		–	–	16,030	–
Share of profit (loss) of associates		258	1,374	(1,316)	3,913
Less: Amortization of goodwill on acquisition of associates		(1,365)	(817)	(3,870)	(2,473)
Share of (loss) profit of associates, net of amortisation of goodwill arising on acquisitions of associates		(1,107)	557	(5,186)	1,440
Profit before taxation		238	2,050	7,749	5,990
Taxation	<i>c</i>	(46)	(758)	(1,228)	(2,202)
Profit after tax but before minority interests		192	1,292	6,521	3,788
Minority interests		(2)	(33)	(156)	(108)
Profit attributable to shareholders		190	1,259	6,365	3,680
Earnings per share – basic	<i>d</i>	0.02 cents	0.24 cents	0.74 cents	0.78 cents

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

	<b>For the Three months ended 31st December</b>		<b>For the Nine months ended 31st December</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Turnover:</i>				
– Provision of medical, dental and healthcare services	26,248	24,806	76,735	73,877
– Sale of healthcare and pharmaceutical products and traditional Chinese medicine	1,241	–	10,952	–
– Dividend income	23	3	41	3
	<hr/>	<hr/>	<hr/>	<hr/>
Total turnover	27,512	24,809	87,728	73,880
<i>Other revenue:</i>				
Interest income				
– Bank deposits	164	116	367	480
– Others	191	55	366	307
	<hr/>	<hr/>	<hr/>	<hr/>
Total other revenue	355	171	733	787
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	<u>27,867</u>	<u>24,980</u>	<u>88,461</u>	<u>74,667</u>

**c. Taxation**

	For the		For the	
	Three months ended		Nine months ended	
	31st December		31st December	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax attributable to the Group				
– Current tax	–	537	851	1,558
– Over-provided in prior period	(20)	–	–	–
Hong Kong profits tax attributable to associates				
– Current tax	66	221	377	644
	<u>46</u>	<u>758</u>	<u>1,228</u>	<u>2,202</u>

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.

There was no significant unprovided deferred taxation as at 31st December 2002 and 2001 and for the three and nine months 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 31st December 2002 was based on the unaudited profit attributable to shareholders of approximately HK\$190,000 (2001 – approximately HK\$1,259,000) and the weighted average number of approximately 899,682,000 shares (2001 – approximately 528,891,000 shares) in issue during the period.

The calculation of basic earnings per share for the nine months ended 31st December 2002 was based on the unaudited profit attributable to shareholders of approximately HK\$6,365,000 (2001 – approximately HK\$3,680,000) and the weighted average number of approximately 859,342,676 shares (2001 – approximately 469,651,000 shares) in issue during the period.

The dilutive earnings per share for the three months ended 31st December 2002 is not presented as there were no dilutive potential ordinary shares outstanding during the period.

The dilutive earnings per share for the nine months ended 31st December 2002, and the three 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.

**e. Movements in reserves**

The movements in reserves for the nine months ended 31st December 2001 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 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>

The movements in reserves for the nine months ended 31st December 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	22,893	–	–	22,893
Share issuance expenses	(2,637)	–	–	(2,637)
Profits for the six months ended 30th September 2002	–	–	6,175	6,175
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 30th September 2002	116,060	10,033	40,254	166,347
Profits for the three months ended 31st December 2002	–	–	190	190
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, 31st December 2002	<u>116,060</u>	<u>10,033</u>	<u>40,444</u>	<u>166,537</u>

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December 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 general market sentiment is still disappointing. The Group continues to face difficulties in maintaining and expanding its revenue streams from its core/traditional businesses. This difficult situation is largely attributable to the general downturn in the economy so that people are more cautious when spending. The cut-throat competition from peers, and the imbalanced distribution of resources between the public and private healthcare sectors are other two major reasons for the present difficult situation.

On the cost side, the Group has implementing a series of aggressive cost-cutting measures to control its expenditure strategically. For example, the Group has restructured the remuneration package for all its professional employees and staff. The Group also actively negotiates with the landlords of its various premises for reduction in rental. The Group has also closed down a number of under-performing clinics so that the Group’s resources can be re-allocated to other promising areas.

### **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 through its equity interests in Luxembourg Medicine Company Limited (49.88% held by Town Health).

Traditional Chinese medicine is one of the focus area of the Group. During the period under review, the Group established its own Wai Yuen Tong franchise shop which is principally engaged in the retail sale of medicinal products sold under the brand name “Wai Yuen Tong”, herbs and other medicinal products.

## **Bio-medical technologies and para-medical services**

The Group has invested strategically in companies engage in the research, development and commercialization of cutting-edge molecular genomic diagnostic technology. Such technology can be applied to the diagnosis and testing of certain types of cancer at early stage. A number of commercial diagnosis packages have already been introduced into the market.

In addition to molecular genomic technology, the Group has also invested in a magnetic resonance imaging (MRI) scanner located in a local private hospital. MRI is an imaging technique used primarily in medical settings to produce high quality images of the inside of the human body for diagnosis purposes. The Group's investment in the MRI generated favourable returns to the Group.

### **Future Prospect**

The current market is tough and a significant turn-around is not expected to happen in the near future. The Group will use its best effort to sustain in this difficult time. On the revenue side, the Group will focus on strengthening and expanding its revenue bases by, among others, promoting high-profit-margin services to its customers.

On the cost side, the Group will continuously monitor its cost structure and cost effectiveness so as to maintain its competitiveness in the market.

## **FINANCIAL REVIEW**

### **Results and dividends**

For the nine months ended 31st December 2002, the Group recorded a turnover of approximately HK\$87,728,000 (2001 – approximately HK\$73,880,000) and a net profit attributable to shareholders of approximately HK\$6,365,000 (2001 – approximately HK\$3,680,000). The basic earnings per share were approximately HK0.74 cents (2001 – approximately HK0.78 cents). To retain cash flow 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\$3,954,000 from the provision of audio test and sale of hearing aid devices, and approximately HK\$9,782,000 from the sale and distribution of precious and ordinary traditional Chinese medicine.

Gross profit margin for the two nine-month periods ended 31st December 2002 and 2001 were 38.6% and 45.7% respectively.

## **Operating expenses**

Operating expenses for the 2 nine-month periods ended 31st December 2002 and 2001 were approximately HK\$32,833,000 and approximately HK\$25,400,000 respectively.

The Group has been implementing a number of cost-cutting measures in a view to maintain the competitiveness of the Group (please also refer to the section headed "Business Review and Outlook for further details). The result was positive and the effect was gradually reflected in the financials. For the three months ended 31st December 2002, the Group recorded a decrease in operating expenses by approximately 10.8% as compared with the corresponding three-month period of the last financial year.

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

The Group shared a net aggregate loss from its associated companies of approximately HK\$1,316,000 for the nine months ended 31st December 2002. The loss was mainly due to (1) the deteriorated performance of one of the major associated companies owing to seasonal fluctuation; and (2) that the Group ceased to share the profit of Wai Yuen Tong Medicine Company Limited – another major associated company which has been disposed of by the Group in July 2002.

However, the overall performance of the associated companies has started to improve. For the three months ended 31st December 2002, the Group shared a net aggregate profit of approximately HK\$258,000 from its associated companies.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31st December 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 31st December 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 80.00% of the shares of Health Matrix in issues as at 31st December 2002. True Destination Incorporated is owned as to approximately 72.50% by Mr. Cho Kam Luk.

Other than disclosed above, as at 31st December 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 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 nine months ended 31st December 2002.

## **SUBSTANTIAL SHAREHOLDER**

As at 31st December 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 31st December 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 31st December 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 31st December 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 nine months ended 31st December 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 nine months ended 31st December 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, 14th February 2003