



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 2003

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.

**FINANCIAL HIGHLIGHT**

For and during the nine months ended 31st December 2003:

- The Group recorded a turnover of approximately HK\$80 million.
- Profit from operations before depreciation and amortization amounted to approximately HK\$6 million.
- The Group disposed of non-performing associates and recognized a loss on disposal of approximately HK\$46 million. However, the net proceeds of approximately HK\$52 million in cash received by the Group can provide extra working capital for the Group and further strengthen the Group's financial position.



RESULTS (UNAUDITED)

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of Town Health International Holdings Company Limited and its subsidiaries (collectively, the “Group”) for the three and nine months ended 31st December 2003, together with the comparative unaudited figures for the corresponding period in 2002, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	(Unaudited) For the Three months ended 31st December		(Unaudited) For the Nine months ended 31st December	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	<i>b</i>	29,808	27,859	79,795	88,057
Cost of sales		(15,181)	(17,227)	(44,160)	(53,793)
Gross profit		14,627	10,632	35,635	34,264
Other operating income	<i>c</i>	376	2,005	2,368	3,902
Administrative expenses		(14,132)	(10,581)	(40,070)	(38,447)
Profit (Loss) from operations		871	2,056	(2,067)	(281)
Finance costs		(401)	(711)	(1,273)	(2,814)
(Loss) Gain on disposal of associates		(46,421)	–	(46,421)	16,030
Share of results of associates		(402)	258	(5,761)	(1,316)
Less: Amortization of goodwill arising on acquisition of associates		(1,260)	(1,365)	(5,460)	(3,870)
(Loss) Profit before taxation		(47,613)	238	(60,982)	7,749
Taxation	<i>d</i>	(17)	(46)	(265)	(1,228)
(Loss) Profit before minority interests		(47,630)	192	(61,247)	6,521
Minority interests		(74)	(2)	(278)	(156)
(Loss) Profit attributable to shareholders		<u>(47,704)</u>	<u>190</u>	<u>(61,525)</u>	<u>6,365</u>
(Loss) Earnings per share					
– basic	<i>e</i>	(4.77) cents	0.02 cents	(6.59) cents	0.74 cents
– diluted		(4.67) cents	N/A	(6.54) cents	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 unaudited consolidated condensed financial statements 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

	For the Three months ended 31st December		For the Nine months ended 31st December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Provision of healthcare and dental services	27,551	25,044	73,087	72,779
Sale of healthcare and pharmaceutical products	2,257	2,815	6,708	15,278
	<u>29,808</u>	<u>27,859</u>	<u>79,795</u>	<u>88,057</u>

c. Other operating income

	For the Three months ended 31st December		For the Nine months ended 31st December	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest income from bank deposits	44	355	268	733
Dividend income	–	23	–	41
Sundry income	332	1,627	2,100	3,128
	<u>376</u>	<u>2,005</u>	<u>2,368</u>	<u>3,902</u>



d. Taxation

	For the Three months ended 31st December		For the Nine months ended 31st December	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Charge comprises:				
– Hong Kong Profits Tax attributable to the Group	(7)	(20)	157	851
– Share of taxation attributable to associates	24	66	108	377
	<u>17</u>	<u>46</u>	<u>265</u>	<u>1,228</u>

Hong Kong profits tax is calculated at 17.5% (2002 – 16%) of the estimated assessable profits for the period.

The Group had no significant unprovided deferred taxation as at 31st December 2003 and 2002 and for the nine-month periods then ended.

e. Loss per share

The calculation of basic loss per share for the three months ended 31st December 2003 is based on the unaudited net loss of approximately HK\$47,704,000 (2002 – net profit of approximately HK\$190,000) and the weighted average number of 1,000,429,283 shares (2002 – 899,682,000 shares) in issue during the period.

The calculation of basic loss per share for the nine months ended 31st December 2003 is based on the unaudited net loss of approximately HK\$61,525,000 (2002 – net profit of approximately HK\$6,365,000) and the weighted average number of 933,386,545 shares (2002 – 859,342,676 shares) in issue during the period.

The calculation of diluted loss per share is based on the unaudited net loss of approximately HK\$47,704,000 for the three months ended 31st December 2003 and approximately HK\$61,525,000 for the nine months ended 31st December 2003 and on 1,021,557,000 shares and 940,454,727 shares respectively, being the weighted average number of shares outstanding during the periods, adjusted for the effects of all potential dilutive shares.

The diluted 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 is not presented as the exercise of the conversion right of the convertible note issued by the Company will have an anti-dilutive effect.



f. Movements in reserves

The movements in reserves for the nine months ended 31st December 2002 are as follows:

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Distributable reserve arising from capital reduction <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2002	69,100	95,714	10,033	–	34,079	208,926
Issue of new shares	20,868	22,983	–	–	–	43,851
Share issue expenses	–	(2,637)	–	–	–	(2,637)
Profits for the six months ended 30th September 2002	–	–	–	–	6,175	6,175
Balance, 30th September 2002	89,968	116,060	10,033	–	40,254	256,315
Profits for the three months ended 31st December 2002	–	–	–	–	190	190
Balance, 31st December 2002	<u>89,968</u>	<u>116,060</u>	<u>10,033</u>	<u>–</u>	<u>40,444</u>	<u>256,505</u>

The movements in reserves for the nine months ended 31st December 2003 are as follows:

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Distributable reserve arising from capital reduction <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2003	89,968	116,060	10,033	–	38,820	254,881
Capital reduction	(80,971)	–	–	72,670	8,301	–
Loss for the six months ended 30th September 2003	–	–	–	–	(13,821)	(13,821)
Balance, 30th September 2003	8,997	116,060	10,033	72,670	33,300	241,060
Issue of new share	1,625	11,375	–	–	–	13,000
Share issue expenses	–	(288)	–	–	–	(288)
Loss for the three months ended 31st December 2003	–	–	–	–	(47,704)	(47,704)
Balance, 31st December 2003	<u>10,622</u>	<u>127,147</u>	<u>10,033</u>	<u>72,670</u>	<u>(14,404)</u>	<u>206,068</u>



g. Comparative figures

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December 2003 (2002 – Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

The Group is principally engaged in the provision of healthcare and dental services and the sale of healthcare and pharmaceutical products. With the sudden outbreak of the Severe Acute Respiratory Syndrome (“SARS”) in April 2003, the Group’s performance in the first quarter of the financial year was disappointing, recording a loss from operations before depreciation and amortization of approximately HK\$3,257,000 for that quarter. However, with the retreat of SARS in late June and the continuing improvement in the economy, the Group recorded a significant rebound. In terms of results from operations before depreciation and amortization, the Group managed to turnaround from loss into profit. The total profit from operations for the second and third quarter of the financial year was approximately HK\$9,518,000.

The Group has started a photofacial and laser treatment centre to meet the market demand of professional beauty and skincare treatments. The Group will continue to strengthen its revenue base by diversifying into other promising healthcare-related areas and geographic locations, which may include the sale and distribution of high-end professional medical equipment and accessories in Hong Kong and the Mainland China, or the operations of medical centre in the Mainland.

Financial review

The Group recorded a turnover of approximately HK\$80 million for the nine months ended 31st December 2003. Gross profit margin increased from approximately 39% in the corresponding period in the previous year to approximately 45% for the nine months ended 31st December 2003. Such increase was mainly attributable to the Group’s stringent control on drug cost and drug consumption, as well as the Group’s review on the professional staff’s remuneration packages.



The Group recorded a profit from operations before depreciation and amortization of approximately HK\$3,944,000 for the three months ended 31st December 2003 and a profit from operations before depreciation and amortization of approximately HK\$6,261,000 for the nine months ended 31st December 2003.

Taking into account a number of non-cash adjustments included in the administrative expenses, namely depreciation of fixed assets, amortization of goodwill arising on acquisitions of subsidiaries and medical and dental practices, and amortization of intangible assets, the Group recorded a profit from operations of approximately HK\$871,000 for the three months ended 31st December 2003 and a loss from operations of approximately HK\$2,067,000 for the nine months ended 31st December 2003.

The Group disposed of a number of non-performing investments in associated companies during the period. Although the Group recognized a loss of approximately HK\$46 million from the disposals, the Board considers that the net proceeds of approximately HK\$52 million in cash received by the Group can provide extra working capital for the Group and further strengthen the Group's financial position.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31st December 2003, the interests of the Directors and chief executive of the Company in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO), or which were required, pursuant to Sections 352 or 345 of Part XV of the SFO, to be entered in the register referred to therein, or which required, pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(A) The Company:

Long position in shares

Name	Number of shares of the Company	Nature of interests	Percentage of interests
Mr. Cho Kam Luk	1,281,378	Personal interests	0.12%
Dr. Cho Kwai Chee	163,330,641	Corporate interests (<i>Note</i>)	15.38%
Dr. Fung Yiu Tong, Bennet	2,689,090	Personal interests	0.25%



Note: An aggregate of 163,330,641 shares were held by Origin Limited, representing approximately 15.38% of the Company's shares in issue as at 31st December 2003. The entire issued share capital of Origin Limited is owned by Dr. Cho Kwai Chee.

(B) Health Matrix International Limited ("Health Matrix"), an associated corporation (within the meaning of Part XV of the SFO) of the Company:

Long position in shares

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 31st December 2003. True Destination Incorporated is owned as to approximately 72.50% by Mr. Cho Kam Luk.

Save as disclosed above, as at 31st December 2003, none of the directors or their associates, had any interests in the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 or 345 of Part XV of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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, chief executive or their respective associates.

SUBSTANTIAL SHAREHOLDER

As at 31st December 2003, the person or company (not being a director or chief executive of the Company) who had interests or short positions in the shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company is as follows:

Long position in shares

Name	Number of shares of the Company	Nature of interests	Percentage of interests
Origin Limited	163,330,641	Corporate interests (<i>Note</i>)	15.38%

Note: An aggregate of 163,330,641 shares were held by Origin Limited, representing approximately 15.38% of the Company’s shares in issue as at 31st December 2003. The entire issued share capital of Origin Limited is owned by Dr. Cho Kwai Chee.

Save for the shareholder as disclosed herein, the Directors are not aware of any persons who, as at 31st December 2003, had an interest or short position in the shares of the Company which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or interested in 5% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the Company.



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

PURCHASE, SALE OR REDEMPTION OF SHARES

For the nine months ended 31st December 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

BOARD PRACTICES AND PROCEDURES

For the nine months ended 31st December 2003, the Company was in compliance with the Board Practices and Procedures as set out in Rule 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 February 2004