



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

2005



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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.

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FINANCIAL HIGHLIGHTS

For the three months ended 30th June 2005

- The Group recorded a turnover of approximately HK\$55,286,000, representing an increase of approximately 35.3% as compared with the corresponding period of prior year
- Profit from operations amounted to approximately HK\$6,830,000 (2004 – loss of approximately HK\$640,000)
- Profit attributable to shareholders amounted to approximately HK\$6,148,000 (2004 – approximately HK\$1,344,000)
- The Board does not recommend the payment of an interim dividend (2004 – nil)

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 2005, together with the comparative unaudited figures for the corresponding period in 2004, as follows:

	<i>Notes</i>	For the three months ended 30th June	
		2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	<i>b</i>	55,286	40,862
Cost of sales		<u>(30,187)</u>	<u>(22,030)</u>
Gross profit		25,099	18,832
Other operating income	<i>c</i>	3,095	331
Administrative expenses		<u>(21,364)</u>	<u>(19,803)</u>
Profit (loss) from operations		6,830	(640)
Finance costs		(71)	(77)
Share of results of associates		901	(72)
Amortisation of goodwill arising on acquisitions of associates		–	(2,214)
Gain on dilution of an associate		<u>–</u>	<u>5,949</u>
Profit before taxation		7,660	2,946
Taxation	<i>d</i>	<u>(643)</u>	<u>(285)</u>
Profit before minority interests		7,017	2,661
Minority interests		<u>(869)</u>	<u>(1,317)</u>
Profit attributable to shareholders		<u>6,148</u>	<u>1,344</u>
Earnings per share – basic	<i>e</i>	0.20 cents	0.11 cents
– diluted	<i>e</i>	0.19 cents	N/A

Notes:

a. Basis of preparation

The financial statements have been prepared under the historical cost convention as modified for the valuation of certain investments in securities, and in accordance with accounting principles generally accepted in Hong Kong.

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") (herein together collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005.

The Group does not expect that the adoption of these new HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented except the following:

HKFRS 3 "Business Combinations"

HKFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, the goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. In prior years, the Group amortises the goodwill capitalised on a straight line basis over its useful economic life.

HKFRS 3 also requires negative goodwill to be recognised in the profit or loss immediately on acquisition. Currently, the Group does not have negative goodwill.

Following the adoption of HKFRS 3, the Group discontinued goodwill amortisation with effect from 1st April 2005, resulting in an increase in the profit attributable to shareholders for the three months ended 30th June 2005 of approximately HK\$1,731,000.

HKAS 32 "Financial Instruments: Disclosure and Presentation" and

HKAS 39 "Financial Instruments: Recognition and Measurement"

HKAS 32 and HKAS 39 requires all investments to be reclassified into available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. It also requires all financial instruments issued by the Group should be recognised at fair value. Currently, the convertible bond issued by the Group is fully converted as at balance sheet date.

b. Turnover

	For the three months ended 30th June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of healthcare and dental services	31,797	25,625
Sales of healthcare and pharmaceutical products	3,950	4,127
Sales of cardiology and peripheral vascular related surgical equipment	14,128	11,110
Others	5,411	–
	<u>55,286</u>	<u>40,862</u>

c. Other operating income

	For the three months ended 30th June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income from bank deposits	74	8
Dividend income from listed securities	184	–
Gain on disposal of listed securities	(16)	–
Sundry income	2,853	323
	<u>3,095</u>	<u>331</u>

d. Taxation

	For the three months ended 30th June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
– Hong Kong Profits Tax attributable to the Group	379	156
– Share of taxation attributable to associates	165	59
	<u>544</u>	<u>215</u>
Deferred tax		
– Current year	99	70
	<u>643</u>	<u>285</u>

Hong Kong Profits Tax is calculated at 17.5% (2004 – 17.5%) of the estimated assessable profits for the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Group has no significant unprovided deferred taxation as at 30th June 2005 and 2004 and for the three-month periods then ended.

e. Earnings per share

The calculation of the basic earnings per share for the three months ended 30th June 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$6,148,000 (2004 – approximately HK\$1,344,000) and the weighted average number of 3,117,013,000 shares (2004 – 1,249,182,000 shares) in issue during the period.

The calculation of diluted earnings per share for the three months ended 30th June 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$6,197,000 and 3,329,071,000 shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares.

The diluted earnings per share for the three-month period ended 30th June 2004 is not presented as there was no dilutive potential ordinary shares outstanding during the period.

f. Movements in reserves

The movements in reserves for the three months ended 30th June 2004 are as follows:

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Distributable reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2004	135,194	10,033	72,670	(40,548)	177,349
Profit attributable to shareholders for the three months ended 30th June 2004	—	—	—	1,344	1,344
Balance, 30th June 2004	<u>135,194</u>	<u>10,033</u>	<u>72,670</u>	<u>(39,204)</u>	<u>178,693</u>

The movements in reserves for the three months ended 30th June 2005 are as follows:

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Distributable reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2005	148,122	10,033	72,670	(124,878)	105,947
Issue of new shares	86,794	—	—	—	86,794
Share issue expenses	(5,935)	—	—	—	(5,935)
Profit attributable to shareholders for the three months ended 30th June 2005	—	—	—	6,148	6,148
Balance, 30th June 2005	<u>228,981</u>	<u>10,033</u>	<u>72,670</u>	<u>(118,730)</u>	<u>192,954</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June 2005 (2004 – nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

The Group is principally engaged in the provision of healthcare and dental services, sale of healthcare and pharmaceutical products, and sale of cardiology and peripheral vascular related surgical equipment.

During the quarter under review, the Group recorded encouraging results in all its major segments of business. In particular, the turnover of the Group's core business – provision of healthcare and dental services – rose 24.1% to approximately HK\$31.8 million as compared with the approximately HK\$25.6 million recorded in the corresponding period in the prior year. The significant improvement was largely due to the continuing recovery of the Hong Kong economy, as well as the effective pricing strategy adopted by the Group during the quarter.

It is expected that the Government of Hong Kong will gradually raise the fees charged in the public hospitals and clinics. As a result, more healthcare demand will be shifted from the public sector to the private sector. Town Health, as one of the biggest private medical healthcare services providers in Hong Kong, will tap on this favourable situation. The Group will seek opportunities to expand its network of medical centres. The expansion will be carried out in a number of ways. In addition to opening clinics at its own rights, the Group will also consider setting up joint venture clinics with other operators, as well as acquiring equity interests of other well-established medical group in the market.

The Group intends to expand its current medical diagnostic and body checkup services, and may consider opening centres being equipped with state-of-the-art diagnosis facilities like PET/CT scanner and MRI equipment.

To cater for the different needs of our diverse customer pool, the Group is endeavouring to widen its scope of services. The Group will further develop and strengthen its cosmetic dermatology and beauty care services, and source a wider selection of healthcare-related products and medications to recommend to its customers.

To conclude, the Group is confident with the healthcare market. Given the recovery of the economy and favourable governmental policies towards the private healthcare market, the future of the Group is believed to be promising.

Financial review

The Group recorded a turnover of approximately HK\$55,286,000 for the three months ended 30th June 2005 (2004 – approximately HK\$40,862,000), representing an increase of approximately 35.3% as compared with the corresponding period in prior year.

Gross profit margin for the three months ended 30th June 2005 was 45.4%, which is consistent with the 46.1% recorded in the corresponding period in prior year. The Group recorded a profit from operations of approximately HK\$6,830,000, representing a significant turnaround from the operating loss of approximately HK\$640,000 as recorded in the corresponding period in prior year.

Following the Group's adoption of HKFRS 3 in relation to business combination, the Group discontinued amortising the goodwill arising on the acquisitions of associates, subsidiaries, and medical practices with effect from 1st April 2005. Should such new Standard not be adopted, an amortization charge of approximately HK\$1,731,000 would be charged to the profit and loss account.

Profit attributable to shareholders for the three months ended 30th June 2005 was approximately HK\$6,148,000, representing an increase of 3.6 times as compared with the approximately HK\$1,344,000 recorded in the corresponding period in prior year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June 2005, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Sections 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares of the Company

Name	Nature of interests	Number of shares held	Percentage of shareholding
Mr. Cho Kwai Chee	Corporate (<i>Note</i>)	2,548,262,701	51.00%
Mr. Fung Yiu Tong, Bennet	Personal	2,689,090	0.05%

Note:

These 2,548,262,701 shares comprises: (i) 163,330,641 shares which are owned by Origin Limited, the entire share capital of which is beneficially owned by Mr. Cho Kwai Chee; and (ii) 2,384,932,060 shares which are owned by Broad Idea International Limited. Mr. Cho Kwai Chee is deemed to be interested in the 2,384,932,060 shares owned by Broad Idea International Limited under Part XV of the SFO given that he is beneficially interested in 50.1% of the issued share capital of Broad Idea International Limited.

Save as disclosed above, as at 30th June 2005, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to Sections 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 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, the chief executive of the Company or their respective associates.

SUBSTANTIAL SHAREHOLDER

So far as is known to the Directors, as at 30th June 2005, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position in shares of the Company

Name of shareholder	Number of shares held	Percentage of shareholding
Broad Idea International Limited (<i>Note</i>)	2,384,932,060	47.73%
Dr. Francis Choi Chee Ming (<i>Note</i>)	2,384,932,060	47.73%

Note:

Broad Idea International Limited is interested in the 2,384,932,060 shares under Part XV of the SFO. As Broad Idea International Limited is beneficially owned by Mr. Cho Kwai Chee as to 50.1% and Dr. Francis Choi Chee Ming as to 49.9%, Dr. Francis Choi Chee Ming is deemed to be interested in the 2,384,932,060 shares under Part XV of the SFO.

Save as disclosed above, as at 30th June 2005, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

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 in compliance with the GEM Listing Rules. 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 three independent non-executive Directors, namely, Mr. Chan Kam Chiu, Mr. Wai Kwok Hung and Mr. Ho Kwok Wah, George. Mr. Chan Kam Chiu is the chairman of the audit committee.

This report, together with the Group's unaudited results for the three months ended 30th June 2005, had been reviewed by the audit committee of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the three months ended 30th June 2005, 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
Cho Kwai Chee
Chairman

Hong Kong, 12th August 2005

As at the date of this report, the executive directors of the Company are Mr. Cho Kwai Chee, Mr. Cho Kwai Yee, Kevin and Mr. Fung Yiu Tong, Bennet, and the independent non-executive directors of the Company are Mr. Chan Kam Chiu, Mr. Wai Kwok Hung, and Mr. Ho Kwok Wah, George.