



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

(Incorporated in the Cayman Islands with limited liability)



**I N T E R I M**  
**R E P O R T**  
**2 0 0 5**

For the Six Months Ended  
30th September 2005

## **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 HIGHLIGHTS**

For the six months ended 30th September 2005:

- The Group recorded a turnover of approximately HK\$111,982,000, representing an increase of 35.4% as compared with the corresponding period in 2004.
- Profit from operations was approximately HK\$15,829,000 (2004 – approximately HK\$1,797,000) and profits attributable to shareholders was approximately HK\$12,204,000 (2004 – approximately HK\$82,000).
- Since the present cash reserve in the Company is sufficient for the planned development of the Company for the coming years, the Board resolved to declare an interim dividend of HK0.2 cents (2004 – Nil) per ordinary share.

**INTERIM 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 six months ended 30th September 2005, together with the comparative unaudited figures for the corresponding period in 2004, as follows:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

	Notes	(Unaudited) For the three months ended 30th September		(Unaudited) For the six months ended 30th September	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	b	<b>56,696</b>	41,832	<b>111,982</b>	82,694
Cost of sales		<b>(29,352)</b>	(21,438)	<b>(59,539)</b>	(43,468)
Gross profit		<b>27,344</b>	20,394	<b>52,443</b>	39,226
Other operating income	d	<b>1,662</b>	276	<b>4,757</b>	607
Administrative expenses		<b>(20,007)</b>	(18,233)	<b>(41,371)</b>	(38,036)
Profit from operations		<b>8,999</b>	2,437	<b>15,829</b>	1,797
Finance costs		<b>(64)</b>	(143)	<b>(135)</b>	(220)
Share of results of associates		<b>(30)</b>	267	<b>871</b>	195
Amortization of goodwill arising on acquisitions of associates		-	(2,213)	-	(4,427)
Gain on dilution of an associate		-	-	-	5,949
Profit before taxation		<b>8,905</b>	348	<b>16,565</b>	3,294
Taxation	e	<b>(637)</b>	(210)	<b>(1,280)</b>	(495)
Profit before minority interests		<b>8,268</b>	138	<b>15,285</b>	2,799
Minority interests		<b>(2,212)</b>	(1,400)	<b>(3,081)</b>	(2,717)
Profit attributable to shareholders		<b>6,056</b>	(1,262)	<b>12,204</b>	82
Dividend – Interim		<b>9,993</b>	-	<b>9,993</b>	-
Earnings (loss) per share					
– basic	f	<b>0.12 cents</b>	(0.10) cents	<b>0.30 cents</b>	0.01 cents
– diluted	f	<b>0.12 cents</b>	N/A	<b>0.29 cents</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

	<i>Notes</i>	<b>(Unaudited) 30th September 2005 HK\$'000</b>	(Audited) 31st March 2005 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>52,289</b>	25,840
Goodwill		<b>44,289</b>	44,184
Interests in associates		<b>26,743</b>	24,209
Investments in securities		<b>20,604</b>	3,657
Amounts due from investees companies		<b>956</b>	866
		<b>144,881</b>	98,756
<b>Current assets</b>			
Inventories		<b>11,409</b>	8,784
Trade and other receivables	<i>g</i>	<b>54,638</b>	27,104
Amounts due from related parties		<b>8,206</b>	7,343
Tax recoverable		<b>672</b>	1,135
Pledged bank deposits		<b>10,000</b>	10,000
Bank balances and cash		<b>114,857</b>	24,166
		<b>199,782</b>	78,532
<b>Current liabilities</b>			
Trade and other payables	<i>h</i>	<b>32,429</b>	33,272
Amount due to minority shareholders of subsidiaries		<b>2,628</b>	658
Secured bank borrowings – due within one year	<i>i</i>	<b>517</b>	602
		<b>35,574</b>	34,532
<b>Net current assets</b>		<b>164,208</b>	44,000
<b>Total assets less current liabilities</b>		<b>309,089</b>	142,756

	<i>Notes</i>	<b>(Unaudited) 30th September 2005 HK\$'000</b>	(Audited) 31st March 2005 HK\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>1,001</b>	859
Secured bank borrowings			
– due after one year	<i>i</i>	<b>8,284</b>	6,514
Convertible bonds		<b>37,700</b>	–
		<b>46,985</b>	7,373
<b>Minority interests</b>			
		<b>13,366</b>	11,969
		<b>248,738</b>	123,414
<b>Capital and reserves</b>			
Share capital		<b>49,966</b>	17,468
Reserves		<b>198,772</b>	105,946
		<b>248,738</b>	123,414

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>(Unaudited) Six months ended 30th September 2005 HK\$'000</b>	(Unaudited) Six months ended 30th September 2004 HK\$'000
Net cash from operating activities	<b>8,465</b>	9,696
Net cash used in investing activities	<b>(71,302)</b>	(42,334)
Net cash from financing activities	<b>153,528</b>	5,973
Increase (Decrease) in cash and cash equivalents	<b>90,691</b>	(26,665)
Cash and cash equivalents at beginning of the period	<b>34,166</b>	47,008
Cash and cash equivalents at the end of the period	<b>124,857</b>	20,343
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>124,857</b>	20,343
Bank overdrafts	<b>-</b>	-
	<b>124,857</b>	20,343

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30th September 2004 are as follows:

	Share capital <i>HK\$'000</i>	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	12,492	135,194	10,033	72,670	(40,548)	189,841
Profit attributable to shareholders for the three months ended 30th June 2004	-	-	-	-	1,344	1,344
Balance, 30th June 2004	12,492	135,194	10,033	72,670	(39,204)	191,185
Loss attributable to shareholders for the three months ended 30th September 2004	-	-	-	-	(1,262)	(1,262)
Balance, 30th September 2004	<u>12,492</u>	<u>135,194</u>	<u>10,033</u>	<u>72,670</u>	<u>(40,466)</u>	<u>189,923</u>

For the six months ended 30th September 2005 are as follows:

	Share capital <i>HK\$'000</i>	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	17,468	148,122	10,033	72,670	(124,879)	123,414
Issue of new shares	32,498	86,794	-	-	-	119,292
Share issue expenses	-	(5,935)	-	-	-	(5,935)
Profits attributable to shareholders for the three months ended 30th June 2005	-	-	-	-	6,148	6,148
At 30th June 2005	49,966	228,981	10,033	72,670	(118,731)	242,919
Share Issue expenses	-	(237)	-	-	-	(237)
Profits attributable to shareholders for the three months ended 30th September 2005	-	-	-	-	6,056	6,056
At 30th September 2005	<u>49,966</u>	<u>228,744</u>	<u>10,033</u>	<u>72,670</u>	<u>(112,675)</u>	<u>248,738</u>

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 six months ended 30th September 2005 of approximately HK\$3,462,000.

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. The convertible bonds issued by the Group and outstanding as at the balance sheet date have been stated at fair value.

## b. Turnover

	For the three months ended 30th September		For the six months ended 30th September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Provision of healthcare and dental services	<b>31,841</b>	27,118	<b>63,638</b>	52,743
Sales of healthcare and pharmaceutical products	<b>4,387</b>	4,096	<b>8,337</b>	8,223
Sales of cardiology and peripheral vascular related surgical equipment	<b>14,902</b>	10,618	<b>29,030</b>	21,728
Others	<b>5,566</b>	–	<b>10,977</b>	–
	<b>56,696</b>	41,832	<b>111,982</b>	82,694

### c. Segment information

#### (i) Business segments

The following table presents revenue, profit (loss) information for the Group's business segments for the six months ended 30th September 2004.

	Provision of healthcare and dental services <i>HK\$'000</i>	Sales of healthcare and pharmaceutical products <i>HK\$'000</i>	Sales of cardiology and peripheral vascular related surgical equipment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER	52,743	8,223	21,728	–	82,694
RESULTS					
Segment results	(258)	686	1,893	–	2,321
Unallocated corporate expenses					(524)
Profit from operations					1,797
Finance costs					(220)
Share of results of associates					195
Amortization of goodwill arising on acquisitions of associates					(4,427)
Gain on dilution of an associate					5,949
Profit before taxation					3,294
Taxation					(495)
Profit before minority interests					2,799
Minority interests					(2,717)
Profit attributable to shareholders					82

The following table presents revenue, profit (loss) information for the Group's business segments for the six months ended 30th September 2005.

	<b>Provision of healthcare and dental services</b> <i>HK\$'000</i>	<b>Sales of healthcare and pharmaceutical products</b> <i>HK\$'000</i>	<b>Sales of cardiology and peripheral vascular related surgical equipment</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
TURNOVER	63,638	8,337	29,030	10,977	111,982
RESULTS					
Segment results	8,389	2,546	4,880	(711)	15,104
Unallocated corporate income					725
Profit from operations					15,829
Finance costs					(135)
Share of results of associates					871
Profit before taxation					16,565
Taxation					(1,280)
Profit before minority interests					15,285
Minority interests					(3,081)
Profit attributable to shareholders					12,204

(ii) *Geographical segments*

The following table presents revenue information for the Group's geographical segments for the six months ended 30th September 2005.

	Hong Kong		Mainland China		Total	
	For the six months ended 30th September					
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	<b>88,829</b>	64,085	<b>23,153</b>	18,609	<b>111,982</b>	82,694

d. **Other operating income**

	For the three months ended 30th September		For the six months ended 30th September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from bank deposits	<b>779</b>	10	<b>853</b>	18
Dividend income from listed securities	<b>2,350</b>	–	<b>2,534</b>	–
Loss on disposal of listed securities	<b>(2,943)</b>	–	<b>(2,959)</b>	–
Sundry income	<b>1,476</b>	266	<b>4,329</b>	589
	<b>1,662</b>	276	<b>4,757</b>	607

**e. Taxation**

	For the three months ended 30th September 2005		For the six months ended 30th September 2005	
	2004 HK\$'000	2004 HK\$'000	2004 HK\$'000	2004 HK\$'000
The Charge comprises:				
– Hong Kong Profits Tax attributable to the Group	605	99	984	255
– Share of taxation attributable to associates	(11)	94	154	153
	594	193	1,138	408
Deferred tax				
– Current year	43	17	142	87
	637	210	1,280	495

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 had no significant unprovided deferred taxation as at 30th September 2005 and 2004 and for the six-month periods then added.

**f. Earnings (loss) per share**

The calculation of the basic earnings (loss) per share for the three months ended 30th September 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$6,056,000 (2004 – loss of approximately HK\$1,262,000) and the weighted average number of 4,996,593,528 shares (2004 – 1,249,182,000 shares) in issue during the period.

The calculation of the basic earnings per share for the six months ended 30th September 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$12,204,000 (2004 – approximately HK\$82,000) and the weighted average number of 4,061,938,503 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 September 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$6,061,000 and 5,004,875,101 shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares.

The calculation of diluted earnings per share for the six months ended 30th September 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$12,258,000 and 4,171,551,629 shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares.

The diluted (loss) earnings per share for the three and six months ended 30th September 2004 are not presented as there was no dilutive potential ordinary shares outstanding during the periods.

#### g. Trade and other receivables

	<b>As at 30th September 2005 HK\$'000</b>	As at 31st March 2005 HK\$'000
Trade receivables	<b>19,784</b>	15,409
Prepayments, deposits and other receivables	<b>34,854</b>	11,695
	<b>54,638</b>	27,104

An aged analysis of trade receivables at the balance sheet date is as follows:

	<b>As at 30th September 2005 HK\$'000</b>	As at 31st March 2005 HK\$'000
0-60 days	<b>9,233</b>	9,482
61-120 days	<b>4,966</b>	3,439
121-180 days	<b>3,301</b>	2,885
181-240 days	<b>2,054</b>	1,336
241-360 days	<b>1,018</b>	424
Over 360 days	<b>838</b>	-
	<b>21,410</b>	17,566
Less: Provision for doubtful debts	<b>(1,626)</b>	(2,157)
	<b>19,784</b>	15,409

The Group allows its trade customers with an average credit period of 60 days to 240 days.

**h. Trade and other payables**

	<b>As at 30th September 2005 HK\$'000</b>	As at 31st March 2005 HK\$'000
Trade payables	<b>21,745</b>	12,945
Other payables	<b>678</b>	515
Accruals	<b>10,006</b>	19,812
	<b>32,429</b>	33,272
	<b>As at 30th September 2005 HK\$'000</b>	As at 31st March 2005 HK\$'000
0-60 days	<b>8,576</b>	10,931
61-120 days	<b>13,133</b>	1,968
121-240 days	<b>36</b>	46
	<b>21,745</b>	12,945

**i. Borrowings**

	<b>As at 30th September 2005 HK\$'000</b>	As at 31st March 2005 HK\$'000
Secured bank loans	<b>8,801</b>	7,116
Repayable as follows:		
Within one year	<b>517</b>	602
Between one to two years	<b>549</b>	623
Between two to five years	<b>1,811</b>	2,002
Over five years	<b>5,924</b>	3,889
	<b>8,801</b>	7,116
Less: Amount due within one year included under current liabilities	<b>(517)</b>	(602)
Amount due after one year	<b>8,284</b>	6,514

## **INTERIM DIVIDEND**

The Board resolved to declare an interim dividend of HK0.2 cents (2004 – Nil) per ordinary share for the six months ended 30th September 2005 payable to shareholders whose names appear in the Register of Members of the Company at the close of business on Friday 2nd December 2005. The dividend is expected to be paid on Tuesday 20th December 2005.

## **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 six-month period 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 20.7% to approximately HK\$63.6 million as compared with the approximately HK\$52.7 million recorded in the corresponding period last 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.

On 20th April 2005, the Group announced that Dr. Francis Choi Chee Ming would subscribe for new shares of the Company by cash. The Board is pleased to advise that the subscription was completed on 31st May, 2005 upon which Dr. Choi has become a substantial shareholder of the Company. More importantly, the Board believes that Dr. Choi's extensive experience in healthcare products and wide business network in both Hong Kong and the PRC could assist the Group's business development in medical-related market in Hong Kong and the PRC.

To cater for the different needs of our diversified customers especially those who are craving for a better living in this modern city, the Group endeavours to further develop its lifestyle-related healthcare services and products. On top of the existing services such as skin care, audio health and weight control, the Group has just opened a hair transplant centre in Central introducing the most advanced hair transplanting technology from the US to Hong Kong.

Looking forward, it is expected the fees charged in the public hospitals and clinics will be increased and 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, which will be carried out in a number of ways, such as opening clinics at its own rights, 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. The Group is currently preparing for the set up of its one-stop comprehensive body checkup centre in Jordan, Kowloon. This flag-ship centre of a floor area of about 20,000 square feet will be equipped with advanced diagnostic medical equipment such as Positron Emission Tomography/Computerised Tomography (PET/CT) Scanner and Magnetic Resonance Imaging (MRI) System. The centre is expected to be put into operation in mid-2006. Given that people are more concern of their health, the Group has confidence that the centre will become a leader in the health checkup sector.

With the present cash position, the Group is currently having sufficient working capital to finance its development. In a foreseeable future, no new fund raising activity from the market is expected.

In order to strengthen the management of financial aspect of the Group, the Board plans to invite Ms. Crystal Choi Ka Yee, a daughter of Dr. Francis Choi Chee Ming, to act as the vice-chairman of the Group to be responsible for such aspect.

To conclude, due to favourable medical policy towards the private healthcare sector, the Group's new shareholder's support, and its proactive development plan, the future of the Group is believed to be promising.

## **FINANCIAL REVIEW**

The Group recorded a turnover of approximately HK\$111,982,000 for the six months ended 30th September 2005 (2004 – approximately HK\$82,694,000), representing an increase of approximately 35.4% as compared with the corresponding period in prior year.

Gross profit margin for the six months ended 30th September 2005 was 46.8%, which is consistent with the 47.4% recorded in the corresponding period in prior year. The Group recorded a profit from operations of approximately HK\$15,829,000, representing a significant improvement as compared with the approximately HK\$1,797,000 operating profit 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\$3,462,000 would be charged to the profit and loss account.

Profit attributable to shareholders for the six months ended 30th September 2005 was approximately HK\$12,204,000 (2004 – HK\$82,000). The Board resolved to declare an interim dividend of HK0.2 cents (2004 – Nil) per ordinary share for the six months ended 30th September 2005.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th September 2005, the Group held cash and bank balances of approximately HK\$124,857,000 (31st March 2005 – approximately HK\$34,166,000). Net current assets amounted to approximately HK\$164,208,000 (31st March 2005 – approximately HK\$44,000,000). Current ratio (defined as total current assets divided by total current liabilities) was 5.62 (31st March 2005 – 2.27).

As at 30th September 2005, the Group had outstanding bank borrowings of approximately HK\$8,801,000, which are secured by leasehold land and buildings of the Group with a total net book value of approximately HK\$17,630,000. The bank borrowings bore interest at prevailing market rates and repayable in accordance with the relevant loan agreements.

The Group was also granted overdraft and revolving loan facilities from a bank in Hong Kong for a total of HK\$20,000,000 which are secured by the pledge of bank deposits of HK\$10,000,000. The facilities were not utilized as at 30th September 2005.

## **CAPITAL STRUCTURE**

As at 30th September 2005, the Group had shareholders' equity of approximately HK\$248,738,000 (31st March 2005 – approximately HK\$123,414,000) and convertible bonds of approximately HK\$37,700,000 (31st March 2005 – Nil).

The bonds bear interest at the rate of 2.5% per annum payable half yearly in arrears. The maturity of the bonds will be the date immediately following twenty-four months after the date of issue of the bonds (i.e. 29th September 2005). Any unredeemed and unconverted bonds will be redeemed at 100% of the outstanding principal amount together with any accrued interest in cash. The bondholders shall have the right at any time after the date of issue of the bonds to convert any outstanding amount of the bonds at the unit of HK\$2,000,000 into the shares at the Company at the conversion price of HK0.105 per share. The Company shall have the option at its absolute discretion to redeem the bonds being converted at 105% of the principal amount of the bonds.

As at 30th September 2005, debt-to-equity ratio (defined as total liabilities divided by shareholders' equity) was 0.33 (31st March 2005 – 0.34).

Major currencies used for the Group's transactions were Hong Kong Dollars, Renminbi and US Dollars. As Hong Kong Dollars are pegged to the US Dollars and the fiscal policy of the Central Government of the People's Republic of China in relation to Renminbi is stable throughout the year, the Group considers that the potential foreign exchange exposure of the Group is limited.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS**

As at 30th September 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**

<b>Name</b>	<b>Nature of interests</b>	<b>Number of shares held</b>	<b>Percentage of shareholding</b>
Mr. Cho Kwai Chee	Corporate ( <i>Note</i> )	2,548,379,451	51.00%
Mr. Fung Yiu Tong, Bennet	Personal	2,689,090	0.05%

*Note:*

*These 2,548,379,451 shares are owned by Broad Idea International Limited. Mr. Cho Kwai Chee is deemed to be interested in the 2,548,379,451 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 September 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 September 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**

<b>Name of shareholder</b>	<b>Number of shares held</b>	<b>Percentage of shareholding</b>
Broad Idea International Limited ( <i>Note</i> )	2,548,379,451	51.00%
Dr. Francis Choi Chee Ming ( <i>Note</i> )	2,548,379,451	51.00%

*Note:*

*Broad Idea International Limited is interested in the 2,548,379,451 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 2,548,379,451 shares under Part XV of the SFO.*

Save as disclosed above, as at 30th September 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 six months ended 30th September 2005, had been reviewed by the audit committee of the Company.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

For the six months ended 30th September 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

### **SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the period. The Company has also made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard of dealing and its code of conduct regarding securities transactions by Directors.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the required code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules for the six months ended 30th September 2005, except for the following deviations:

### **Code Provision A.2.1**

This code stipulates that the role of Chairman and chief executive officer should be separate and should not be performed by the same individual.

During the six months ended 30th September 2005, Mr. Cho Kwai Chee ("Mr. Cho") is the Chairman and chief executive officer of the Company who is responsible for managing the Board and the Group's businesses. The Board considers that Mr. Cho's in-depth professional knowledge of and extensive network in the healthcare industry will definitely bring invaluable input to the Board. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the participation of experienced and high caliber members of the Board which meets regularly to discuss issues affecting operations of the Company. As at the date of this Report, half of the members of the Board are independent non-executive directors. Such composition further ensures objectivity and independence of the Board as a whole when exercising its functions and powers. Nevertheless, the Board will continually reviews the function of the Board and its relationship with the management, especially the necessity and the benefits of separating the roles of the chairman and chief executive officer.

### **Code Provision A.4**

This code stipulates that all directors should be subject to re-election at regular intervals.

The present Articles of Association of the Company do not provide for retirement by rotation of a director holding office as managing director or joint managing director. The Board will seek to amend the relevant Articles in due course in order to ensure full compliance with this code.

### **Code Provision A.4.2**

This code stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment.

The present Articles of Association of the Company only requires such directors who are appointed to fill a casual vacancy to be re-elected at the next annual general meeting. The Board will seek to amend the relevant Articles in due course in order to ensure full compliance with this code.

### **Code Provision B.1.1**

This code stipulates that listed issuers should establish a remuneration committee with specific written terms of reference.

The Company has not established a remuneration committee. The Board is actively searching for suitable candidates for the formation of the remuneration committee. The Board expects that such committee will be established with written terms of reference in the second half of the financial year ending 31st March 2006.

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

Hong Kong, 11th November 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.*