



**Town Health International Holdings Company Limited**

**康健國際控股有限公司**

(incorporated in the Cayman Islands with limited liability)

# 2005

## Quarterly Report

for the Nine Months ended 31st December 2005



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at [www.hkgem.com](http://www.hkgem.com) in order to obtain up-to-date information on GEM-listed issuers.**

*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.*

*This report will remain on the GEM website on the “Latest Company Announcements” page for at least 7 days from the day of its posting and on the website of Town Health International Holdings Company Limited.*

**FINANCIAL HIGHLIGHTS**

For the nine months ended 31st December 2005:

- The Group recorded a turnover of approximately HK\$170,764,000, representing an increase of 33.8% as compared with the corresponding period in 2004
- Profit from operations amounted to approximately HK\$25,449,000 (2004 – loss of approximately HK\$1,866,000)
- Profit attributable to shareholders amounted to approximately HK\$20,203,000 (2004 – loss of approximately HK\$6,422,000)
- The Board does not recommend the payment of any dividend for the three months ended 31st December 2005 (2004 – Nil)

**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 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 31st December		(Unaudited) For the nine months ended 31st December	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	b	<b>58,782</b>	44,930	<b>170,764</b>	127,624
Cost of sales		<b>(29,233)</b>	(25,790)	<b>(88,772)</b>	(69,258)
Gross profit		<b>29,549</b>	19,140	<b>81,992</b>	58,366
Other operating income	c	<b>2,884</b>	734	<b>7,641</b>	1,341
Administrative expenses		<b>(22,813)</b>	(23,537)	<b>(64,184)</b>	(61,573)
Profit (loss) from operations		<b>9,620</b>	(3,663)	<b>25,449</b>	(1,866)
Finance costs		<b>(362)</b>	(182)	<b>(497)</b>	(402)
Loss on disposal of associates		-	(183)	-	(183)
Share of results of associates		<b>223</b>	545	<b>1,094</b>	740
Amortization of goodwill arising on acquisition of associates		-	(2,148)	-	(6,575)
Gain on dilution of an associate		-	-	-	5,949
Profit (loss) before taxation		<b>9,481</b>	(5,631)	<b>26,046</b>	(2,337)
Taxation	d	<b>(421)</b>	(203)	<b>(1,701)</b>	(698)
Profit (loss) before minority interests		<b>9,060</b>	(5,834)	<b>24,345</b>	(3,035)
Minority interests		<b>(1,061)</b>	(670)	<b>(4,142)</b>	(3,387)
Profit (loss) attributable to shareholders		<b>7,999</b>	(6,504)	<b>20,203</b>	(6,422)
Earnings (loss) per share					
- basic	e	<b>0.16 cents</b>	(0.52) cents	<b>0.46 cents</b>	(0.51) cents
- diluted	e	<b>0.15 cents</b>	(0.50) cents	<b>0.45 cents</b>	(0.50) cents

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.

*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 31st December		For the nine months ended 31st December	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Provision of healthcare and dental services	<b>36,867</b>	28,999	<b>100,505</b>	81,742
Sale of healthcare and pharmaceutical products	<b>3,896</b>	3,949	<b>12,233</b>	12,172
Sale of cardiology and peripheral vascular related surgical equipment	<b>12,269</b>	11,982	<b>41,299</b>	33,710
Others	<b>5,750</b>	–	<b>16,727</b>	–
	<b><u>58,782</u></b>	<u>44,930</u>	<b><u>170,764</u></b>	<u>127,624</u>

**c. Other operating income**

	For the three months ended 31st December		For the nine months ended 31st December	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest income from bank deposits	<b>902</b>	18	<b>1,755</b>	36
Dividend income from listed securities	<b>15</b>	–	<b>2,549</b>	–
Gain (loss) on investments in securities	<b>1,377</b>	575	<b>(1,582)</b>	575
Sundry income	<b>590</b>	141	<b>4,919</b>	730
	<b><u>2,884</u></b>	<u>734</u>	<b><u>7,641</u></b>	<u>1,341</u>

**d. Taxation**

	<b>For the three months ended 31st December</b>		<b>For the nine months ended 31st December</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
The charge comprises:				
– Profits tax attributable to the Group	<b>378</b>	72	<b>1,362</b>	327
– Share of taxation attributable to associates	<b>(12)</b>	141	<b>142</b>	294
	<b>366</b>	213	<b>1,504</b>	621
Deferred tax				
– Current year	<b>55</b>	(10)	<b>197</b>	77
	<b>421</b>	203	<b>1,701</b>	698

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 31st December 2005 and 2004 and for the nine-month periods then added.

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

The calculation of basic earnings (loss) per share for the three months ended 31st December 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$7,999,000 (2004 – loss of approximately HK\$6,504,000) 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 basic earnings (loss) per share for the nine months ended 31st December 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$20,203,000 (2004 – loss of approximately HK\$6,422,000) and the weighted average number of 4,374,623,093 shares (2004 – 1,249,182,000 shares) in issue during the period.

The calculation of diluted earnings (loss) per share for the three months ended 31st December 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$8,251,000 (2004 – loss of approximately HK\$6,474,000) and 5,377,545,909 shares (2004 – 1,299,714,000 shares), being the weighted average number of shares outstanding during the periods, adjusted for the effects of all potential dilutive shares.

The calculation of diluted earnings (loss) per share for the nine months ended 31st December 2005 is based on the unaudited profit attributable to shareholders of approximately HK\$20,509,000 (2004 – loss of approximately HK\$6,392,000) and 4,575,011,534 shares (2004 – 1,266,087,000 shares), being the weighted average number of shares outstanding during the periods, adjusted for the effects of all potential dilutive shares.

**f. Movements in reserves**

The movements in reserves for the nine months ended 31st December 2004 are as follows:

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Distributable reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April 2004	12,492	135,194	10,033	72,670	(40,548)	189,841
Net profit for the six months ended 30th September 2004	-	-	-	-	82	82
At 30th September 2004	12,492	135,194	10,033	72,670	(40,466)	189,923
Net loss for the three months ended 31st December 2004	-	-	-	-	(6,504)	(6,504)
At 31st December 2004	<u>12,492</u>	<u>135,194</u>	<u>10,033</u>	<u>72,670</u>	<u>(46,970)</u>	<u>183,419</u>

The movements in reserves for the nine months ended 31st December 2005 are as follows:

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Distributable reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 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	-	(6,172)	-	-	-	(6,172)
Net profit for the six months ended 30th September 2005	-	-	-	-	12,204	12,204
At 30th September 2005	49,966	228,744	10,033	72,670	(112,675)	248,738
Interim dividends	-	-	-	(9,993)	-	(9,993)
Net profit for the three months ended 31st December 2005	-	-	-	-	7,999	7,999
At 31st December 2005	<u>49,966</u>	<u>228,744</u>	<u>10,033</u>	<u>62,677</u>	<u>(104,676)</u>	<u>246,744</u>

## **INTERIM DIVIDEND**

The Company paid an interim dividend of HK0.2 cents (2004 – Nil) per ordinary share for the six months ended 30th September 2005. The Board does not recommend the payment of any dividend for the three months ended 31st December 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.

The Group has substantially expanded its network of medical centres. During the nine-month period ended 31st December 2005, the Group has provided medical services in 18 new locations throughout Hong Kong. Such expansion was achieved through setting up of joint venture clinics with other practitioners, or entering into affiliation arrangement with other clinic operators. The Group will continue to seek opportunities to expand its network so as to tap on the increasing demand for quality private medical consultation services.

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. During the nine months under review, the Group has set up a hair transplant centre in Central which applies the most advanced hair transplanting technology from the US. The performance of the centre is encouraging.

On 9th December 2005, the Board announced that the Group entered into a conditional subscription agreement with Starbow Holdings Limited (“Starbow”) pursuant to which the Group will subscribe for the convertible notes of Starbow of an aggregate principal amount of HK\$60 million. Starbow intends to apply most of the proceeds from the said subscription to the establishment of a centre for carrying on the health check, advanced diagnostic imaging services, day care observation services and medical laboratory related business in Hong Kong. The centre will be designed to be a one-stop day-time health check centre equipped with the most advanced medical technology equipment. The Board considers that the subscription provides flexibility to the Group to exercise the conversion only at a time favourable to the Group. The Board also considers that the subscription could provide an opportunity for the Group to expand its business into the said checkup and diagnostic business through investment in Starbow should the Group exercise the conversion in the future.

The Board anticipates that the Government of Hong Kong will gradually adjust its policy on public healthcare so as to shift the healthcare demand from the public sector to the private sector. Looking forward, with favourable government policy, as well as the Group’s proactive development plan, the Board is confident with the future of the Group’s performance.

## Financial review

The Group recorded a turnover of approximately HK\$170,764,000 for the nine months ended 31st December 2005 (2004 – approximately HK\$127,624,000), representing an increase of approximately 33.8% as compared with the corresponding period in prior year.

Gross profit margin for the nine months ended 31st December 2005 was 48.0%, which is comparable to the 45.7% recorded in the corresponding period in prior year. The Group recorded a profit from operations of approximately HK\$25,449,000, representing a significant turnaround from the approximately HK\$1,866,000 operating loss 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.

Profit attributable to shareholders for the nine months ended 31st December 2005 was approximately HK\$20,203,000 (2004 – loss of approximately HK\$6,422,000).

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31st December 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> )	2,548,379,451	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 31st December 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 31st December 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>J.P.</i> ( <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 *J.P.* as to 49.9%, Dr. Francis Choi Chee Ming *J.P.* is deemed to be interested in the 2,548,379,451 shares under Part XV of the SFO.

Save as disclosed above, as at 31st December 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 *J.P.* 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 nine months ended 31st December 2005, had been reviewed by the audit committee of the Company.

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

For the nine months ended 31st December 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, 14th February 2006

*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; the non-executive director of the Company is Dr. Francis Choi Chee Ming J.P.; and the independent non-executive Directors of the Company are Mr. Chan Kam Chiu, Mr. Wai Kwok Hung J.P., and Mr. Ho Kwok Wah, George.*