



Town Health International Holdings Company Limited

康健國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code : 8138)

2006
Interim Report

For the Six Months Ended 30th September 2006

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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 30 September 2006:

- The Group recorded a turnover of approximately HK\$127,051,000, representing an increase of 13.5% as compared with the corresponding period in 2005.
- Profit attributable to equity holders of the Company amounted to approximately HK\$58,248,000, representing an increase of approximately 3.8 times as compared with the corresponding period in 2005.

As at 30 September 2006:

- The Group had a current ratio (defined as total current assets divided by total current liabilities) of 2.30 and a gearing ratio (defined as total long-term liabilities divided by total shareholders' equity) of 12%.
- The Group recorded a net asset value of HK\$325,391,000.

The Board does not recommend the payment of any dividend for the six months ended 30 September 2006 (2005 – HK0.2 cents 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 30 September 2006, together with the comparative unaudited figures for the corresponding period in 2005, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) For the three months ended 30 September		(Unaudited) For the six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	c	70,411	56,696	127,051	111,982
Cost of sales		(35,616)	(30,964)	(65,096)	(62,539)
Gross profit		34,795	25,732	61,955	49,443
Other income	e	3,774	1,662	12,643	4,757
Administrative expenses		(31,635)	(18,395)	(54,402)	(38,371)
Finance costs		(1,186)	(64)	(2,290)	(135)
Gain on disposal of investment		37,705	–	37,705	–
Gain on partial disposal of an associate		825	–	1,915	–
Share of results of associates		(723)	(19)	(1,279)	717
Profit before taxation		43,555	8,916	56,247	16,411
Taxation	f	(3,820)	(648)	(4,405)	(1,126)
Profit for the period		39,735	8,268	51,842	15,285
Attributable to:					
Equity holders of the Company		48,623	6,056	58,248	12,204
Minority interests		(8,888)	2,212	(6,406)	3,081
		39,735	8,268	51,842	15,285
Dividends – Interim		–	9,993	–	9,993
Earnings per share – basic	g	0.93 cents	0.12 cents	1.13 cents	0.30 cents
– diluted		0.91 cents	0.12 cents	1.10 cents	0.29 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	(Unaudited)	(Audited)
	30 September	31 March
	2006	2005
<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Non-current assets		
Investment properties	35,825	35,825
Property, plant and equipment	20,117	16,223
Prepaid lease payments	9,630	9,750
Goodwill	54,134	50,964
Interests in associates	14,278	21,206
Available-for-sale investments	3,723	3,658
Deposit paid on acquisition of property, plant and equipment	57,573	17,206
	195,280	154,832
Current assets		
Inventories	13,453	13,783
Trade and other receivables	64,151	49,560
Prepaid lease payments	243	243
Amounts due from associates	18,166	13,048
Amounts due from investees	1,275	683
Amounts due from related parties	2,524	4,495
Amounts due from minority shareholders of subsidiaries	9,847	9,362
Amounts due from a director	–	950
Tax recoverable	143	1,215
Investments held for trading	29,979	22,930
Pledged bank deposits	35,000	10,000
Bank balances and cash	125,783	116,406
	300,564	242,675

		(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2005 HK\$'000
	<i>Notes</i>		
Current liabilities			
Trade and other payables	<i>i</i>	38,803	38,909
Amount due to minority shareholders of subsidiaries		4,693	4,737
Bank and other borrowings – due within one year	<i>j</i>	82,511	37,488
Tax payable		4,654	2,056
		130,661	83,190
Net current assets		169,903	159,485
Total assets less current liabilities		365,183	314,317
Non-current liabilities			
Deferred tax liabilities		4,336	3,999
Bank and other borrowings – due after one year	<i>j</i>	24,233	25,121
Convertible bonds		11,223	36,692
		39,792	65,812
		325,391	248,505
Capital and reserves			
Share capital		52,224	49,966
Reserves		271,366	199,189
Equity attributable to equity holders of the Company		323,590	249,155
Minority interests		1,801	(650)
Total equity		325,391	248,505

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 30 September 2006 HK\$'000	(Unaudited) Six months ended 30 September 2005 <i>HK\$'000</i>
Net cash from operating activities	6,113	8,465
Net cash used in investing activities	(29,386)	(71,302)
Net cash from financing activities	31,934	153,528
Increase in cash and cash equivalents	8,661	90,691
Cash and cash equivalents at beginning of period	116,406	34,166
Cash and cash equivalents at end of period	125,067	124,857
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	125,783	124,857
Bank overdrafts	(716)	–
	125,067	124,857

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to equity holders of the Company										
	Share capital	Share premium	Convertible bonds equity reserve	Capital reserve	Capital redemption reserve	Distributable reserve	Translation reserve	Accumulated losses	Total	Minority interest	Total
At 1 April 2005	17,468	148,122	-	10,033	-	72,670	-	(124,879)	123,414	11,969	135,383
Profit for the period	-	-	-	-	-	-	-	12,204	12,204	3,081	15,285
Issue of new shares	32,498	86,794	-	-	-	-	-	-	119,292	-	119,292
Share issue expenses	-	(6,172)	-	-	-	-	-	-	(6,172)	-	(6,172)
Capital contributed by minority shareholders	-	-	-	-	-	-	-	-	-	175	175
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	(105)	(105)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(1,754)	(1,754)
At 30 September 2005	<u>49,966</u>	<u>228,744</u>	<u>-</u>	<u>10,033</u>	<u>-</u>	<u>72,670</u>	<u>-</u>	<u>(112,675)</u>	<u>248,738</u>	<u>13,366</u>	<u>262,104</u>

For the six months ended 30 September 2006 are as follows:

	Attributable to equity holders of the Company										
	Share capital	Share premium	Convertible bonds equity reserve	Capital reserve	Capital redemption reserve	Distributable reserve	Translation reserve	Accumulated losses	Total	Minority interest	Total
At 1 April 2006	49,966	228,847	2,260	10,033	-	62,677	220	(104,848)	249,155	(650)	248,505
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(31)	-	(31)	(24)	(55)
Profit for the period	-	-	-	-	-	-	-	58,248	58,248	(6,406)	51,842
Issue of shares upon conversion of convertible bonds	2,666	24,560	(1,582)	-	-	-	-	-	25,644	-	25,644
Share repurchase	(408)	(9,018)	-	-	408	(408)	-	-	(9,426)	-	(9,426)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	9,069	9,069
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(188)	(188)
At 30 September 2006	<u>52,224</u>	<u>244,389</u>	<u>678</u>	<u>10,033</u>	<u>408</u>	<u>62,269</u>	<u>189</u>	<u>(46,600)</u>	<u>323,590</u>	<u>1,801</u>	<u>325,391</u>

Notes:

a. General

The Company is incorporated as an exempted company with limited liability in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("GEM Board") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The consolidated financial statements have been prepared under the historical cost basis except for the investment properties and financial instruments, which are measured at fair value.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

b. Basis of preparation

Pursuant to a conditional subscription agreement on 9 December 2005 entered into between Town Health Medical Technology Holdings Company Limited (formerly known as Starbow Holdings Limited) ("THMT") and Top Act Group Limited ("Top Act"), a wholly-owned subsidiary of the Group, on 23 February 2006, Top Act subscribed for convertible bonds of an aggregate principal amount of HK\$60,000,000 issued by THMT.

The bonds are convertible into 1,463,414,634 shares at a conversion price of HK\$0.041. Upon conversion of the bonds, the Group will acquire 55.79% of ownership interest and as a consequence voting rights in THMT. As at the balance sheet date the Group had the ability to exercise control over the financial and operating policies of THMT as the bonds were currently convertible. Accordingly THMT has been consolidated as a subsidiary of the Group.

c. Turnover

	For the three months ended 30 September		For the six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Provision of healthcare and dental services	50,727	31,841	89,607	63,638
Sales of healthcare and pharmaceutical products	5,239	4,387	9,901	8,337
Sales of cardiology and peripheral vascular related surgical equipment	8,717	14,902	16,830	29,030
Others	5,728	5,566	10,713	10,977
	70,411	56,696	127,051	111,982

d. Segment information*(i) Business segments*

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

	Provision of healthcare and dental services	Sales of healthcare and pharmaceutical products	Sales of cardiology and peripheral vascular related surgical equipment	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	<u>63,638</u>	<u>8,337</u>	<u>29,030</u>	<u>10,977</u>	<u>111,982</u>
RESULTS					
Segment results	8,389	2,546	4,880	(711)	15,104
Unallocated corporate income					<u>725</u>
Profit from operations					15,829
Finance costs					(135)
Share of results of associates					<u>717</u>
Profit before taxation					16,411
Taxation					<u>(1,126)</u>
Profit before minority interests					15,285
Minority interests					<u>(3,081)</u>
Profit attributable to equity holders of the Company					<u><u>12,204</u></u>

The following table presents revenue, profit (loss) information for the Group's business segments for the six months ended 30 September 2006.

	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	89,607	9,901	16,830	10,713	127,051
RESULTS					
Segment results	17,519	4,529	(791)	(9,721)	11,536
Unallocated corporate income					8,660
Profit from operations					20,196
Finance costs					(2,290)
Gain on disposal of investment					37,705
Gain on partial disposal of an associate					1,915
Share of results of associates					(1,279)
Profit before taxation					56,247
Taxation					(4,405)
Profit before minority interests					51,842
Minority interests					6,406
Profit attributable to equity holders of the Company					58,248

(ii) *Geographical segments*

The following table presents revenue information for the Group's geographical segments for the six months ended 30 September 2006.

	Hong Kong		Mainland China		Total	
	For the six months ended 30 September					
	2006	2005	2006	2005	2006	2005
	HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER	112,734	88,829	14,317	23,153	127,051	111,982

e. Other income

	For the three months ended 30 September		For the six months ended 30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	681	779	1,435	853
Dividend income from listed investments	128	2,350	137	2,534
Gain (loss) on disposal of investment held for trading	3,490	(10)	2,839	(26)
Rental income	620	173	1,159	173
Fair value adjustment on investment held for trading, excluding dividend income	(1,884)	(2,933)	4,768	(2,933)
Sundry income	739	1,303	2,305	4,156
	3,774	1,662	12,643	4,757

f. Taxation

	For the three months ended 30 September		For the six months ended 30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Charge comprises:				
– Hong Kong Profits Tax attributable to the Group	3,580	605	4,068	984
Deferred tax				
– Current year	240	43	337	142
	3,820	648	4,405	1,126

Hong Kong profits tax is calculated at 17.5% (2006 – 17.5%) of the estimated assessable profits for the period.

For the three months ended 30 September 2006, taxation on share of associates' profits amounted to approximately HK\$63,000 (2005 – write-back of approximately HK\$11,000).

For the six months ended 30 September 2006, taxation on share of associates' profits amounted to approximately HK\$158,000 (2005 – approximately HK\$154,000).

g. Earnings per share

The calculation of the basic earnings per share for the three months ended 30 September 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$48,623,000 (2005 – approximately HK\$6,056,000) and the weighted average number of 5,250,484,781 shares (2005 – 4,996,593,528 shares) in issue during the period.

The calculation of the basic earnings per share for the six months ended 30 September 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$58,248,000 (2005 – approximately HK\$12,204,000) and the weighted average number of 5,157,748,329 shares (2005 – 4,061,938,503 shares) in issue during the period.

The calculation of diluted earnings per share for the three months ended 30 September 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$48,884,000 (2005 – approximately HK\$6,061,000) and 5,364,770,495 shares (2005 – 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 30 September 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$59,208,000 (2005 – approximately HK\$12,258,000) and 5,371,123,297 shares (2005 – 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.

h. Trade and other receivables

	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000
Trade receivables	21,485	21,182
Prepayments, deposits and other receivables	42,666	28,378
	<u>64,151</u>	<u>49,560</u>

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

	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000
0-60 days	9,034	11,249
61-120 days	4,446	3,964
121-180 days	2,929	2,999
181-240 days	4,448	3,547
241-360 days	3,204	888
Over 360 days	1,126	831
	25,187	23,478
Less: Provision for doubtful debts	(3,702)	(2,296)
	21,485	21,182

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

i. Trade and other payables

	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000
Trade payables	19,123	18,128
Other payables	6,388	5,507
Accruals	13,292	15,274
	38,803	38,909

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

	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000
0-60 days	7,590	6,607
61-120 days	3,502	10,476
121-240 days	981	-
Over 240 days	7,050	1,045
	19,123	18,128

j. Bank and other borrowings

	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000
Bank overdraft	716	793
Other loan	240	240
Bank loans	105,788	61,575
	106,744	62,608
Analyzed as:		
Secured	71,751	26,823
Unsecured	34,993	35,786
	106,744	62,609
Carrying amount repayable:		
Within one year	82,511	37,488
In the second year	1,855	1,801
In the third year	1,966	1,910
In the fourth year	2,084	2,024
Over five years	18,328	19,386
	106,744	62,609
Less: Amount due within one year included under current liabilities	(82,511)	(37,488)
Amount due after one year	24,233	25,121

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005 – HK0.2 cents per ordinary share).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Following the Group's active development of its core medical business, the turnover of this quarter thus maintained a stable growth with 13.5% increase as compared to the corresponding period of last year. Currently, the Group has added a number of additional medical centres and specialist clinics, with the network keeping up to 700,000 registered records of patients.

The dental centre located at Jordan, Kowloon with 5,000 feet was opened in September this year as planned. The dental centre is dedicated to provide all kinds of services in relation to dental healthcare and treatment. It was initially well received by the clients since its opening. The Group will continue to seek for appropriate locations to set up more specialist clinical centres in the future.

Apart from the core medical business, Town Health also actively developed the medical and healthcare service with respect to prevailing leisure lifestyle, and in September this year, Town Health has entered into an co-operation agreement with B.A.L. Holdings Limited to set up "B.A.L. Medical Center", in which Town Health holds 40% equity interests, in Hong Kong and Macau respectively for the operation of the one-stop innovative beauty medical centre that provides various non-operation cosmetic surgeries. All of the treatments and equipments are under the management of specialized doctors practicing western medicine.

Furthermore, both parties jointly exploring the non-surgery breast enhancement market for "Brava Breast Enhancement and Shaping System" in both Hong Kong and Macau. The Group is the Hong Kong agent for "Brava Breast Enhancement and Shaping System", besides passing the agent right to the joint venture, we will also provide medical technology, while B.A.L. will be responsible for the marketing work. The joint venture will put more effort in developing the face beautifying and body shape re-engineering business, and may expand the business into other cities in China in the future.

The Group has been searching for ideal acquisition and investment projects. In June 2006, the Group use HK\$24 million to acquire partial shareholding in a company which principally engaged in the manufacturing and marketing of medical equipment in China. As that company had successfully listed on the New York Stock Exchange in the form of American Depositary Receipt, the Group has sold the shareholding in September for a total consideration of HK\$63.01 million, and the whole investment had brought a satisfactory return of about HK\$39.01 million (before deducting transaction costs). The outstanding performance of the above investment had evidenced the success of the Board's business development strategy. In the future, the Group will keep searching for suitable investment opportunities, so as to bring greater return for our shareholders.

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$127,051,000 for the six months ended 30 September 2006 (2005 – approximately HK\$111,982,000), representing an increase of approximately 13.5% as compared with the corresponding period in prior year.

Gross profit margin for the six months ended 30 September 2006 was 48.8%, which represents an significant improvement over the gross margin of 44.2% as recorded in the corresponding period in prior year.

During the period under review, the Group disposed of all its shareholdings in two wholly-owned subsidiaries – Happy Care Investments Limited and Good Dragon Investments Limited. Both companies are engaged principally in investment holdings of shares in Mindray Medical International Limited, a company listed on the New York Exchange, USA. The Group recorded a gain on disposal of approximately HK\$37 million which has already been reflected in the financial statements of the Group for the period ended 30 September 2006. Details of the disposal are contained in the Company's announcement and circular to shareholders dated 3 October 2006 and 25 October 2006 respectively.

Profit attributable to equity holders of the Company for the six months ended 30 September 2006 was approximately HK\$58,248,000 (2005 – approximately HK\$12,204,000). In order to reserving funds for possible acquisition or expansion of the Group's business in the future, the Board does not recommend the payment of any dividend for the six months ended 30 September 2006.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2006, the Group held cash and bank balances of approximately HK\$160,783,000 (31 March 2006 – approximately HK\$126,406,000). Net current assets amounted to approximately HK\$169,903,000 (31 March 2006 – approximately HK\$159,485,000). Current ratio (defined as total current assets divided by total current liabilities) was 2.30 (31 March 2006 – 2.92).

As at 30 September 2006, the Group had outstanding bank and other borrowings of approximately HK\$106,744,000 (31 March 2006 – approximately HK\$62,609,000). The bank borrowings bore interest at prevailing market rates and repayable in accordance with the relevant loan agreements.

CAPITAL STRUCTURE

As at 30 September 2006, the Group had shareholders' equity of approximately HK\$325,391,000 (31 March 2006 – approximately HK\$248,505,000).

On 29 September 2005, the Group issued convertible bonds of an aggregate principal amount of HK\$40,000,000. 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. 29 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.

On 8 June 2006, bonds of aggregate principal amount of HK\$28,000,000 were converted into 266,666,666 shares of the Company at the conversion price of HK\$0.105 per share.

As at 30 September 2006, gearing ratio (defined as total long-term liabilities divided by total shareholders' equity) was 12% (31 March 2006 – 26%).

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 30 September 2006, the interests of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code"), were as follows:

THE COMPANY

Long position in ordinary shares of HK\$0.01 each

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Dr. Cho Kwai Chee	Held by controlled corporation <i>(note)</i>	2,615,027,451	50.07%
Dr. Francis Choi Chee Ming <i>JP</i>	Held by controlled corporation <i>(note)</i>	2,615,027,451	50.07%
Dr. Fung Yiu Tong, Bennet	Beneficial owner	2,689,090	0.05%

Note:

*These 2,615,027,451 shares are owned by Broad Idea International Limited. Dr. Cho Kwai Chee and Dr. Francis Choi Chee Ming *JP* are deemed to be interested in the 2,615,027,451 shares owned by Broad Idea International Limited under Part XV of the SFO given that they are beneficially interested in 50.1% and 49.9% of the issued share capital of Broad Idea International Limited respectively.*

Other than as disclosed above, none of the Directors, the chief executive of the Company, nor their associates had any interests or short positions in the shares, underlying shares or convertible bonds of the Company or any of its associated corporations as at 30 September 2006 as recorded in the register required to be kept by the Company under Section 352 of the SFO.

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 20 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 24 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 1 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

As at 30 September 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and the chief executive of the Company, the following shareholders had notified the Company of relevant interests or short position in the shares or underlying shares of the Company:

Long position in the ordinary shares of HK\$0.01 each

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Broad Idea International Limited	Beneficial Owner <i>(note)</i>	2,615,027,451	50.07%
Prudential Plc	Beneficial Owner	306,742,000	5.87%

Note:

Broad Idea International Limited is interested in the 2,615,027,451 shares under Part XV of the SFO. Broad Idea International Limited is beneficially owned by Dr. Cho Kwai Chee as to 50.1% and Dr. Francis Choi Chee Ming JP as to 49.9%.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30 September 2006.

COMPETING INTERESTS

None of the Directors, the management shareholders or the controlling 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 *JP* and Mr. Ho Kwok Wah, George. Mr. Chan Kam Chiu is the chairman of the audit committee.

The audit committee has reviewed this report, together with the Group's unaudited results for the six months ended 30 September 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2006, the Company repurchased its own shares on GEM as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
August 2006	19,554,000	0.228	0.224	4,425,938
September 2006	21,262,000	0.230	0.229	4,879,298
	<u>40,816,000</u>			<u>9,305,236</u>

The above shares were cancelled upon repurchases and accordingly the issued share capital of the Company was reduced by the par value of these shares which amounted to HK\$408,160. Apart from the repurchases of the shares as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 September 2006.

CORPORATE GOVERNANCE

The Company endeavors in maintaining high standard of corporate governance for the enhancement of shareholders' value. 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 30 September 2006, 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 30 September 2006, Dr. Cho Kwai Chee ("Dr. Cho") was the Chairman and chief executive officer of the Company who was responsible for managing the Board and the Group's businesses. The Board considered that Dr. Cho's in-depth professional knowledge of and extensive network in the healthcare industry would bring invaluable input to the Board. The Board also considered a balance of power and authority could be ensured by the participation of experienced and high caliber members of the Board which meets regularly to discuss issues affecting operations of the Company.

Though no abuse in power and authority was ever experienced, the Broad re-visited the respective function of the Broad and the management. In a view to more effectively utilize the valuable time and effort of the senior executives of the Group, the Broad resolved that, with effect from 26 October 2006, Dr. Cho resigned as chairman of the Board but remains as an executive director and the chief executive officer of the Company. Miss Choi Ka Yee, Crystal, an executive director of the Company, was appointed as chairman of the Company.

CODE PROVISION A.4

This code stipulates that all directors should be subject to re-election at regular intervals. The then 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. A resolution was put forward to the shareholders at the Company's last annual general meeting held on 28 July 2006 for amending the Articles to comply with the Code on Corporate Governance practices. The resolution was duly passed.

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 then 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. A resolution was put forward to the shareholders at the Company's last annual general meeting held on 28 July 2006 for amending the Articles to comply with the Code on Corporate Governance practices. The resolution was duly passed.

CODE PROVISION A.4.4

This code stipulates that listed issuers should establish a nomination committee with specific written terms of reference. The nomination committee should, among others, (i) reviews the structure, size and composition of the board and make recommendations to the board regarding any proposed changes; (ii) identify individuals suitably qualified to become board members; (iii) assess the independence of independent non-executive directors; and (iv) make recommendations to the board on matters relating to the appointment or re-appointment of directors and succession planning for directors.

The Company has not established a nomination committee. Instead, the full Board is involved in the appointment of new Directors. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new Director appointment. The Board will conduct in-depth assessment on the independence of candidates for post of independent Directors.

DIRECTORS' SECURITIES TRANSACTIONS

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.

By order of the Board

Town Health International Holdings Company Limited

Choi Ka Yee, Crystal

Chairman

Hong Kong, 13 November 2006

As at the date of this report, the executive directors of the Company are Miss Choi Ka Yee, Crystal, Dr. Cho Kwai Chee, Mr. Cho Kwai Yee, Kevin and Dr. Fung Yiu Tong, Bennet, the non-executive director of the Company is Dr. Francis Choi Chee Ming JP, and the independent non-executive directors of the Company are Mr. Chan Kam Chiu, Mr. Wai Kwok Hung JP and Mr. Ho Kwok Wah, George.