



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)



2007

First Quarterly Report

For the three months ended 30 June 2007

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.

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liabilities whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Town Health International Holdings Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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FINANCIAL HIGHLIGHTS

For the three months ended 30 June 2007

- The Group recorded a turnover of approximately HK\$100,221,000, representing an increase of 77% as compared with the corresponding period in 2006.
- Profit attributable to equity holders of the Company amounted to approximately HK\$42,090,000, (2006: approximately HK\$9,625,000).
- EBITDA, defined as profit before interest, taxation, depreciation and amortization, amounted to approximately HK\$52,368,000, representing an increase of 238% as compared with the corresponding period in 2006 (2006: approximately HK\$15,479,000).
- The Board does not recommend the payment of any dividend for the three months ended 30 June 2007 (2006: Nil).



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RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 30 June 2007, together with the comparative unaudited figures for the corresponding period in 2006, as follows:

		For the three months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
	Notes		
Turnover	c	100,221	56,640
Cost of sales		(50,719)	(29,480)
Gross profit		49,502	27,160
Other income	d	1,603	2,172
Administrative expenses		(20,804)	(22,767)
Finance costs		(711)	(1,104)
Gain on disposal of an associate		6,690	1,090
Share of results of associates		(760)	(556)
Increase in fair value of investments held for trading		14,454	6,697
Profit before taxation		49,974	12,692
Taxation	e	(6,162)	(585)
Profit for the year		43,812	12,107
Attributable to:			
Equity holders of the Company		42,090	9,625
Minority interests		1,722	2,482
		43,812	12,107
Earnings per share	f		
– Basic		0.82 cents	0.19 cents
– Diluted		N/A	N/A

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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 Group's unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the 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 dated 9 December 2005 entered into between Hong Kong Health Check and Laboratory Holdings Company Limited ("Hong Kong Health Check") and Top Act Group Limited ("Top Act"), a wholly-owned subsidiary of the Company, on 23 February 2006, Top Act subscribed convertible bonds (the "Convertible Bonds I") of an aggregate principal amount of HK\$60,000,000 issued by Hong Kong Health Check.

Upon subscription in February 2006, Convertible Bonds I were immediately convertible into 1,463,414,634 shares of Hong Kong Health Check at a conversion price of HK\$0.041. Upon conversion of the Convertible Bonds I, the Group would be given 55.79% of ownership interest and as a consequence voting rights in Hong Kong Health Check. As at 30 June 2006, Hong Kong Health Check was consolidated as a subsidiary of the Group because the Group had the ability to exercise control over the financial and operating policies of Hong Kong Health Check as the Convertible Bonds I were currently convertible.



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On 3 October 2006, Hong Kong Health Check further issued convertible bonds (the "Convertible Bonds II") of an aggregate principal amount of HK\$40,000,000 at a conversion price of HK\$0.041 to third parties which were also immediately convertible. Upon conversion of both Convertible Bonds I by the Group and Convertible Bonds II by those third parties, the Group's ownership interest in Hong Kong Health Check will be diluted to 35.75%. Following the issue of the Convertible Bonds II, the Group did not have the ability to exercise control over the financial and operating policies of Hong Kong Health Check. Accordingly, the results and assets and liabilities of Hong Kong Health Check have to be incorporated in the consolidated financial statements using equity method of accounting.

From 3 October 2006 to 30 June 2007, the Group has no present equity interest in Hong Kong Health Check, no results and changes in shareholders' equity of Hong Kong Health Check were shared by the Group.

c. Turnover

	For the three months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Provision of healthcare and dental services	68,799	38,880
Sales of healthcare and pharmaceutical products	11,932	4,662
Sales of cardiology and peripheral vascular related surgical equipment	10,662	8,113
Others	8,828	4,985
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	100,221	56,640
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d. Other income

	For the three months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest income from bank deposits	628	754
Dividend income from listed investments	-	9
Loss on disposal of investments held for trading	-	(651)
Rental income	274	539
Fair value adjustment on investment held for trading, excluding dividend income	-	(45)
Sundry income	701	1,566
	1,603	2,172

e. Taxation

	For the three months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
The charge comprises:		
- Hong Kong Profits Tax attributable to the Group	6,162	488
Deferred tax		
- Current year	-	97
	6,162	585

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 June 2007, taxation on share of associates' profits amounted to approximately HK\$183,000 (2006: approximately HK\$95,000).



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f. Earnings per share

The calculation of the basic earnings per share for the three months ended 30 June 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$42,090,000 (2006: approximately HK\$9,625,000) and the weighted average number of 5,158,300,589 shares (2006: 5,063,992,795 shares) in issue during the period.

The diluted earnings per share for the three months ended 30 June 2007 is not presented as the exercise of the conversion right attached to the outstanding convertible bonds would result in an increase in profit per share.

g. Movements in reserves

The movements in reserves for the three months ended 30 June 2006 are as follows:

	Share capital	Share premium	Convertible bonds equity reserve	Capital reserve	Distributable reserve	Translation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	49,966	228,847	2,260	10,033	62,677	220	(104,848)	249,155
Issue of shares upon conversion of convertible bonds	2,667	24,560	(1,582)	-	-	-	-	25,645
Exchange difference arising on translation of foreign operations recognized directly in equity	-	-	-	-	-	(26)	-	(26)
Profit attributable to equity holders of the Company for the period	-	-	-	-	-	-	9,625	9,625
At 30 June 2006	<u>52,633</u>	<u>253,407</u>	<u>678</u>	<u>10,033</u>	<u>62,677</u>	<u>194</u>	<u>(95,223)</u>	<u>284,399</u>

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The movements in reserves for the three months ended 30 June 2007 are as follows:

	Share capital	Share premium	Capital reserve	Distributable reserve	Investment revaluation reserve	Translation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	50,720	200,105	10,033	62,677	2,544	507	110,002	436,588
Issue of new shares under the share placing agreement	5,150	285,452	-	-	-	-	-	290,602
Profit attributable to equity holders of the Company for the period	-	-	-	-	-	-	42,090	42,090
At 30 June 2007	<u>55,870</u>	<u>485,557</u>	<u>10,033</u>	<u>62,677</u>	<u>2,544</u>	<u>507</u>	<u>152,092</u>	<u>769,280</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2007 (2006: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

The group provides a wide spectrum of one-stop healthcare services as well as other healthcare services and products. After completion of recently announced acquisition in Hong Kong, the Group will manage and operate more than 100 clinics, providing full range of medical services including outpatient services, dental services, specialist clinical services and paramedical services. In China, the Group offers services ranging from dental and medical hospital to the distribution of cardiac related surgical equipment. In a worldwide base, the Group is also committed to managing and operating cosmetic dermatology clinic chains, and men's healthcare clinics. The Group is one of the largest medical services groups and the first listed medical healthcare company by itself through Initial Public Offering in Hong Kong in 2000. The Group has been added to Morgan Stanley Capital International (MSCI) Hong Kong Small Cap Index Series.



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During the quarter under review, the Group recorded stable growth in its core segments of business, representing a 77% increase in turnover as compared with the prior year. The increase was mainly due to the Group's persistent effort in solidifying its core business, the continuing recovery of the Hong Kong economy as well as the growing demand of citizens who are craving for better health.

The Group raised funds with a gross proceeds of approximately HK\$300,734,000 during the period under review through placing of shares. With the strong current financial position, the Group will continue identifying other business opportunities that may create synergies with its core business and further reinforce its market position in healthcare services.

Financial review

The Group recorded a turnover of approximately HK\$100,221,000 for the three months ended 30 June 2007 (2006: approximately HK\$56,640,000), representing an increase of approximately 77% as compared with the corresponding period in prior year.

The Group managed to record a significant 82% increase in gross profit (from approximately HK\$27,160,000 in 2006 to approximately HK\$49,502,000 in 2007), which is mainly attributable to the stringent control exercised by the management over the direct costs of the Group during the period under review.

Profit attributable to equity holders of the Company for the three months ended 30 June 2007 was approximately HK\$42,090,000, representing an increase of 337% as compared with the approximately HK\$9,625,000 recorded in the corresponding period in prior year.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2007, 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
Mr. Cho Kwai Chee	Held by controlled corporation <i>(note)</i>	2,615,027,451	46.81%
Dr. Francis Choi Chee Ming JP	Held by controlled corporation <i>(note)</i>	2,615,027,451	46.81%
Mr. 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. Mr. 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.



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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 June 2007 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.

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SUBSTANTIAL SHAREHOLDER

As at 30 June 2007, 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	46.81%
Atlantis Investment Management Limited	Beneficial Owner	260,000,000	5.00%

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 Mr. 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 June 2007.

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.



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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 three months ended 30 June 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the three months ended 30 June 2007, 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

Choi Ka Yee, Crystal

Chairman

Hong Kong, 7 August 2007

As at the date of this report, the executive directors of the Company are Mr. Cho Kwai Chee, Miss. Choi Ka Yee, Crystal, Mr. Cho Kwai Yee, Kevin and Mr. 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.