



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



First Quarterly Report 2008

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.*



FINANCIAL HIGHLIGHTS

For the three months ended 30 June 2008

- The Group recorded a turnover of approximately HK\$119,170,000, representing an increase of 33.1% as compared with the corresponding period in 2007.
- Profit attributable to equity holders of the Company amounted to approximately HK\$34,060,000 (2007: approximately HK\$42,090,000). The decrease is mainly due to that there was a gain on fair value changes on held-for-trading investments of approximately HK\$14,454,000 as recorded in 2007 but not in 2008.
- Operating profit before tax excluding other extraordinary and non-core items amounted to approximately HK\$41,616,000, representing an increase of 43.8% as compared with the corresponding period in 2007 (2007: approximately HK\$28,935,000) (Other extraordinary and non-core items include other income, gain on disposal of an associate, loss on disposal of subsidiaries and share of results of associates).
- The Board does not recommend the payment of any dividend for the three months ended 30 June 2008 (2007: Nil).



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 2008, together with the comparative unaudited figures for the corresponding period in 2007, as follows:

	Notes	For the three months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Continuing operations			
Revenue	c	119,170	89,559
Cost of sales		(54,036)	(42,565)
Gross profit		65,134	46,994
Other income	d	2,451	15,992
Administrative expenses		(22,943)	(17,348)
Finance costs		(575)	(711)
Gain on disposal of an associate		-	6,690
Loss on disposal of subsidiaries		(531)	-
Share of results of associates		(1,699)	(760)
Profit before tax		41,837	50,857
Income tax expense	e	(4,501)	(6,162)
Profit for the period from continuing operations		37,336	44,695
Discontinued operation			
Loss for the period from discontinued operation		-	(883)
Profit for the period		37,336	43,812
Attributable to:			
Equity holders of the Company		34,060	42,090
Minority interests		3,276	1,722
		37,336	43,812
Earnings per share			
From continuing and discontinued operations			
- Basic	f	0.20 cents	0.27 cents
- Diluted		0.20 cents	0.27 cents
From continuing operations			
- Basic		0.20 cents	0.28 cents
- Diluted		0.20 cents	0.28 cents



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

The accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the Group's audited financial statements for the year ended 31 March 2008.

c. Revenue

Revenue represents the aggregate of the net amounts received and receivable from third parties for the year. An analysis of the group's revenue for the period, for both continuing and discontinued operations, is as follows:

	For the three months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Continuing operations:		
Provision of healthcare and dental services	95,061	68,799
Sales of healthcare and pharmaceutical products	19,985	11,932
Others	4,124	8,828
	119,170	89,559
Discontinued operation:		
Sales of cardiology and peripheral vascular related surgical equipment	-	10,662



d. Other income

	For the three months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Continuing operations:		
Interest income	633	608
Gain on fair value changes on held-for-trading investments	–	14,454
Rental income	1,072	274
Sundry income	746	656
	2,451	15,992
Discontinued operation:		
Sundry income	–	65

e. Income tax expense

	For the three months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Continuing operations:		
Hong Kong Profits Tax attributable to the Group	4,501	6,162
Discontinued operation:		
Hong Kong Profits Tax attributable to the Group	–	–

Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) of the estimated assessable profit for the period.

**f. Earnings per share***From continuing and discontinued operations*

The calculation of the basic earnings per share for the three months ended 30 June 2008 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$34,060,000 (2007 – approximately HK\$42,090,000) and the weighted average number of 17,138,022,317 shares (2007 – 15,474,901,767 shares) in issue during the period. For the purpose of providing comparable figures after bonus issue of shares in August 2007, the weighted average number of shares for the three months ended 30 June 2007 was increased from 5,158,300,589 to 15,474,901,767.

The calculation of diluted earnings per share for the three months ended 30 June 2008 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$34,060,000 (2007 – approximately HK\$42,090,000) and 17,275,515,724 shares (2007 – 15,474,901,767 shares), being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares. For the purpose of providing comparable figures after bonus issue of shares in August 2007, the weighted average number of shares for the three months ended 30 June 2007 was increased from 5,158,300,589 to 15,474,901,767.

From continuing operations

The calculation of the basic earnings per share for the three months ended 30 June 2008 is based on the unaudited profit attributable to equity holders of the Company from continuing operations of approximately HK\$34,060,000 (2007 – approximately HK\$42,973,000) and the weighted average number of 17,138,022,317 shares (2007 – 15,474,901,767 shares) in issue during the period. For the purpose of providing comparable figures after bonus issue of shares in August 2007, the weighted average number of shares for the three months ended 30 June 2007 was increased from 5,158,300,589 to 15,474,901,767.

The calculation of diluted earnings per share for the three months ended 30 June 2008 is based on the unaudited profit attributable to equity holders of the Company from continuing operations of approximately HK\$34,060,000 (2007 – approximately HK\$42,973,000) and 17,275,515,724 shares (2007 – 15,474,901,767 shares), being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares. For the purpose of providing comparable figures after bonus issue of shares in August 2007, the weighted average number of shares for the three months ended 30 June 2007 was increased from 5,158,300,589 to 15,474,901,767.



g. Movements in reserves

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

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Distributable reserve HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total 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 for the period	-	-	-	-	-	-	42,090	42,090
At 30 June 2007	55,870	485,557	10,033	62,677	2,544	507	152,092	769,280

The movements in reserves for the three months ended 30 June 2008 are as follows:

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Distributable reserve HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2008	169,679	398,068	10,033	62,677	54,667	12	5,291	363,716	1,064,143
Exercise of share options	2,876	33,994	-	-	-	-	(4,947)	-	31,923
Disposal of a subsidiary	-	-	-	-	-	177	-	-	177
Profit for the period	-	-	-	-	-	-	-	34,060	34,060
At 30 June 2008	172,555	432,062	10,033	62,677	54,667	189	344	397,776	1,130,303

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2008 (2007: nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Town Health International Holdings Company Limited (“Town Health” or the “Group”) is the largest medical services provider group in Hong Kong. The Group aims to offer comprehensive and quality medical and healthcare services in Hong Kong and Mainland China.

Business review

Solid Organic Growth Driven by Hong Kong Chain Clinics Network

Town Health’s chain clinics network is the largest in Hong Kong, with almost 100 clinics in the “Town Health Chain Clinics” network, offering first-class general outpatient, dental and specialty healthcare services. The core business of provision of healthcare and dental services registered strong revenue growth. A buoyant economic environment helped drive up patient volume as well as spending per patient. Also, the Group has built up a strong branding effect which successfully boosted up public recognition and patients’ confidence.

The Group provides a wide spectrum of one-stop healthcare services as well as other healthcare services and products. It remains firmly focused on its core chain clinics business. With its scale advantage, the group could leverage its huge client base and cross-sell various specialty medical services as well as other life-style improvement services to its clients, so as to enhance its revenue growth and improve the operation efficiency. With the strong revenue growth and the economy of scale established, the Group managed to secure a steadily increasing gross profit margin.

Furthermore, the government’s new policy initiatives on healthcare reform create a favourable environment for the private healthcare industry, and thus the group’s business. Subsidies provided for citizens will help reduce the pricing differential between public and private healthcare sectors, and further shifting of patients towards the private healthcare services providers is expected.

Boost from Chain Poly-Clinics Operation in Mainland China

Significant progress has been made in rolling out the chain poly-clinics project in China. In April 2008, the Group entered into an exclusive framework agreement with Ping An Insurance Group (“Ping An”) to develop and manage chain poly-clinics in Guangdong province. The chain poly-clinics will deliver high quality and first-class medical services on the mainland, targeting the middle class of the Pearl River Delta region initially and then the whole country in the long term.



According to the agreement, the Group shall also provide consultancy and management services to all the chain poly-clinics operated with Ping An for a term of 5 years, including clinic operation and management, medical equipment maintenance, recruitment, staff training, clinics information technology system and drugs and medicine supply system.

The Group has already deployed a professional team to develop its chain poly-clinics project in China. Town Health is the pioneer in the mainland chain poly-clinics market and enjoys a strong partnership with the reputable brand, Ping An Insurance Group. The Group will leverage and replicate its successful chain clinics business model of Hong Kong in Mainland China.

Outlook

Looking forward, the Group's growth momentum remains strong as it benefits greatly from the economy of scale and a very favourable macro environment for Hong Kong's private healthcare market. The strategic partnership with Ping An will deliver benefits to both groups and create the platform for pioneering the chain poly-clinics business in the private healthcare market of China. In addition, the Chinese Government has reiterated its support for private healthcare operators in recent years, so as to promote the development of the mainland private healthcare industry and improve the efficiency of the overall healthcare sector. The Group aims to expand the chain poly-clinics network and provide high quality yet affordable and price competitive healthcare services to the China market.

The Group was granted approval in principle for the transfer of listing from GEM to the Main Board of the Stock Exchange on 1 August 2008. Dealings in the share on the Main Board under the stock code 3886 will formally commence on 12 August 2008. The management believes that the listing of the shares on the Main Board will enhance the profile of the Group, increase the trading liquidity of the shares, broaden the shareholders' base and attract more institutional and retail investors, as well as to strengthen the financial flexibility in the capital market.

Financial review

The Group recorded a turnover from continuing operations of approximately HK\$119,170,000 for the three months ended 30 June 2008 (2007: approximately HK\$89,559,000), representing an increase of approximately 33.1% as compared with the corresponding period in prior year.



The Group managed to record a significant increase in gross profit (from approximately HK\$46,994,000 in 2007 to approximately HK\$65,134,000 in 2008), which is mainly attributable to the economy of scale established and improving operation efficiency during the period under review.

Profit attributable to equity holders of the Company for the three months ended 30 June 2008 was approximately HK\$34,060,000 (2007: approximately HK\$42,090,000).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2008, the interests of the directors and the chief executive and their associates in the shares, underlying shares 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 of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Dr. Cho Kwai Chee	Held by controlled corporation (note)	7,908,122,353	45.83%
Dr. Choi Chee Ming JP	Held by controlled corporation (note)	7,908,122,353	45.83%
Dr. Fung Yiu Tong, Bennet	Beneficial owner	8,067,270	0.05%

Note: These 7,908,122,353 shares are owned by Broad Idea International Limited. Dr. Cho Kwai Chee and Dr. Choi Chee Ming JP are deemed to be interested in the 7,908,122,353 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 of the Company or any of its associated corporations as at 30 June 2008 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's share option scheme was adopted on 24 April 2002 for the primary purpose of providing incentives to directors and eligible employees.

Pursuant to a resolution passed at an extraordinary general meeting, the Company adopted the share option scheme, which will expire on 23 April 2011, the Company may grant options to the eligible persons of the Company or its subsidiaries to subscribe for share in the Company at a consideration of HK\$1 for each lot of share options granted.

The following shows the outstanding positions of the eligible persons as at 30 June 2008 with respect to their share options granted under the scheme:

Name of participant	Date of grant	Exercise price <i>HK\$</i>	Number of share options				
			Balance as at 1.4.2008	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Balance as at 30.6.2008
Eligible persons	9 October 2007	0.111	307,600,000	-	287,600,000	-	20,000,000



SUBSTANTIAL SHAREHOLDER

As at 30 June 2008, 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 executives, 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	7,908,122,353	45.83%
Ping An Insurance (Group) Company of China Limited	Held by controlled corporation (note)	3,393,583,143	19.72%
China Ping An Insurance Overseas (Holdings) Limited	Held by controlled corporation (note)	3,393,583,143	19.72%
Rising Step Investments Limited	Beneficial owner (note)	3,393,583,143	19.72%

Note: A call option is granted to Rising Step Investments Limited in which Rising Step Investments Limited have the right to subscribe for up to 3,393,583,143 shares. Ping An Insurance (Group) Company of China Limited is deemed to be interested in the Company through its wholly owned subsidiaries, China Ping An Insurance Overseas (Holdings) Limited and Rising Step Investments Limited.

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 2008.

COMPETING INTERESTS

None of the directors, the management shareholders or the controlling shareholders of the Company (as defined in the GEM Listing Rules) has an 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 Rules 5.28 to 5.33 of 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 2008.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the three months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

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 three months ended 30 June 2008.

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, 11 August 2008

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