



**Town Health International Holdings Company Limited**

**康健國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**INTERIM REPORT**

**For the six months ended 30th September 2000**

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

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*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this Interim 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 Interim Report.*

*This Interim 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 the GEM of the Stock Exchange (the “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 Interim 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 Interim Report misleading; and (3) all opinions expressed in this Interim Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*Unless defined otherwise, terms used in this Interim Report have the same meanings as in the prospectus of the Company dated 9th October 2000 (the “Prospectus”).*

## INTERIM RESULTS HIGHLIGHTS

- The Company was successfully listed on GEM of the Stock Exchange on 18th October 2000.
- For the six months ended 30th September 2000, the Group recorded a turnover of approximately HK\$43,757,000, representing an increase of approximately HK\$14,000,000 or 47.0% as compared to the same period of the previous financial year.
- The gross profit margin for the six months ended 30th September 2000 was approximately 58.0% which is comparable to the gross profit margin of 53.9% as recorded in the same period of the previous financial year.
- The profit attributable to shareholders for the six months ended 30th September 2000 was approximately HK\$13,068,000, representing an increase of approximately 35.8% from the amount recorded in the same period of the previous financial year. Net profit margins for the six months ended 30th September 2000 and 30th September 1999 were 29.9% and 32.3% respectively.

## INTERIM RESULTS (UNAUDITED)

The Directors are pleased to announce the unaudited consolidated results of Town Health International Holdings Company Limited and its subsidiaries (together the "Group") and an associate for the three months and six months ended 30th September 2000, together with the comparative unaudited figures for the corresponding periods in 1999, as follows:

	<i>Notes</i>	<b>For the three months ended</b>		<b>For the six months ended</b>	
		<b>30th September,</b>		<b>30th September,</b>	
		<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	b	22,510	15,015	43,757	29,757
Cost of pharmaceutical supplies		(1,359)	(1,211)	(2,711)	(2,446)
Medical salaries		(8,019)	(5,732)	(15,683)	(11,259)
Gross profit		13,132	8,072	25,363	16,052
Bank interest income		6	12	150	12
Operating expenses		(5,344)	(2,201)	(9,640)	(4,542)
Profit from operations		7,794	5,883	15,873	11,522
Finance costs		(77)	(5)	(77)	(11)
Share of loss of an associate		(110)	—	(271)	—
Profit before taxation		7,607	5,878	15,525	11,511
Taxation	c	(1,207)	(959)	(2,457)	(1,888)
Profit attributable to shareholders		6,400	4,919	13,068	9,623
Earnings per share					
— basic	d	2.28 cents	1.75 cents	4.66 cents	3.43 cents
— diluted	d	2.22 cents	N/A	4.57 cents	N/A

Notes:

a. **Group reorganization and basis of preparation**

The Company was incorporated in the Cayman Islands under the Companies Law (1998 Revision) of the Cayman Islands as an exempted company with limited liability on 24th August 1999 and remained inactive until 6th April 2000 when the group reorganization (the "Group Reorganization") of the Group was completed and the Company became the holding company of the Group.

The Group Reorganization has been accounted for by the Company using the merger accounting method in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions".

On 6th April 2000, the Group entered into an agreement for the transfer of business (the "Transfer Agreement") with certain medical doctors and dental practitioners. Under the Transfer Agreement, with effect from 1st August 1999, the Group acquired the right to operate the dental practices and para-medical business.

With effect from 1st August, 1999, the Group provided management and administrative services to medical and dental practices. The entire consultation income of the medical practices after deduction of the expenses not covered in the Licence and Management Services Agreement, is charged by the Group as licence fees and management and administrative fees.

The comparative figures for the three months and six months ended 30th September 1999 have been prepared as if the Group Reorganization had been completed on 1st April 1999, the Transfer Agreement had taken place as at 1st April 1999 and the License and Management Services Agreement entered into with the medical and the dental practices had been in effect throughout the three months and six months ended 30th September 1999.

b. **Turnover**

Turnover represents management and administrative service fee income, licence fee income, dental consultation income and corporate contract income.

Turnover comprises:

	For the three months ended 30 th September, 2000		For the six months ended 30 th September, 2000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Management and administrative service fee income				
— From the Partnership/ Managed Practices	16,362	10,839	32,404	21,488
— From an associate	210	—	420	70
	16,572	10,839	32,824	21,558
Licence fee income				
— From the Partnership/ Managed Practices	2,330	1,800	4,530	3,630
— From licensed medical and dental practices	1,140	900	2,280	1,560
	3,470	2,700	6,810	5,190
Dental consultation income	2,095	1,476	3,742	3,009
Corporate contract income	373	—	381	—
Total turnover	<u>22,510</u>	<u>15,015</u>	<u>43,757</u>	<u>29,757</u>

c. **Taxation**

Taxation comprises:

	For the three months ended 30th September, 2000		For the six months ended 30th September, 2000	
	HK\$'000	1999 HK\$'000	HK\$'000	1999 HK\$'000
Hong Kong profits tax				
— Current taxation	1,207	959	2,457	1,888

Hong Kong profits tax has been provided at the rate of 16% (1999 - 16%) of the estimated assessable profits arising in or derived from Hong Kong during the periods.

The associate of the company was trading at loss since its commencement of operations and upto 30th September 2000, therefore no tax liability was shared by the Company.

d. **Earnings per share**

The calculation of basic earnings per share for the three months ended 30th September 2000, the three months ended 30th September 1999, the six months ended 30th September 2000 and the six months ended 30th September 1999 was based on the unaudited profit attributable to shareholders of approximately HK\$6,400,000, HK\$4,919,000, HK\$13,068,000 and HK\$9,623,000, respectively, and on the weighted average number of 280,400,000 shares in issue during the four periods. In determining the weighted average number of shares, 276,900,000 shares issued by way of a capitalization of the share premium account of the Company at the close of business on 3rd October 2000 were deemed to have been issued since 1st April 1999.

The calculation of diluted earnings per share is based on profit attributable to shareholders of approximately HK\$6,451,000 for the three months ended 30th September 2000 and HK\$13,136,000 for the six months ended 30th September 2000 and on 291,114,286 shares and 287,659,953 shares respectively, being the weighted average number of shares outstanding during the periods, adjusted for the effects of capitalization issue as mentioned in the above paragraphs and all potential dilutive shares.

There were no potential dilutive shares outstanding during the three and six months ended 30th September 1999, no diluted earnings per share is presented.

e. **Movements in reserve**

There has been no movement in reserve for the three and six months ended 30th September 1999.

The movements in reserve for the three and six months ended 30th September 2000 are as follows:

	Retained Profits HK\$'000	Total HK\$'000
Balance, 1st April 2000	18,116	18,116
Profits for the three months ended 30th June 2000	6,668	6,668
Special dividends	(18,116)	(18,116)
Balance, 30th June 2000	6,668	6,668
Profits for the three months ended 30th September 2000	6,400	6,400
Balance, 30th September 2000	13,068	13,068

## INTERIM DIVIDEND

On 30th April 2000, the Directors declared a special dividend of approximately HK\$18,116,000 to its shareholders whose names appeared on the register of member as at 1st April 2000. The special dividend has been fully paid up by 31st August 2000. Save for the said special dividend, the Directors do not recommend the payment of any interim dividend for the six months ended 30th September 2000 (1999: HK\$Nil).

## BUSINESS REVIEW

The Group is a management service provider for private medical and dental practices and an integrated healthcare service provider for the general public in Hong Kong.

The Directors are pleased to report the Group's interim results for the year ending 31st March 2001. For the six months ended 30th September 2000, the Group recorded a turnover of approximately HK\$43,757,000, representing an increase of approximately HK\$14,000,000 or 47.0% as compared to the same period of the previous financial year. The increase in turnover is largely attributable to the increase in management and administrative service fee income from the medical centres and integrated medical centers (collectively the "Town Health Centres") managed by the Group from approximately HK\$21,558,000 for the six months ended 30th September 1999 to approximately HK\$32,824,000 for the six months ended 30th September 2000. Such an increase is in turn attributable to the following reasons:

- (1) In October 1999, overnight general medical services were introduced at an integrated medical centre managed by the Group. Since then, three additional Town Health Centres have begun to offer such overnight services. For the six months ended 30th September 2000, revenue generated from overnight services amounted to approximately HK\$3,067,000.
- (2) Starting from the second half of the financial year 1999/2000, additional practitioners were employed and stationed in certain medical centres to tap the growing demand for medical services. For the six months ended 30th September 2000, revenue attributable to these additional practitioners amounted to approximately HK\$5,091,000.
- (3) Growth in revenue of those existing medical centres.

For the three and six months ended 30th September 2000, the Group derived additional revenue from corporate contracts. Corporate contract income consists mainly service fees received by the Group for the provision of medical and dental supporting services to a number of elderly homes. The Directors consider it is the Group's first step taken to realize its plan of providing elderly care services as stated in the Prospectus. For the six months ended 30th September 2000, service fees received from these elderly homes amounted to approximately HK\$350,000.

The gross profit margin for the six months ended 30th September 2000 was approximately 58.0% which is comparable to the gross profit margin of 53.9% as recorded in the same period of the previous financial year. Operating expenses, for the six months ended 30th September 2000, accounted for approximately 22.0% of the turnover, which is higher than the 15.3% as recorded in the same period of the previous financial year. The increase is mainly due to the increase in administrative staff costs, rental expenses and legal and professional fee incurred to meet the Group's business expansion.

The profit attributable to shareholders for the six months ended 30th September 2000 was approximately HK\$13,068,000, representing an increase of approximately 35.8% from the same period of the previously financial year. Net profit margins for the six months ended 30th September 2000 and 30th September 1999 were 29.9% and 32.3% respectively.

## FUTURE PLAN AND PROSPECT

As stated in the Prospectus, it is the Group's strategy to expand both its scale and scope of operations to achieve rapid growth. The Group aims to become a leading healthcare service provider in the Asian region through itself and the Town Health Centre Network providing comprehensive, high quality and generally affordable healthcare services and will continue to expand the number of Town Health Centres to meet the growing demand for private healthcare services. In addition, the Group plans to seek further growth through horizontal expansion into areas of traditional Chinese medicine, elderly care and child care services. It is expected that income from the operations of traditional Chinese medicine related businesses (including provision of front-end consultation services as well as the marketing of traditional Chinese medicine-based products in both raw and proprietary presentations), elderly homes and child care centres will serve as a new revenue source in addition to the growing revenue stream from the present businesses of the Group (i.e. provision of management and administrative services to private medical and dental practitioners, licensing of the name "Town Health Centre" and operations of its own dental practices). Other core areas of future development are the provision of healthcare products through electronic means as part of the Group's overall plan to expand the distribution channel for pharmaceuticals (both over-the-counter and ethical) and healthcare products, and the development of on-line follow-up consultation services. In moving towards the direction of marketing traditional Chinese medicine and widening the distribution channel of pharmaceuticals (both over-the-counter and ethical) and healthcare products, the Directors are looking for opportunities to establish / develop a distribution network to facilitate this future development of the Group. In this connection, the Group is open to any form of cooperation including formation of joint venture, acquisition in majority or minority interests and / or set up of new subsidiaries. The Group will also explore opportunities for geographical expansion into China and other Asian countries. The Directors believe that these strategies will enable the Group to build the name "Town Health Centre" into a leading healthcare brand synonymous with comprehensive, quality and affordable healthcare services.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

The interests of the directors and their associates in the share capital of the Company and associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

As at 30th September 2000:

Name	Number of shares	Nature of interests	Percentage of interests
Dr. Chan Wing Lok, Brian	—	Other interests ( <i>Note 1</i> )	—
Dr. Cheng Chor Ho	—	Other interests ( <i>Note 1</i> )	—
Dr. Chik Fu Fai	—	Other interests ( <i>Note 1</i> )	—
Mr. Cho Kam Luk	—	Other interests ( <i>Note 1</i> )	—
Dr. Cho Kwai Chee	2,452,450	Corporate interests ( <i>Note 1</i> )	70.01%
	435,932	Personal interests	12.46%
Mr. Choy Kan Pui	1,582	Personal interests	0.05%
Dr. Fung Yiu Tong	—	Other interests ( <i>Note 1</i> )	—
Dr. Ho Chung Yin	13,856	Personal interests	0.40%
Dr. Leung Chi Sang	—	Other interests ( <i>Note 1</i> )	—
Dr. Lui Chi Keung, Charles	3,801	Personal interests	0.11%
Mr. Chun Hu Hing	—	Corporate interests ( <i>Note 2</i> )	1.27%
Dr. Chow Kai Wah, Gary	—	Corporate interests ( <i>Note 2</i> )	1.27%

As at 18th October 2000 (the Listing Date):

Name	Number of shares	Nature of interests	Percentage of interests
Dr. Chan Wing Lok, Brian	—	Other interests ( <i>Note 1</i> )	—
Dr. Cheng Chor Ho	—	Other interests ( <i>Note 1</i> )	—
Dr. Chik Fu Fai	—	Other interests ( <i>Note 1</i> )	—
Mr. Cho Kam Luk	—	Other interests ( <i>Note 1</i> )	—
Dr. Cho Kwai Chee	196,475,846	Corporate interests ( <i>Note 1</i> )	49.12%
Mr. Choy Kan Pui	126,720	Personal interests	0.03%
Dr. Fung Yiu Tong	—	Other interests ( <i>Note 1</i> )	—
Dr. Ho Chung Yin	1,110,080	Personal interests	0.28%
Dr. Leung Chi Sang	—	Other interests ( <i>Note 1</i> )	—
Dr. Lui Chi Keung, Charles	304,638	Personal interests	0.08%
Mr. Chun Hu Hing	—	Corporate interests ( <i>Note 2</i> )	0.89%
Dr. Chow Kai Wah, Gary	—	Corporate interests ( <i>Note 2</i> )	0.89%

*Notes:*

- The registered holder of these shares is Origin Limited which is one of the shareholders of the Company. These 2,452,450 shares as at 30th September 2000 and 196,475,846 shares as at 18th October 2000 represent an aggregate of approximately 70.01% and 49.12% of the shares in issue as at 30th September 2000 and 18th October 2000 respectively. The entire issued share capital of Origin Limited is owned as to 90.50% by Dr. Cho Kwai Chee, 3.59% by Dr. Chan Wing Lok, Brian, 0.96% by Dr. Cheng Chor Ho, 1.56% by Dr. Chik Fu Fai, 0.71% by Mr. Cho Kam Luk, 1.49% by Dr. Fung Yiu Tong, Bennet and 1.19% by Dr. Leung Chi Sang.
- Man Cheong International Limited, which is owned as to 65% by Martnell Limited and as to 35% by Cindex Management Services Limited, is the registered shareholder of these shares which represent an aggregate of 1.27% and 0.89% of the shares in issue as at 30th September 2000 and 18th October 2000 respectively. Martnell Limited is wholly owned by Mr. Chow Kai Wah, Gary. Cindex Management Services Limited is owned as to 99% by Mr. Chun Hu Hing and as to 1% by his spouse.

As at 30th September 2000 and 18th October 2000 (the Listing Date), the following persons are interested in the shares of Health Matrix International Limited, an associated corporation (within the meaning of the SDI Ordinance) in the manner described below:

Name	Number of shares	Nature of interests	Percentage of interests
Mr. Cho Kam Luk	509,044	Corporate interests ( <i>Note</i> )	70.36%
Dr. Chik Fu Fai	—	Other interests ( <i>Note</i> )	—
Dr. Chan Wing Lok, Brian	—	Other interests ( <i>Note</i> )	—
Dr. Leung Chi Sang	—	Other interests ( <i>Note</i> )	—

*Note:*

The registered holder of these shares is True Destination Incorporated, which is owned as to 70.36% by Mr. Cho Kam Luk, 6.25% by Dr. Chik Fu Fai, 1.79% by Dr. Chan Wing Lok, Brian and 2.50% by Dr. Leung Chi Sang.

A register required to be kept by the Company under section 29 of the SDI Ordinance was established on 18th October 2000 when the dealings in the shares of the Company on the GEM of the Stock Exchange commenced.



## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

The Company has adopted a share option scheme conditionally 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) of the Group to take up options to subscribe for shares. No option had been granted to the directors during the period commenced from 1st April 2000 and ended 18th October 2000 (the Listing Date).

### SUBSTANTIAL SHAREHOLDERS

So far as it is known to the directors, the following person (other than those interests of directors disclosed above) has an interest of 10% or more of the issued share capital of the Company:

As at 30th September 2000:

<b>Name</b>	<b>Number of shares</b>	<b>Nature of interests</b>	<b>Percentage of interests</b>
Origin Limited	2,452,450	Corporate interests ( <i>Note</i> )	70.01%

As at 18th October 2000 (the Listing Date):

<b>Name</b>	<b>Number of shares</b>	<b>Nature of interests</b>	<b>Percentage of interests</b>
Origin Limited	196,475,846	Corporate interests ( <i>Note</i> )	49.12%

*Notes:*

The registered holder of these shares is Origin Limited which is one of the shareholders of the Company. These 2,452,450 shares as at 30th September 2000 and 196,475,846 shares as at 18th October 2000 represent an aggregate of approximately 70.01% and 49.12% of the shares in issue as at 30th September 2000 and 18th October 2000 respectively. The entire issued share capital of Origin Limited is owned as to 90.50% by Dr. Cho Kwai Chee, 3.59% by Dr. Chan Wing Lok, Brian, 0.96% by Dr. Cheng Chor Ho, 1.56% by Dr. Chik Fu Fai, 0.71% by Mr. Cho Kam Luk, 1.49% by Dr. Fung Yiu Tong, Bennet and 1.19% by Dr. Leung Chi Sang.

A register required to be kept by the Company under section 16(1) of the SDI Ordinance was established on 18th October 2000 when the dealings in the shares of the Company on the GEM of the Stock Exchange commenced.

### BUSINESS OBJECTIVES

The Directors are pleased to confirm that there is no material adverse change in the Group's financial position which may affect the Group's ability to implement its Business Plan as set out in the section "Business Objectives" of the Prospectus.

### COMPETING INTERESTS

None of the Directors, initial management shareholders, substantial shareholders and significant shareholder of the Company and their respective associates had any interest in any businesses that directly or indirectly compete with the business of the Group as at 30th September 2000 and 18th October 2000 (the Listing Date).

## YEAR 2000 COMPLIANCE

The Directors are pleased to announce that all the accounting and financial applications of the Group were fully year 2000 compliant and therefore the Year 2000 compliance issue had no adverse impact on the business operations of the Group.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. 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 of Directors. The audit committee will also be responsible for reviewing and supervising the Group's financial reporting and internal control procedures. The audit committee comprises two independent non-executive Directors, namely, Dr. Lui Chi Keung, Charles and Mr. Choy Kan Pui, and a non-executive Director, namely, Mr. Chan Kin Fung, Phil.

## SPONSORS' INTERESTS

On 6th July 2000, the Company and Topson Limited ("Topson"), an indirectly wholly owned subsidiary of Cheung Kong (Holdings) Limited ("Cheung Kong"), entered into a subscription agreement pursuant to which Topson has agreed to subscribe and the Company has agreed to allot and issue 494,294 shares of the Company for a consideration of not more than HK\$9,900,000. The subscription was completed on 3rd October 2000. Cheung Kong, through Topson, is interested in 39,600,000 shares of the Company, representing approximately 9.9% of the issued share capital of the Company immediately after completion of the share offer and capitalization issue of the Company upon listing on the GEM. Pursuant to the subscription agreement, Topson has the rights to appoint a maximum of three persons as Director(s). Accordingly, Topson and Cheung Kong are initial management shareholders of the Company. On 20th September 2000, the Company and Topson entered into a subscription agreement pursuant to which the Company agreed to issue to Topson a convertible note for a principal amount of HK\$31,562,500 for cash. Details of the terms of this convertible note has been set out in Appendix VI of the Prospectus. Upon full conversion of this convertible note and assuming that it does not dispose of any of its initial holdings, Topson will be interested in an aggregate of approximately 20.0% of the issued share capital of the Company as enlarged by the allotment and issue of the shares of the Company pursuant to the conversion of the convertible note.

Mr. Ip Tak Chuen, Edmond, a non-executive Director, is an executive director of Cheung Kong, and a non-executive director of CEF Capital Limited ("CEF"). Mr. Chan Kin Fung, Phil, a non-executive Director, is a director of CEF. CEF is an associate of Cheung Kong and Topson.

As of 13th November 2000, an employee of First Shanghai Capital Limited ("First Shanghai") had 10,000 Shares in the capital of the Company.

Save for the above, and subject to confirmation from CEF as to the interest of CEF and its directors or employees or associates in the shares of the Company as at 13th November 2000, as at 30th September 2000, 18th October 2000 (the Listing Date) and 13th November 2000, neither First Shanghai nor CEF (together the "Sponsors") nor their respective directors or employees or associates (as referred

to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interests in the shares of the Company, including options or rights to subscribe for such shares. CEF will notify the Company the interest in the Company as at 13th November, 2000 held by it, its directors, employees and associates. Further announcement will be made by the Company should the Company receive any information from CEF which are not disclosed in this announcement.

Pursuant to an agreement dated 5th October 2000 entered into between the Company and the Sponsors, the Sponsors have received and will receive a fee for acting as the sponsors of the Company for the period commenced from 18th October 2000 and ending on 31st March 2003.

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

For the three and six months ended 30th September 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

## **APPOINTMENT OF VICE-CHAIRMAN**

The Board is pleased to announce the appointment of Mr. Sum Kwong Yip, Derek, an executive Director, as the Vice-chairman with effect from 13th November 2000. Mr. Sum will be responsible for overall strategic development and operational planning of the business of the Group. Mr. Sum is a qualified pharmacist from the United Kingdom. He is a member of the Biotechnology Projects Vetting Committee and a Standing Executive of Modernized Chinese Medicine International Association. The Board believes that the background and experience of Mr. Sum will provide valuable contribution to the future development of the Group in the sale and distribution of healthcare and traditional Chinese medicine products, one of the core future developments of the Group which the Directors regard as an important milestone in achieving the corporate objective of the Group to become a comprehensive private healthcare service provider.

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

Hong Kong, 13th November 2000