



**Town Health International Holdings Company Limited**  
(incorporated in the Cayman Islands with limited liability)



**CHARACTERISTICS OF THE GROWTH  
ENTERPRISES MARKET ("GEM") OF THE  
STOCK EXCHANGE OF HONG KONG  
LIMITED (THE "STOCK EXCHANGE")**

Annual Report 2002



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

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**EXECUTIVE DIRECTORS:**

Dr. Cho Kwai Chee (*Chairman*)  
Dr. Chan Wing Lok Brian (*Vice-chairman*)  
Dr. Fung Yiu Tong, Bennet  
Mr. Cho Kam Luk  
Mr. Cho Kwai Yee, Kevin  
Mr. Siu Kam Chau

**NON-EXECUTIVE DIRECTORS:**

Mr. Ip Tak Chuen, Edmond  
Mr. Chan Kin Fung, Phil

**INDEPENDENT NON-EXECUTIVE DIRECTORS:**

Dr. Lui Chi Keung, Charles *D.B.M., M.B.E., J.P.*  
Mr. Choy Kan Pui *B.B.S., J.P.*

**COMPANY SECRETARY AND QUALIFIED ACCOUNTANT:**

Mr. Mak Yau Hing *AHKSA, ACCA*

**COMPLIANCE OFFICER:**

Mr. Siu Kam Chau *FHKSA, FCCA*

**AUDIT COMMITTEE:**

Mr. Choy Kan Pui *B.B.S., J.P.*  
(*Chairman of Audit Committee*)  
Dr. Lui Chi Keung, Charles *D.B.M., M.B.E., J.P.*  
Mr. Chan Kin Fung, Phil

**AUTHORIZED REPRESENTATIVES:**

Dr. Cho Kwai Chee  
Dr. Fung Yiu Tong, Bennet

**SPONSOR:**

First Shanghai Capital Limited

**AUDITORS:**

Arthur Andersen & Co.  
*Certified Public Accountants*

**PRINCIPAL BANKERS:**

The Hong Kong and Shanghai Banking  
Corporation Limited  
Hang Seng Bank Limited

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE:**

Bank of Bermuda (Cayman) Limited  
36C Bermuda House - 3rd Floor  
P.O. Box 513 G.T.  
Dr. Roy's Drive, George Town  
Grand Cayman, Cayman Islands  
British West Indies

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE:**

Tengis Limited  
4th Floor, Hutchison House  
10 Harcourt Road, Central  
Hong Kong

**REGISTERED OFFICE:**

Ugland House  
P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

**HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS:**

No. 616 & 617  
On Level 6 of Tower II  
Grand Central Plaza  
Shatin  
Hong Kong



**NOTICE IS HEREBY GIVEN THAT** the annual general meeting (the “Meeting”) of the shareholders of Town Health International Holdings Company Limited (the “**Company**”) will be held at The Derby Suite I-III, Royal Park Hotel, 8 Pak Hok Ting Street, Shatin, New Territories, Hong Kong on Wednesday, 24th July 2002, at 8:00 a.m. for the following purposes:

1. To consider and adopt the Audited Consolidated Financial Statements and the Reports of the Directors and Auditors of the Company for the year ended 31st March 2002;
2. To re-elect Directors of the Company and authorize the Board of Directors to fix their remuneration;
3. To appoint Messrs PricewaterhouseCoopers as Auditors of the Company and authorize the Board of Directors to fix their remuneration; and
4. To consider as special business and, if thought fit, to pass the following resolution as an ordinary resolution:

“**THAT** the authorised share capital of the Company be and is hereby increased from HK\$100,000,000 to HK\$200,000,000 by the creation of an additional 1,000,000,000 shares of HK\$0.10 each in the share capital of the Company.”

5. To consider as special business and, if thought fit, to pass the following resolutions (“**Resolutions**”) as ordinary resolutions:

A. “**THAT**:

- (a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares or convertible securities and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorize the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company



(CONT'D)

*(Amounts expressed in Hong Kong dollars)*

and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any existing warrants of the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and

- (d) for the purpose of this Resolution, "Relevant Period" means the period from the date of passing of this Resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, or any other applicable laws to be held; or
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company under this Resolution;

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares on the Register on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company)."

B. **"THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase issued shares in the capital of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from



(CONT'D)

*(Amounts expressed in Hong Kong dollars)*

time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

- (b) the aggregate nominal amount of the issued shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, "Relevant Period" means the period from the date of passing of this Resolution until whichever is the earlier of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company, or any other applicable laws to be held; or
  - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company under this Resolution."

C. **"THAT:**

conditional upon the passing of the Ordinary Resolutions Nos. 5A and 5B, the general mandate granted to the Directors of the Company to allot, issue and deal with additional shares pursuant to Resolution No. 5A be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 5B."

On behalf of the Board

**Cho Kwai Chee**

*Chairman*

Hong Kong, 28th June 2002

*(CONT'D)**(Amounts expressed in Hong Kong dollars)**Principal Place of Business and Head Office:*

No. 616 & 617  
Level 6, Tower II  
Grand Central Plaza  
Shatin  
Hong Kong

*Registered Office:*

Ugland House  
P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

*Notes:*

1. The Register of Members of the Company (the "Register") will be closed from Thursday, 18th July 2002 to Wednesday, 24th July 2002 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending the Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 4:00 p.m. on Wednesday, 17th July 2002.
2. A shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint more than one proxy to attend and, on a poll, vote on his behalf. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
3. Where there are joint holders of any shares, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose, seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding.
4. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.
5. An Explanatory Statement containing further details regarding Ordinary Resolutions Nos. 4 and 5 above will be despatched to the shareholders of the Company together with the Annual Report of the Company for the year ended 31st March 2002.





For the year ended 31st March 2002, Town Health made significant progress in evolving from a primary medical and healthcare services provider to a collaborative pharmaceutical and healthcare organization integrated with diversified income streams and proprietary biotechnology.

The key driver of our rapid growth and diversification into the pharmaceutical and biotechnology industries was strategic acquisitions.

## BUSINESS REVIEW AND OUTLOOK

The Group continues to implement its business plan as stated in its prospectus issued on 9th October 2000. In fulfilling its mission to become a high quality, generally affordable and comprehensive private healthcare services provider, we offered our services at primary, secondary and tertiary levels for preventive healthcare and maintenance of health to citizens of all ages in Hong Kong and eventually to people in other regions in Asia.



Chairman – Dr. Cho Kwai Chee



Town Health Place – “One-stop” Integrated Medical & Healthcare Centre

### Medical & healthcare services

The Group was principally engaged in the provision of management and administrative services to private medical and dental practitioners, licensing of the name “Town Health Centre” and operation of its own dental practices. Compared with the previous financial year, Town Health Centre Network was expanded by 5 medical/dental practices. The Group has also formed a co-operation alliance of over 100 medical practices and over 20 dental practices so as to deliver more effective and convenient services to its patient base.

However, the Group experienced pressure on revenue growth and there is a drop in the profit margin of its core business. This was a result of the economic downturn, competitive market situation, imbalanced distribution of resources between the public & private healthcare sectors and increased number of patients having shifted to the public healthcare sector. In the coming year, we will implement an evaluation plan and strategically reallocate our resources from those clinics that recorded a loss to new areas that possess greater growth potential. We may also consider closing down some of those clinics which have persistently been running at a loss so as to maximize the Group's profit.



Opening of a Town Health Integrated Medical Centre at Western District in Jan 2002

To sharpen our competitive edge, we are establishing the Group's first one-stop medical & healthcare centre – Town Health Place. Located at



the hub of Shatin, Town Health Place will be a pioneer showcase of the Group's comprehensive medical and healthcare services. The new centre is expected to commence operations in mid-2002. On top of 24-



Well-equipped divisions of the Group's Integrated Medical Centre (Form left: Ophthalmology, Dental, Physiotherapy)

hour medical consultation services, a wide range of healthcare services and products will also be provided, such as traditional Chinese medicine, soup and meals which are beneficial to health, nutrition consultation and foot orthopedic services. If the abovementioned soup and meal

services which incorporates the concept of healthy diet demonstrates a promising market potential, we will consider developing this line of business to further diversify the Group's income streams.

The Group believes that Town Health Place's centralization concept of adding extra value to the services we provide for each of our patients and customers under one roof will enhance the synergistic effect among different business units.

The Group is actively exploring strategic locations for setting up new Town Health Centres. Should there be suitable target clinics in those identified strategic locations, the Group will also consider acquire such targets. The Board considers that expansion through acquisitions can achieve a rapid growth of the Town Health Centre Network while avoiding the loss-making startup period usually associated with newly established clinics. The Board considers that such savings in startup costs is important to the Group given the prevailing disappointing economic environment in Hong Kong.

The Group is also exploring the feasibility of building up the "Town Health" brand in China through the establishment of a clinic chain and/or hospital in mainland China. The Group is currently identifying suitable local partners to realize this planned expansion.

**Healthcare and pharmaceutical products and traditional Chinese medicine**



Wai Yuen Tong Range Products

In addition to the core business as mentioned above, the Group was also engaged in the manufacture and sale of cough syrup and traditional Chinese medicine through its 49.88% shareholding in Luxembourg Medicine Company Limited and 24.0% shareholding in Wai Yuen Tong Medicine Company Limited ("WYT") respectively. For the year ended 31st March 2002, these two associated companies provided positive contributions to the Group's net profit.



Madame Pearl's Range Products

In May 2002, the Group entered into a conditional disposal agreement with, among others, Dailywin Group Limited ("Dailywin"), a company listed on the main



board of the Stock Exchange, to dispose of the Group's entire interest in WYT to Dailywin for a consideration of approximately HK\$52.9 million. The consideration would be satisfied



by new shares and convertible notes to be issued by Dailywin. Details of the disposal are contained in the Company's circular to shareholders dated 17th June 2002.

The Group continues to strive for opportunities to strengthen its presence in the pharmaceutical & healthcare products industries. Apart from taking positive steps in the expansion of our product range and distribution network, we continue to put efforts to explore the mainland China market.

### Elderly care services

The Group will continue implementing its business plan regarding the development of elderly care services. However, the Group has slowed down its pace to develop the business due to the current adverse economic environment. The Group will re-adjust its strategy in this business to the best interest to its shareholders. This may include a temporary suspension of the development of this business until a promising business opportunity arises.

### Bio-medical technologies

During the year under review, the Group took prudent measures in leveraging expertise in biotechnological research and development ("R&D") and forming commercial partnerships to reap the synergistic benefits.



*Positron Emission Tomography/  
Computerised Tomography Scanner*

The Group has invested in a 28.75% and 45% equity interest in Plasmagene Limited and 3 Ben Genomics Hong Kong Limited respectively. These two



*Polymerase Chain Reaction  
Machine*

companies are principally engaged in the R&D of cutting-edge molecular genomic diagnostic technology. Molecular genomic diagnostic ("MGD") testing for early cancer detection has been launched in Hong Kong and received positive market response. The Group is actively exploring opportunities to promote such diagnostic services in mainland China.

### Para-medical services

We have also invested in advanced diagnostic medical equipment including a positron emission tomography/computerised tomography (PET/CT) scanner and a magnetic resonance imaging (MRI) machine. Such investments have generated very favourable returns.

**Future Prospect**

The accomplishments set out above are the building blocks of Town Health's future which position us well to ride out the current unfavorable operational environment and create value for shareholders.

We continue to make great efforts to strengthen relationships with our marquee patient base. With the establishment of "Healthvision Club" in Town Health Place, the Group's patient base will be converted to club members to facilitate a more efficient and effective communication channel. A whole blend of value-added privileges guided by our core principles of service excellence will be conveyed to pamper members' needs and will in turn, maximize the synergistic effect among different business units within the Group. In view of the possible trend of increasing charges for the accident and emergency and selected specialties services provided by the public hospitals, we believe the prospect of the private medical sector would be more optimistic.

Our equity interests in the aforementioned bio-medical projects, with their patented MGD technology, are expected to yield positive contributions to the Group.

**Appreciation**

I take pride in the achievement of our staff at every level over the past year and thank them for their dedication and team work. Entering the new year, Town Health continues to sharpen its focus on diversifying income streams and providing value-creating services to yield attractive returns to its shareholders.

**Cho Kwai Chee**

*Chairman*

25th June 2002



## RESULTS AND DIVIDENDS

For the year ended 31st March 2002, the Group recorded a turnover of approximately HK\$100,030,000 (2001 – approximately HK\$102,531,000) and a net profit attributable to shareholders of approximately HK\$2,029,000 (2001 – approximately HK\$32,050,000). The basic earnings per share were approximately HK 0.4 cents (2001 – approximately HK9.5 cents). To retain cashflow for future business development, The Board of Directors (the “Board”) does not recommend the payment of a final dividend for the year under review. All earnings will be retained to finance the continuing development of the Group’s business.

## FINANCIAL REVIEW

### Turnover and gross profit

The Group generates most of its revenue from its licensing and management and administrative services provided to medical centres, and consultation fee income derived from its dental practices. During the year under review, the Group has experienced pressure on revenue growth. Such pressure was mainly brought by (1) the general downturn of the Hong Kong economy; (2) the loss of balance of resources, for private and public healthcare sector, so more and more patients utilize the public services, especially when the economy was poor; and (3) that no significant disease outbreak, for example, influenza, in the year under review as compared to the previous year.

Turnover decreased by approximately 2.4% to approximately HK\$100,030,000 this year as compared to approximately HK\$102,531,000 in the previous year. Though there is a decrease in turnover, the medical salaries (which is a fixed cost in nature) of the Group did increase as additional practitioners were recruited to work in those newly established clinics (taking into account also the full year effect of those clinics opened in the previous year). Taking the effects together, the gross profit of the Group decreased by approximately 27.7% to approximately HK\$43,502,000 this year as compared to approximately HK\$60,132,000 in the previous year. Gross profit margin for the two years ended 31st March 2002 and 2001 were 43.5% and 58.6% respectively.

### Operating expenses

Operating expenses for the 2 years ended 31st March 2002 and 2001 were approximately HK\$40,067,000 and approximately HK\$24,793,000 respectively. Such an increase was mainly due to (1) the increase in rental and other operating expenses incurred in relation to the operations of those newly established clinics (taking into account also the full year effect of those clinics opened in the previous year); and (2) additional administrative, marketing and managerial staff employed for strategic planning, business development and operational and financial controls in order to cope with the rapid and continuing growth of the Group’s operations.

**Finance cost**

Finance cost increased by 1.5 times to approximately HK\$4,987,000 this year as compared to approximately HK\$1,965,000 in the previous year. The increase was mainly attributable to the full year effect of the finance costs accrued for a convertible note with principal amount of approximately HK\$31,563,000 issued in October 2000.

**Amortization of goodwill**

Carrying cost of goodwill increase substantially during the year due to the completion of a number of material acquisitions. The charge of amortization for the current year (taking also into account of the full year effect of the amortization of goodwill generated in the previous year) increased accordingly.

**Share of profit of associated companies**

The Group shared profits from its associated companies of approximately HK\$9,391,000, which represents a substantial increase as compared to approximately HK\$2,656,000 in the previous year. The increase was mainly due to the full year effect of the profit shared by the Group for those associated companies acquired near the close of the previous year. (Please also refer to the paragraph headed "Disposal of equity interest in an associated company" below)

**Profit attributable to shareholders**

The profit attributable to shareholders for the year ended 31st March 2002 was approximately HK\$2,029,000 (2001 – approximately HK\$32,050,000).

**LIQUIDITY AND FINANCIAL RESOURCES**

As at 31st March 2002, the Group held cash and bank balances of approximately \$49,347,000 (2001 – \$39,012,000). Net current assets amounted to approximately \$31,389,000 (2001 – \$51,591,000). Current ratio (defined as total current assets divided by total current liabilities) of the Group as at 31st March 2002 was 1.6 (2001 – 3.6).

As at 31st March 2002, the Group had the following outstanding bank loan:

- HK\$5,000,000 (2001 – HK\$12,000,000) term loan from a bank in Hong Kong. The loan was unsecured and repayable by monthly installments of HK\$209,000 (HK\$193,000 for the last installment) extending to March 2004. The outstanding amount which is repayable within one year from the year-end date was included in current liabilities as at year-end date and the remaining balance was included in long-term liabilities. Interest is charged at the best lending rate offered by the bank.



- HK\$840,000 (2001 – nil) mortgage loan from a bank in Hong Kong. The loan was secured by a property of the Group located in Hong Kong with carrying amount of approximately HK\$1.2 million as at year-end date. The term of the loan is for a period of 15 years started from 22nd March 2002. The outstanding amount which is repayable within one year from the year-end date was included in current liabilities as at year-end date and the remaining balance was included in long-term liabilities. Interest is charged at Hong Kong prime rate minus 2.5% per annum.

In addition to the bank loan mentioned above, the Group also had a bank overdraft facility of HK\$8,000,000 as at 31st March 2002 (2001 – HK\$8,000,000). None of this facility was utilized (2001 – nil). The overdraft facility was secured by a corporate guarantee given by the Company.

### **CAPITAL STRUCTURE**

As at 31st March 2002, the Group had shareholders' equity of approximately HK\$208,926,000 (2001 – HK\$114,962,000) and a convertible note of approximately HK\$37,702,000 (2000 – HK\$33,163,000). The convertible note or any part thereof is convertible into the Company's shares at a price of \$0.589 per share (as at 31st March 2002 and subject to adjustments) of the whole or any part of the outstanding principal amount at the option of the noteholder at any time during the period commencing from 18th July 2001 and up to and including 31st July 2002 (the "Maturity Date"). Unless previously converted, the convertible note will be redeemed by the Company on the Maturity Date at redemption amounts equal to 125% of the principal amount, which implies a yield-to-maturity rate of approximately 13% per annum to the noteholder.

Debt-to-equity ratio (defined as total liabilities divided by shareholders' equity) of the Group as at 31st March 2002 was 0.26 (2001 – 0.46).

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars. As at 31st March 2002, the Group had no significant exposure to foreign exchange and interest rate risks.

### **DISPOSAL OF EQUITY INTEREST IN AN ASSOCIATED COMPANY**

On 22nd May 2002, the Group entered into a conditional disposal agreement with, among others, Dailywin Group Limited ("Dailywin"), a company listed on the main board of the Stock Exchange, for disposing of the Group's entire interests in an associated company, Wai Yuen Tong Medicine Company Limited ("WYT"), to Dailywin for a consideration of approximately HK\$52.9 million. The consideration would be satisfied by new shares and convertible notes of Dailywin.

The disposal was subject to the approval of, among others, the shareholders of the Company in extraordinary meeting to be held on 3rd July 2002. Details of the disposal are contained in the Company's circular sent to the shareholders on 17th June 2002.

**SEGMENTAL INFORMATION**

The Group principally operates in two business segments, one is the management and administrative services and the other is the dental consultation services. The management and administrative services continue to contribute the major part of the total revenue to the Group in current year. For the year ended 31st March 2002, the revenue generated from the management and administrative services and the dental consultation services accounted for approximately 84% (2001 – 85%) and 14% (2001 – 10%) respectively of the total revenues of the Group.

**EMPLOYEE INFORMATION**

A breakdown of the number of staff of the Group by responsibilities as at each year ended of 31st March 2002 and 2001 are set out below:

	Number of staff At 31st March	
	2002	2001
Medical and dental practitioners	51	42
Assistant nurses	113	112
Management	6	6
Administration/Clerical support	29	30
	<hr/>	<hr/>
	199	190
	<hr/>	<hr/>

All the employees are stationed in Hong Kong.

The Group remunerated its employees mainly based on industry practices and individual's performance and experience. On top of regular remuneration, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance.

The Group maintains good relations with its staff and had not encountered any major difficulties in its recruitment and retention of its experienced personnel. There has not been any interruption to its operations as a result of labour disputes. In addition, the Group provides mandatory provident fund and free-medical consultation to its employees.





### **CONTINGENT LIABILITIES**

As at 31st March 2002, the Group had provided a corporate guarantee to a financial institution in respect of the banking facilities granted to an associated company of the Group to the extent of HK\$7,060,000 (2001 – nil) out of which \$6,640,000 was utilized on the same date.

### **FUND RAISING HISTORY**

The total funds raised by the Company through the allotment and issue of new shares during the year ended 31st March 2002 amounted to approximately HK\$91.5 million.

The funds raised from the placing as announced by the Company on 4th May 2001 amounted to approximately HK\$14.2 million and was intended to be applied for the research and development of advanced diagnostic medical equipment and investment in bio-medical projects. Approximately HK\$12.8 million has been utilised for such projects and the balance of approximately HK\$1.4 million remains unutilised and is currently placed as deposits with banks in Hong Kong.

The funds raised from the placing as announced by the Company on 29th June 2001 amounted to approximately HK\$25.0 million and was intended to be applied for investment in the development of preventive healthcare services (including healthcare products) and bio-medical projects. Approximately HK\$22.2 million has been utilised for such projects and the balance of approximately HK\$2.8 million remains unutilised and is currently placed as deposits with banks in Hong Kong.

The funds raised from the placing as announced by the Company on 3rd October 2001 of approximately HK\$6.2 million has been fully utilised for operation and expansion of the Group's medical and dental business.

The funds raised from the placing as announced by the Company on 16th November 2001 amounted to approximately HK\$17.8 million and was intended to be applied for the Group's possible expansion in the PRC healthcare market (including but not limited to the establishment of a clinic chain and a hospital in the PRC). As the Group is still in the process of identifying suitable projects, the approximately HK\$17.8 million remains unutilised as at the date of this report and is currently placed as deposits with banks in Hong Kong.

The funds raised from the placing as announced by the Company on 4th January 2002 amounted to approximately HK\$28.3 million and was intended to be applied as to approximately HK\$24.0 million for the establishment of a "one-stop" integrated healthcare services center in Shatin and as to approximately HK\$4.3 million for the Group's working capital. The approximately HK\$24.0 million reserved for the establishment of the "one-stop" integrated healthcare services center has been fully utilised and the approximately HK\$4.3 million has been fully utilised in the daily operations of the Group.



The Company has raised a total of approximately HK\$91.5 million during the year ended 31st March 2002. An aggregate of approximately HK\$87.2 million was intended to be applied for different specific purposes as stated in the previous respective announcements of the Company and the balance of an aggregate of approximately HK\$4.3 million was intended to be applied as the Group's general working capital. Approximately HK\$65.2 million out of the approximately HK\$91.5 million funds has been applied for the specific purposes in accordance with the previous respective announcements. The remaining approximately HK\$22 million has remained unutilised as at the date of this report and the Company has no intention to alter the plan for the use of the unutilised proceeds above as disclosed in the previous respective announcements of the Company.



An analysis comparing the business objectives as stated in the Company's prospectus issued on 9th October 2000 (the "Prospectus") with the Group's actual business progress up to 31st March 2002 is set out below:

**Business objectives as stated in the Prospectus**

**Actual business progress/change in business objectives (if any)**

*Additional medical centres:*

- Increase the number of medical centres by 12
- Explore the feasibility of introducing the Town Health Centre Network concept in China by setting up a "prototype" practice with a local partner

Six new medical centres were established in strategic locations in Hong Kong. Given (1) the overall downturn of the Hong Kong economy; (2) the imbalance in resource allocation between the private and public healthcare sector; and (3) the difficulty in recruiting quality medical practitioners, the Group is cautious in establishing new medical centres.

Nevertheless, the Group will continue to keep track on the medical market development in Hong Kong and adjust its pace of expansion to respond to any market changes.

The Group is actively reviewing the healthcare market in China and is in the process of identifying and selecting suitable local partner for the setting up of a "prototype" practice there. No definite conclusion has been made at this moment in respect of the feasibility of introducing the Town Health Centre Network concept in China.

*Additional integrated medical centre:*

Establish three integrated medical centre

Two new integrated medical centres were established in strategic locations in Hong Kong. The Group will continue to keep track on the medical market development in Hong Kong and adjust its pace of expansion to respond to any market changes.

**Business objectives as stated in the Prospectus****Actual business progress/change in business objectives (if any)***Additional dental practices:*

Increase the number of dental practices by six

The Group operates five more dental practices in various strategic locations in Hong Kong. The Group will continue to keep track on the dental consultation market development in Hong Kong and adjust its pace of expansion to respond to the market changes.

*Electronic clinic and healthcare information database:*

- Further develop and expand the Group's health portal [www.health-easy.com](http://www.health-easy.com)
- Establish a medical and dental database
- Introduce inter-medical centre consultation services
- Introduce on-line sale of healthcare products
- Set up business-to-business channels for sale and distribution of pharmaceutical products to medical and dental practitioners
- Introduce on-line follow-up consultation services for patients of the Town Health Centre Network

The Group was in the process of digitizing its patient records into electronic format.

The Group is also maintaining its health portal [www.health-easy.com](http://www.health-easy.com).

Owing to the adverse sentiment towards internet and e-commerce related business, the Group has been cautious in launching its on-line sale and distribution channels, as well as the introduction of inter-medical centre and on-line follow up consultation services. The Group is currently re-considering the commercial viability of these projects. The Group does not rule out the possibility of canceling these projects so as to concentrate its resources on other promising projects.

*Traditional Chinese medicine development:*

- Establish or acquire one traditional Chinese medicine consultation centre through strategic alliance and/or opportunistic acquisition

The Group acquired a 24% shareholding interest in Wai Yuen Tong Medicine Company Limited ("WYT") in March 2001. WYT is currently operating six traditional Chinese medicine consultation counters (located in its retail shops).

(As mentioned in the section "Management discussion and analysis, in May 2002, the Group entered into a conditional disposal agreement to dispose of its entire interest in WYT)



**Business objectives as stated in the Prospectus**

**Actual business progress/change in business objectives (if any)**

The Group has also entered into a franchise agreement with WYT pursuant to which the Group is establishing its own franchised WYT retail shop. A traditional Chinese medicine consultation counter will also be located in the shop. The retail shop is expected to be in operation in mid 2002.

*Elderly care services*

- Establish and/or acquire not less than 1,500 beds in licensed elderly homes

The Group had been actively identifying suitable and promising investment opportunity and strategic partner in the market. However, up to the date of this report, the Group was unable to identify any specific opportunity or strategic partner for investment.

The Board is also in the view that the operating and marketing environment of the elderly home market is becoming more difficult, due to the following reasons:

- (1) The more stringent regulations currently imposed in the operation and management of elderly care services resulting in a very costly operation in that business;
- (2) The elderly care services market in Hong Kong had been dropped down in the past years, it would be difficult for the Group to make profit in this economic recession; and
- (3) The development would tie up the resources (financial and administrative) of the Group which might otherwise be applied to other more promising and profitable business of the Group, for example, the Group's core business – medical and dental care services.

The Group will continue implementing its business plan regarding the development of elderly care services. However, the Group has slowed down its pace to develop the business due to the current adverse economic environment. The Group will re-adjust its strategy in this business to the best interest to its shareholders. This may include a temporary suspension of the development of this business until a promising business opportunity arises.

**Business objectives as stated in the Prospectus****Actual business progress/change in business objectives (if any)***Child care services development:*

- Commence feasibility study for the acquisition of child care centres
- Identify suitable acquisition opportunities

The Group has been reviewing the child care market in Hong Kong and is actively searching for suitable investment opportunity and strategic partner in the market. However, as at the date of this report, the Group has not yet identified any specific opportunity or strategic partner for investment.

*Health care products:*

- Review and expand the product portfolio to broaden the customer base
- Introduce on-line sale of healthcare products
- Review the feasibility of acquiring the remaining 80% interest in Health Matrix International Limited ("Health Matrix")
- Explore the feasibility of geographical expansion into Taiwan

In respect of product portfolio, the Group continuously monitors the demand and consumption preference of its customers and assess the need to source new/improved products to meet the customers' changing needs.

Owing to the adverse sentiment towards internet and e-commerce, the Group has been cautious in launching on-line sale of healthcare products. The Group is currently re-considering the commercial viability of introducing the on-line sale platform. The Group does not rule out the possibility of canceling these projects so that resources can be re-allocated to other promising development projects of the Group.

The Group has reviewed the financial performance and position of Health Matrix and was in the view that, given the current performance of Health Matrix, an acquisition of the remaining 80% interests in Health Matrix is not beneficial to the Group at this moment. The Group will closely monitor the performance of Health Matrix and re-consider the feasibility of acquisition in a later stage.

The Group has studied the health food market. Given the keen market competition and the general downturn of the Taiwan economy, the Group is in the view that it is not the right time to enter into the Taiwan market.



*Use of proceeds:*

The actual use of proceeds from the new shares issued for listing on GEM of the Exchange in October 2000 (the "IPO") for the period up to 31st March 2002 as compared to the proposed amount set out in the Prospectus are as follows:

	<b>Proposed</b>	<b>Actual</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Additional medical centres	8,000	6,000
Additional integrated medical centres	4,000	4,000
Additional dental practices	2,000	2,000
Electronic clinic and healthcare information database	2,000	2,000
Traditional Chinese medicine development	5,000	5,000
Elderly care services	10,000	–
Child care services development	2,000	–
	<hr/>	<hr/>
	<b>33,000</b>	<b>19,000</b>

*Note* The Company's business plan covers a period up to 31st March 2003. As mentioned in the Prospectus, it was the intention of the Group to finance the business plan partly by proceeds from the IPO and partly by the Group's internal resources. For this reason, the "Actual" amount shown above is in relation to those part of the business plan which were budgeted to be financed by the IPO proceeds. The "Actual" amounts does not necessarily represent the total funds spent by the Group to achieve the Actual Business Progress up to 31st March 2002.

The unutilized proceeds from the IPO is currently placed as deposits with banks in Hong Kong.

Except for the possible change in the usage of funds as mentioned in the section "Elderly care services" above (should such a change in business plan is considered appropriate by the Board in the future), the Group does not at this moment has any intention to alter the plan for the use of the unutilized proceeds raised in the Group's IPO.

**EXECUTIVE DIRECTORS**

**Dr. Cho Kwai Chee**, aged 38, is the Chairman and Chief Executive Officer of the Company as well as the founder of the Group. Dr. Cho graduated from the University of Hong Kong and holds the qualifications of MBBS (HK), FHKCFP, FRACGP, DCH (London), DCH (RCP&SI) and DCH (Glasgow). He is also the president and founder of Town Health Children's Club, honorary president of Hong Kong Women Development Association, vice president of Hong Kong Scout Club – Shatin East Division, A Supt (Surg) of The St. John Ambulance Brigade, a President of Hong Kong Shatin Industries and Commerce Association Limited. Dr. Cho founded the Group in December 1989 and is now responsible for directing the Group's overall business and development strategies. He is a son of Mr. Cho Kam Luk, an Executive Director of the Company. Dr. Cho is also a director of Origin Limited, an initial management shareholder and the substantial shareholder of the Company.

**Dr. Chan Wing Lok, Brian**, aged 38, is the Vice-chairman of the Company. He graduated from the University of Hong Kong and holds the qualifications of MBBS (HK) and DCH (RCP&SI). He joined the Group in 1991. Dr. Chan is responsible for the supervision and training on continued professional developments of the medical practitioners of the Group.

**Dr. Fung Yiu Tong, Bennet**, aged 35, is the Director of Medical Services of the Group. He graduated from the University of Hong Kong and holds the qualifications of MBBS (HK), MRCGP, DCH (London) and DFM (CUHK). He joined the Group in 1994 and is responsible for the strategic development of information technology-related operation of the Group. He also assists Dr. Chan Wing Lok, Brian in the supervision and training of the medical practitioners of the Group. Dr. Fung is also a director of Origin Limited, an initial management shareholder and the substantial shareholder of the Company.

**Mr. Cho Kam Luk**, aged 68, is the father of Dr. Cho Kwai Chee. He has over forty years' experience in interior design and decoration. Over the past ten years, he is responsible for engaging contractors, supervising administrative staff on constructing the premises of the medical centers and integrated medical centers of the Group and the overall design and decoration of such premises. He has been working with the Group since December 1989. He is a director of Hong Kong Industrial Districts Industry and Commerce Associations Limited, a treasurer of Hong Kong Shatin Industries and Commerce Association Limited, a consultant to Shatin JPC Farm and the Vice-chairman of Shatin Livelihood Concern Group. He is also a director of Origin Limited, an initial management shareholder and the substantial shareholder of the Company and a director of Health Matrix International Limited, an associated company of the Company.

**Mr. Cho Kwai Yee, Kevin**, aged 40, is a qualified associate engineer in building services. He has been involved in the field of construction, renovation and business management in the past 15 years and has been holding various senior executive positions in a number of corporations. Mr. Cho is responsible for the business development of the Company. Mr. Cho is the brother of Dr. Cho Kwai Chee, chairman of the Company and Executive Director, and the son of Mr. Cho Kam Luk, Executive Director. Mr. Cho is a director of Health Matrix International Limited, an associated company of the Company.





**Mr. Siu Kam Chau**, aged 37, an executive director and the Compliance Officer of the Company, joined the Group in March 2001. He is responsible for the overall supervision on the accounting, company secretarial and corporate finance functions of the Group. He holds a bachelor degree in accountancy from the City University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He is also a certified public accountant. Before joining the Group, he has worked as a senior executive in two companies which shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited.

#### **NON-EXECUTIVE DIRECTORS**

**Mr. Ip Tak Chuen, Edmond**, aged 50, was appointed as a Non-executive Director of the Company in September 2000. He has been an executive director of Cheung Kong (Holdings) Limited since 1993. Mr. Ip is also an executive director of Cheung Kong Infrastructure Holdings Limited and a non-executive director of TOM.COM.LIMITED.

**Mr. Chan Kin Fung, Phil**, aged 39, a solicitor and professional accountant, currently the Chief Executive Officer of Wallbanck Brothers Capital (Hong Kong) Limited, read law in England at Lancaster University and College of Law, and holds a bachelor of laws degree, a master degree in professional accounting, master degree in applied finance and master of science degree in financial engineering. He is a solicitor of the Supreme Court of England and Wales, Hong Kong and Brunei. He is a legal practitioner in the Supreme Court of Tasmania, Australia, a certified practising accountant of the Australian Society of Certified Practising Accountants and an associate member of the Hong Kong Society of Accountants. He was member of the board of directors of Tung Wah Group of Hospitals (2000–2001). He was appointed as a non-executive Director in November 1999.

#### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Dr. Lui Chi Keung, Charles**, M.B.E., J.P., aged 70, holds a doctor of business management degree from Honoris Causa of La Salle University. He was Chairman of Tung Wah Group of Hospitals (1973-1974) and La Salle Primary School Development Board (1969-1978). Dr. Lui is currently Chairman of the Tung Wah Group of Hospitals (Kwai Chou), Chairman of China CWD Investment Limited. Adviser of Tang Shiu Kin and Ho Tim Charitable Fund, member of promoting the work of office of the Ombudsman, voting special member of Kowloon Tong Club, Governor of the Hong Kong Institute Promotion of Chinese Culture, Honorary Voting Member of The Hong Kong Jockey Club, life governor of the South China Athletic Association, life member of the Chinese General Chamber of Commerce, Hong Kong. He was appointed as an independent non-executive Director in November 1999.

**Mr. Choy Kan Pui**, B.B.S., J.P., aged 72, is the Regional Councillor from 1988 to 1991, Legislative Councillor from 1995 to 1997, Provisional Legislative Councillor from 1997 to 1998, Chairman of Shatin District Board from 1991 to 1997 and Chairman of Shatin Provisional District Board from 1997 to 1999 and member of Shatin District Council from 2000 to present. He was appointed as an Independent Non-executive Director of the Company in November 1999.

**SENIOR MANAGEMENT**

**Mr. Mak Yau Hing**, aged 33 (Financial Controller), is also the company secretary and the qualified accountant of the Company and is responsible for the financial and accounting management and secretarial affairs of the Group. Mr. Mak graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy and is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants, the United Kingdom. Before joining the Group in July 1999, he worked in an international accounting firm in Hong Kong.

**Miss Tse Rit Yuk Ying**, aged 31 (Personal Assistant to Chairman), graduated from the Chinese University of Hong Kong with a Bachelor of Social Science (Government and Public Administration) in 1992. She taught in the secondary school for 2 years before she pursued her study in law in the University of Hong Kong in 1994. She obtained the qualification for the Postgraduate Certificate in Laws (P.C.L.L) in 1996 and was qualified as a solicitor of the High Court of Hong Kong in December 1998. She practiced as a lawyer in a law firm for about a year. She then worked as a LegCo Assistant to the Legislative Councillor representing the Legal Functional Constituency before joining the Group in December 2000. She is responsible for the internal management of the Group and assisting the Chairman in dealing with the Group's business in general.



The Directors are pleased to present their report together with the audited financial statements of Town Health International Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st March 2002.

### **BASIS OF PRESENTATION**

Town Health International Holdings Company Limited was incorporated in the Cayman Islands under the Companies Law (1998 Revision) of the Cayman Islands on 24th August 1999 as an exempted company with limited liability. The Company's shares were listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited on 18th October 2000.

The basis of presentation of the financial statements are set out in Note 2 to the accompanying financial statements.

### **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of the subsidiaries are detailed in Note 15 to the accompanying financial statements.

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31st March 2002 is set out in Note 3 to the financial statements.

### **CUSTOMERS AND SUPPLIERS**

For the year ended 31st March 2002, the five largest customers accounted for approximately 81% (2001 – 82%) of the Group's total turnover. The five largest suppliers of the Group accounted for approximately 60% (2001 – 51%) of the Group's total purchases. In addition, the Group's largest customer accounted for approximately 75% (2001 – 78%) of the Group's total turnover while the largest supplier accounted for approximately 32% (2001 – 19%) of the Group's total purchases.

Included in the five largest customers are Dr. Cho, Chan, Fung & Associates (the "Partnership"), a corporate dental practice operated and 50% owned by Dr. Chik Fu Fai and three medical practices operated by Dr. Cho Kwai Chee, Dr. Fung Yiu Tong, Bennet and an employee-doctor of the Group respectively. The partners of the Partnership are employee-doctors of the Group. Dr. Chik Fu Fai was an executive Director of the Company and has retired from office on 24th July 2001. Dr. Cho Kwai Chee and Dr. Fung Yiu Tong, Bennet are the executive Directors of the Company. Details of the transactions are set out in Note 11 to the accompanying financial statements.

Included in the five largest suppliers are Wai Yuen Tong Medicine Company Limited of which the Group holds a 24% equity interests, and Health Matrix International Limited ("Health Matrix") of which the Group holds a 20% equity interests. As at 31st March 2002, Health Matrix was beneficially owned as to 56.3% by Mr. Cho Kam Luk and 1.4% by Dr. Chan Wing Lok, Brian. Both Mr. Cho and Dr. Chan are executive Directors of the Company.

Other than the aforementioned, at no time during the year, the Directors, their associates, or any shareholders (which, to the knowledge of the Directors, own more than 5% of the Company's share capital) had a beneficial interest in any one of the Group's top five customers or suppliers.

**RESULTS AND APPROPRIATIONS**

Details of the Group's results for the year ended 31st March 2002 are set out in the consolidated income statement on page 35 of this annual report.

The Directors do not recommend the payment of any dividend in respect of the year, and recommend the retained profits of approximately \$30,479,000 at 31st March 2002 be carried forward

**SHARE CAPITAL AND SHARE OPTIONS**

Details of share capital and share options of the Company are set out in Notes 24 and 26 respectively to the accompanying financial statements.

**RESERVES AND RETAINED PROFITS**

Movements in retained profits of the Group during the year are set out in the consolidated income statement on page 35 of this annual report.

Movements in other reserves of the Group during the year are set out in Note 25 to the accompanying financial statements.

As at 31st March 2002, approximately \$19,878,000 of the Company's reserves were available for distribution to its shareholders.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year.

**PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in the Cayman Islands in relation to the issue of new shares by the Company.

**PENSION SCHEME**

Details of the Group's pension scheme are set out in Note 28 to the accompanying financial statements.

**SUBSIDIARIES AND ASSOCIATES**

Particulars of the Company's subsidiaries and associates are set out in Notes 15 and 16 to the accompanying financial statements respectively.



## PROPERTIES AND EQUIPMENT

Movements in properties and equipment during the year are set out in Note 12 to the accompanying financial statements.

## BANK BORROWINGS

Particulars of bank borrowings as at 31st March 2002 are set out in Note 22 to the accompanying financial statements.

## CONVERTIBLE NOTE

On 17th October 2000, a convertible note with a principal amount of \$31,562,500 was issued to Topson Profits Limited (formerly known as Topson Limited ("Topson")), on the terms set out in an agreement dated 20th September 2000. Details of the principal terms of the convertible note are set out in Note 23 to the accompanying financial statements.

## CONNECTED TRANSACTIONS

- (a) Significant related party transactions entered into by the Group during the year ended 31st March 2002 are set out in Note 11 to the accompanying financial statements.
- (b) The following transactions constitute non-exempted continuing connected transactions for the Company under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") and are required to be disclosed herein:
  - (i) The Group has granted licences to medical and dental practices for the use of the name "Town Health Centre" and provides them with limited scope services. Of which, a medical practice is carried on by Dr. Cheng Chor Ho, two dental practices are owned by Dr. Chik Fu Fai and a dental practice is owned by Dr. Leung Chi Sang respectively. Dr. Cheng, Dr. Chik and Dr. Leung were the executive Directors of the Company. Dr. Chik retired from his office of director on 24th July 2001 while Dr. Cheng and Dr. Leung resigned from their offices of director on 24th October 2001

For the year ended 31st March, 2002, the licence fee income charged by the Group to Dr. Cheng, Dr. Chik and Dr. Leung amounted to \$1,920,000 (2001 – \$1,920,000). Details are set out in Note 11 to the accompanying financial statements.

**CONNECTED TRANSACTIONS (cont'd)**

- (ii) The Group entered into a management services agreement with Health Matrix on 6th April, 2000. According to this agreement, the Group will provide to Health Matrix all financial management, administrative and support services. In consideration of the provision of these services, Health Matrix will pay a fixed monthly service fee to the Group.

Health Matrix is beneficially owned as to 20% by the Company, 56.3% by Mr. Cho Kam Luk, 5.0% by Dr. Chik Fu Fai, 1.4% by Dr. Chan Wing Lok, Brian and 2.0% by Dr. Leung Chi Sang. Mr. Cho and Dr. Chan are executive Directors of the Company. Dr. Chik and Dr. Leung were executive Directors of the Company and had retired or resigned from their respective offices on 24th July 2001 and 24th October 2001 respectively.

For the year ended 31st March 2002, the service fee income charged by the Group to Health Matrix amounted to \$840,000 (2001 – \$840,000). Details are set out in Note 11 to the accompanying financial statements.

- (iii) The Group entered into a distribution agreement with Health Matrix. According to the agreement, the Group acts as a distributor of and receives commission from Health Matrix.

For the year ended 31st March 2002, the Group did not involve in any distribution work of Health Matrix and thus receive no commission income from Health Matrix (2001 – approximately \$28,000).

- (iv) In March 2000, the Group entered into licence and management services agreements with Dr. Cho Kwai Chee and Dr. Fung Yiu Tong, Bennet. Under these agreements, the Group grants to Dr. Cho and Dr. Fung the non-exclusive licence to use the name "Town Health Centre" and provide to them a comprehensive range of services.

Dr. Cho is the Chairman and the substantial shareholder of the Company. Dr. Fung is an executive Director of the Company.

For the year ended 31st March 2002, the licence and management fee income charged by the Group to Dr. Cho and Dr. Fung amounted to approximately \$3,333,000 (2001 – approximately \$2,341,000)

The independent non-executive Directors of the Company confirmed that the above transactions had been conducted in ordinary and usual course of business of the Company, on normal commercial terms or terms no less favourable to the Group than terms available to or from independent third parties, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.



## SUBSEQUENT EVENTS

Details of significant subsequent events are set out in Note 32 to the accompanying financial statements.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report were:

### Executive Directors

Dr. Cho Kwai Chee	
Dr. Chan Wing Lok, Brian	
Mr. Sum Kwong Yip, Derek	(Resigned on 1st February 2002)
Dr. Cheng Chor Ho	(Resigned on 24th October 2001)
Dr. Chik Fu Fai	(Retired on 24th July 2001)
Mr. Cho Kam Luk	
Mr. Cho Kwai Yee, Kevin	(Appointed on 24th July 2001)
Mr. Chun Hu Hing	(Retired on 24th July 2001)
Mr. Chow Kai Wah, Gary	(Retired on 24th July 2001)
Dr. Fung Yiu Tong, Bennet	
Dr. Ho Chung Yin	(Retired on 24th July 2001)
Dr. Leung Chi Sang	(Resigned on 24th October 2001)
Mr. Siu Kam Chau	(Appointed on 24th July 2001)

### Non-executive Directors

Mr. Ip Tak Chuen, Edmond  
Mr. Chan Kin Fung, Phil

### Independent non-executive Directors

Dr. Lui Chi Keung, Charles  
Mr. Choy Kan Pui

Each of the non-executive and independent non-executive Directors has been appointed for a term expiring on 27th September, 2002, subject to retirement by rotation and other related provisions as stipulated in the articles of association of the Company.

Save as disclosed above, no director has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

**DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (cont'd)****Independent non-executive Directors (cont'd)**

In accordance with the Article 116 of the Company's Articles of Association, Mr. Chan Wing Lok, Brian, Mr. Cho Kam Luk and Mr. Chan Kin Fung, Phil will retire from office. Mr. Cho Kam Luk, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company. Mr. Chan Wing Lok, Brian and Mr. Chan Kin Fung, Phil will not offer themselves for re-election.

The director proposed for re-election at the forthcoming annual general meeting does not have an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES**

As at 31st March 2002, the interests of the Directors, chief executive and their respective associates in the securities of the Company and its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange under Rule 5.40 of the GEM Listing Rules, were as follows:

- (1) The Company:

Name	Number of shares of the Company	Nature of interests	Percentage of interests
Dr. Chan Wing Lok, Brian	–	Other interests (Note)	–
Mr. Cho Kam Luk	–	Other interests (Note)	–
Dr. Cho Kwai Chee	180,475,846	Corporate interests (Note)	26.12%
Mr. Choy Kan Pui	126,720	Personal interests	0.02%
Dr. Fung Yiu Tong, Bennet	–	Other interests (Note)	–
Dr. Lui Chi Keung, Charles	304,638	Personal interests	0.04%

Note:

An aggregate of 180,475,846 shares were held by Origin Limited, representing approximately 26.12% of the Company's shares in issue as at March 31, 2002. The entire issued share capital of Origin Limited is owned as to approximately 90.50% by Dr. Cho Kwai Chee, 3.59% by Dr. Chan Wing Lok, Brian, 0.71% by Mr. Cho Kam Luk and 1.49% by Dr. Fung Yiu Tong, Bennet.





### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES (cont'd)

- (2) Health Matrix, an associated corporation (within the meaning of the SDI Ordinance) of the Company

Name	Number of shares in Health Matrix	Nature of interests	Percentage of interests
Mr. Cho Kam Luk	5,600,000	Corporate interests (Note)	80%
Dr. Chan Wing Lok, Brian	–	Other interests (Note)	–

Note:

An aggregate of 5,600,000 shares were held by True Destination Incorporated, representing 80% of the shares of Health Matrix in issue as at 31st March 2002. True Destination Incorporated is owned as to approximately 70.36% by Mr. Cho Kam Luk and 1.79% by Dr. Chan Wing Lok, Brian.

Other than disclosed above, as at 31st March 2002, none of the Directors, the chief executive of the Company, nor their respective associates had any interest in any equity or debt securities of the Company or any of its associated corporations.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has adopted a share option scheme approved at an extraordinary general meeting of the Company held on 20th September 2000 under which the Directors of the Company may invite any full-time Director (other than non-executive Directors of the Company appointed from time to time) to take up options to subscribe for shares of the Company. No option had been granted to the Directors during the year ended 31st March 2002.

### DIRECTORS' INTERESTS IN CONTRACTS

Except for the transactions disclosed in Note 11 to the accompanying financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

**SUBSTANTIAL SHAREHOLDER**

As at 31st March 2002, the following entity had registered an interest in 10% or more of the issued share capital of the Company:

Name	Number of shares held in the Company	Nature of interests	Percentage holding
Origin Limited	180,475,846	Corporate interest (Note)	26.12%

Note:

An aggregate of 180,475,846 shares were held by Origin Limited, representing approximately 26.12% of the Company's shares in issue as at March 31, 2002. The entire issued share capital of Origin Limited is owned as to approximately 90.50% by Dr. Cho Kwai Chee, 3.59% by Dr. Chan Wing Lok, Brian, 0.71% by Mr. Cho Kam Luk and 1.49% by Dr. Fung Yiu Tong, Bennet.

Other than disclosed above, the Company had no notice of any interest to be recorded under Section 16(1) of the SDI Ordinance as at 31st March, 2002.

**SPONSORS' INTERESTS**

Pursuant to an agreement dated 5th October 2000 (the "Sponsor Agreement") entered into between the Company, First Shanghai Capital Limited ("First Shanghai") and CEF Capital Limited ("CEF"), First Shanghai and CEF 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.

Pursuant to an agreement dated 24th October 2001 (the "Supplemental Agreement") entered into between the Company, First Shanghai and CEF, the appointment of CEF as one of the sponsors of the Company under the Sponsor Agreement has been terminated with effect from 24th October 2001. First Shanghai remains the sole sponsor of the Company under the Supplemental Agreement until 31st March 2003.

As at 31st March 2002, neither First Shanghai nor its respective directors or employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) has any interests in the shares of the Company, including options or rights to subscribe for any such shares.



## **FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES**

As at 31st March 2002, the Group had provided a corporate guarantee to a financial institution in respect of the banking facilities granted to Luxembourg Medicine Company Limited, an associate of the Group, to the extent of \$7,060,000, out of which \$6,640,000 was utilized on the same date.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference in compliance with Rules 5.23 to 5.27 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 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. Mr. Choy Kan Pui is the chairman of the audit committee. Full committee meeting was held one time during the year.

## **BOARD PRACTICE AND PROCEDURES**

For the year ended 31st March 2002, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

## **AUDITORS**

The accompanying financial statements have been audited by Arthur Andersen & Co. A resolution for the appointment of PricewaterhouseCoopers as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Dr. Cho Kwai Chee**

Chairman

Hong Kong,  
25th June 2002



**TO THE SHAREHOLDERS OF TOWN HEALTH INTERNATIONAL HOLDINGS COMPANY LIMITED**

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

We have audited the financial statements on pages 35 to 83 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at March 31, 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Arthur Andersen & Co**

*Certified Public Accountants*

Hong Kong,  
June 25, 2002

# CONSOLIDATED INCOME STATEMENT

Annual Report 2002



For the year ended March 31, 2002  
(Amounts expressed in Hong Kong dollars)

	Note	2002 \$	2001 \$
<b>Turnover</b>	3	<b>100,029,884</b>	102,531,210
Cost of services rendered			
– Pharmaceutical supplies		<b>(7,713,231)</b>	(6,400,880)
– Medical salaries		<b>(48,814,504)</b>	(35,998,674)
<b>Gross profit</b>		<b>43,502,149</b>	60,131,656
Other revenue	3	<b>1,177,252</b>	2,091,387
Operating expenses		<b>(40,066,599)</b>	(24,792,517)
Profit from operations	4	<b>4,612,802</b>	37,430,526
Finance costs	5	<b>(4,987,272)</b>	(1,965,136)
Share of profits of associates		<b>9,391,132</b>	2,655,944
Less: Amortisation of goodwill arising on acquisitions of associates		<b>(3,289,244)</b>	(330,080)
Share of profits of associates, net of amortisation of goodwill arising on acquisitions of associates		<b>6,101,888</b>	2,325,864
<b>Profit before tax</b>		<b>5,727,418</b>	37,791,254
Taxation	7	<b>(3,554,731)</b>	(5,710,079)
<b>Profit after tax but before minority interests</b>		<b>2,172,687</b>	32,081,175
Minority interests		<b>(143,509)</b>	(30,892)
<b>Profit attributable to shareholders</b>		<b>2,029,178</b>	32,050,283
Retained profits, beginning of year		<b>32,050,283</b>	18,116,594
Dividend	9	–	(18,116,594)
<b>Retained profits, end of year</b>		<b>34,079,461</b>	32,050,283
<b>Earnings per share – Basic</b>	10(a)	<b>0.4 cents</b>	9.5 cents
<b>Earnings per share – Diluted</b>	10(b)	<b>N/A</b>	9.3 cents

A separate statement of recognised gains and losses is not presented because there were no recognised gains or losses other than the profit attributable to shareholders.



	Notes	2002 \$	2001 \$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Properties and equipment	12	9,529,174	7,268,218
Intangible assets	13	8,336,385	–
Goodwill	14	32,813,021	11,558,441
Interests in associates	16	118,468,009	76,709,698
Investments in equity securities	17	5,829,677	1,027,755
Deposit for decoration work		6,000,000	–
		<u>180,976,266</u>	<u>96,564,112</u>
<b>Current assets</b>			
Inventories	18	10,228,670	3,187,583
Accounts receivable	19	9,106,627	10,165,251
Prepayments, deposits and other current assets	20	8,354,879	16,359,298
Amounts due from related parties	11(b)	1,925,718	2,694,773
Prepaid tax		2,881,784	–
Cash and bank balances		49,347,279	39,011,652
		<u>81,844,957</u>	<u>71,418,557</u>
<b>Current liabilities</b>			
Amounts due to minority shareholders of a subsidiary	11(d)	(391,510)	–
Accounts payable and accruals	11(c) & 21	(9,703,299)	(4,592,790)
Provision for taxation		(83,197)	(3,234,514)
Current portion of bank borrowings	22	(2,575,807)	(12,000,000)
Convertible note	23	(37,701,973)	–
		<u>(50,455,786)</u>	<u>(19,827,304)</u>
<b>Net current assets</b>		<u>31,389,171</u>	<u>51,591,253</u>
<b>Total assets less current liabilities</b>		<u>212,365,437</u>	<u>148,155,365</u>
<b>Non-current liabilities</b>			
Bank borrowings	22	(3,264,193)	–
Convertible note	23	–	(33,162,500)
		<u>(3,264,193)</u>	<u>(33,162,500)</u>
Minority interests		<u>(175,225)</u>	<u>(31,128)</u>
<b>NET ASSETS</b>		<u>208,926,019</u>	<u>114,961,737</u>



As at March 31, 2002

(Amounts expressed in Hong Kong dollars)

	Note	2002 \$	2001 \$
<b>CAPITAL AND RESERVES</b>			
Share capital	24	<b>69,100,000</b>	40,000,000
Retained profits		<b>34,079,461</b>	32,050,283
Other reserves	25	<b>105,746,558</b>	42,911,454
		<b><u>208,926,019</u></b>	<b><u>114,961,737</u></b>

Signed on behalf of the Board of Directors by

**Dr. Cho Kwai Chee**  
Director

**Mr. Siu Kam Chau**  
Director



As at March 31, 2002

(Amounts expressed in Hong Kong dollars)

	Note	2002 \$	2001 \$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	15	<b>214,924,763</b>	139,720,152
Amount due from an associate	16	<b>74,641</b>	260,254
		<b>214,999,404</b>	139,980,406
<b>Current assets</b>			
Prepayments, deposits and other current assets	20	<b>339,601</b>	4,543,875
Cash and bank balances		<b>12,114,571</b>	733,756
		<b>12,454,172</b>	5,277,631
<b>Current liabilities</b>			
Accounts payable and accruals	21	<b>(59,403)</b>	(960,218)
Current portion of bank borrowings	22	<b>(2,508,000)</b>	(12,000,000)
Convertible note	23	<b>(37,701,973)</b>	–
		<b>(40,269,376)</b>	(12,960,218)
<b>Net current liabilities</b>		<b>(27,815,204)</b>	(7,682,587)
<b>Total assets less current liabilities</b>		<b>187,184,200</b>	132,297,819
<b>Non-current liabilities</b>			
Bank borrowings	22	<b>(2,492,000)</b>	–
Convertible note	23	–	(33,162,500)
		<b>(2,492,000)</b>	(33,162,500)
<b>NET ASSETS</b>		<b>184,692,200</b>	99,135,319
<b>CAPITAL AND RESERVES</b>			
Share capital	24	<b>69,100,000</b>	40,000,000
Accumulated losses		<b>(8,301,135)</b>	(1,922,912)
Other reserves	25	<b>123,893,335</b>	61,058,231
		<b>184,692,200</b>	99,135,319

Signed on behalf of the Board of Directors by

**Dr. Cho Kwai Chee**

Director

**Mr. Siu Kam Chau**

Director



# CONSOLIDATED CASH FLOW STATEMENT

Annual Report 2002



For the year ended March 31, 2002  
(Amounts expressed in Hong Kong dollars)

	Note	2002 \$	2001 \$
<b>Net cash inflow from operating activities</b>	29(a)	<b>8,239,255</b>	28,769,401
<b>Returns on investments and servicing of finance</b>			
Dividend paid		–	(18,116,594)
Dividend received from an unlisted investment		<b>3,000</b>	–
Dividend received from an associate		<b>1,585,958</b>	–
Interest received		<b>921,709</b>	1,685,139
Interest paid		<b>(447,799)</b>	(365,136)
<b>Net cash inflow (outflow) from returns on investments and servicing of finance</b>		<b>2,062,868</b>	(16,796,591)
<b>Taxation</b>			
Hong Kong profits tax paid		<b>(8,157,456)</b>	(5,766,820)
<b>Investing activities</b>			
Additions of properties and equipment		<b>(5,052,725)</b>	(5,242,732)
Proceeds from disposal of equipment		<b>28,109</b>	–
Acquisitions of intangible assets		<b>(8,538,600)</b>	–
Acquisitions of interests in medical and dental practices	29(b)	<b>(13,970,769)</b>	(8,768,000)
Deposit for purchase of equity securities		–	(4,500,000)
Investments in equity securities		<b>(463,300)</b>	(321,095)
Acquisitions of equity interests in subsidiaries	29(c)	<b>(15,439,604)</b>	(2,999,000)
Acquisitions of equity interests in associates		<b>(30,245,923)</b>	(70,037,753)
Increase in amounts due from associates		<b>(1,846,842)</b>	(1,665,739)
Refund (Payment) of deposit for initial assessment of investment opportunities		<b>4,394,000</b>	(4,394,000)
Deposit for decoration work		<b>(6,000,000)</b>	–
<b>Net cash outflow from investing activities</b>		<b>(77,135,654)</b>	(97,928,319)
<b>Net cash outflow before financing</b>		<b>(74,990,987)</b>	(91,722,329)
<b>Financing</b>	29(d)		
Proceeds from issue of shares		<b>94,980,000</b>	65,305,000
Share issue expense		<b>(3,044,896)</b>	(18,709,067)
Issue of convertible notes		–	60,942,400
New bank loan		<b>5,000,000</b>	14,000,000
Repayment of bank loan		<b>(12,000,000)</b>	(2,000,000)
Advances from minority shareholders of a subsidiary		<b>391,510</b>	–
<b>Net cash inflow from financing</b>		<b>85,326,614</b>	119,538,333
<b>Increase in cash and bank balances</b>		<b>10,335,627</b>	27,816,004
<b>Cash and Bank Balances</b>			
Beginning of year		<b>39,011,652</b>	11,195,648
End of year		<b>49,347,279</b>	39,011,652



## **1. ORGANISATION AND OPERATIONS**

Town Health International Holdings Company Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law (1998 Revision) of the Cayman Islands on August 24, 1999 as an exempted company with limited liability. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of Hong Kong Exchange and Clearing Limited (the "Exchange") since October 18, 2000.

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in Notes 15 and 16 to the financial statements respectively.

The Company and its subsidiaries are collectively referred to as the "Group".

## **2. PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention, and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"). Principal accounting policies are summarised below:

### **(a) Adoption of Statements of Standard Accounting Practice**

In the current year, the Group has adopted, for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 10 "Accounting for investments in associates" and SSAP 17 "Property, plant and equipment". Other than the presentation of an analysis of total future minimum lease payments in accordance with SSAP 14 (revised "Leases" disclosed in Note 27 to the financial statements, the Group considers that the changes made to the above SSAPs will not have a material impact on the financial statements of the Group.



(CONT'D)

*(Amounts expressed in Hong Kong dollars unless otherwise stated)***2. PRINCIPAL ACCOUNTING POLICIES (cont'd)****(b) Basis of consolidation**

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are included in the income statement to the extent of dividends received and receivable.

**(c) Turnover**

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

**(d) Revenue recognition**

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

- (i) Management and administrative service fee income is recognised when services are rendered.
- (ii) Licence fee income is recognised with reference to the gross revenue of the licensee or a fixed monthly charge specified in the agreements.
- (iii) Dental consultation income is recognised when the related services are rendered.
- (iv) Corporate healthcare service income is recognised with reference to a fixed monthly charge specified in the agreements.

**2. PRINCIPAL ACCOUNTING POLICIES (cont'd)****(d) Revenue recognition (cont'd)**

- (v) Other consultancy fee income is recognised when the related services are rendered.
- (vi) Interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.
- (vii) Dividend income is recognised when the right to receive payment is established.

**(e) Properties and equipment and depreciation**

Properties and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

Leasehold land and leasehold improvements are depreciated over the remaining period of the respective leases. Depreciation of other assets is calculated on a straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

Buildings	5%
Furniture and fixtures	20%
Motor vehicle	20%
Tools and equipment	20%–33 1/3%

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.



(CONT'D)

*(Amounts expressed in Hong Kong dollars unless otherwise stated)***2. PRINCIPAL ACCOUNTING POLICIES (cont'd)****(f) Intangible assets**

Intangible assets represent the costs of acquisition of an exclusive right to produce and sell health products and an exclusive right to operate franchise shops within the franchise period of five years.

Intangible assets are measured initially at cost and are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortisation and any impairment losses.

Cost in relation to the acquisition of the exclusive right to produce and sell health products is amortised on a straight-line basis over their estimated useful lives of twenty years. Cost in relation to the acquisition of the exclusive right to operate franchise shops is amortised on a straight-line basis over the franchise period of five years.

The amortisation period and the amortisation method are reviewed annually at each financial year end.

**(g) Goodwill**

Goodwill arising on acquisitions of interests in subsidiaries, associates and medical and dental practices represents the excess of the cost of acquisition over the Group's share of the fair value of the separable net assets (liabilities) acquired. Goodwill is amortised on a straight-line basis over the estimated economic useful lives of ten to twenty years. The Company's directors review and evaluate, taking into consideration current results and future prospects of the related subsidiaries, associates and the medical and dental practices, the carrying value of goodwill periodically.

**(h) Associates**

Investments in associates where significant influence is exercised by the Group are accounted for using the equity method in the consolidated financial statements, whereby the investment is initially recorded at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement of associates, amortisation of the difference between the cost of investment and the Group's share of the aggregate fair value of the identifiable net assets acquired at the date of acquisition (i.e. goodwill) and less any accumulated impairment losses. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

**2. PRINCIPAL ACCOUNTING POLICIES (cont'd)****(i) Investments in equity securities**

Investments in equity securities are equity securities intended to be held on a continuing basis and are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of investments in equity securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense in the income statement unless there is evidence that the decline is temporary.

Provisions against the carrying value of investments in equity securities are reversed to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal or transfer of the investments in equity securities, any profit and loss thereon is accounted for in the income statement.

**(j) Inventories**

Inventories consist of (i) pharmaceutical supplies, which are medications prescribed in the provision of medical services to the patients of clinics, and (ii) health products and traditional Chinese medicine which are held for sale. Inventories are carried at cost less any necessary provision for obsolescence.

Cost is calculated on the first-in, first-out basis and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

**(k) Accounts receivable**

Accounts receivable are stated at face value, after provision for doubtful accounts. Provision is made against accounts receivable to the extent they are considered to be doubtful.

**(l) Convertible notes**

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance costs recognised in the income statement in respect of the convertible notes, including the premium payable upon the final redemption of the convertible notes, are calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible notes of each accounting period.



(CONT'D)

*(Amounts expressed in Hong Kong dollars unless otherwise stated)***2. PRINCIPAL ACCOUNTING POLICIES (cont'd)****(m) Provisions**

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

**(n) Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**(o) Impairment of assets**

Properties and equipment, intangible assets, goodwill, investments in associates and subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

**(p) Operating leases**

Leases are accounted for as operating leases where substantially all the risks and rewards of ownership remain with the lessor. Rental payments under operating leases are charged to the income statement on a straight-line basis over the lease term. The aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

**2. PRINCIPAL ACCOUNTING POLICIES (cont'd)****(q) Website development costs**

Website development costs are charged to the income statement in the period in which they are incurred.

**(r) Staff retirement benefits**

Costs of staff retirement benefits are charged to the income statement in the period in which they are incurred.

**(s) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

**(t) Deferred taxation**

Deferred taxation is provided under the liability method in respect of timing differences between profit computed for taxation purposes and profit stated in the financial statements to the extent that it is probable that a liability or an asset will crystallise.

**(u) Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(v) Subsequent events**

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

**(w) Segment information**

For management purposes, the Group is organised into two major operating businesses. These operating business are the basis upon which the Group reports its primary segment information. Financial information on business and geographical segments is presented in Note 3.





(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**3. TURNOVER AND OTHER REVENUE AND SEGMENT INFORMATION**

(a) An analysis of each significant category of revenue is detailed as follows:

	<b>2002</b>	2001
	\$	\$
Turnover		
– Management and administrative service fee income	<b>71,753,712</b>	76,199,809
– Licence fee income	<b>14,230,000</b>	13,930,000
– Dental consultation income	<b>14,046,172</b>	9,801,401
– Corporate healthcare service income	–	2,600,000
	<hr/>	<hr/>
Total turnover	<b>100,029,884</b>	102,531,210
Other revenue		
– Interest income		
– bank deposits	<b>548,639</b>	715,722
– subscription monies	–	691,165
– associates	<b>216,577</b>	–
– other	<b>156,493</b>	278,252
	<hr/>	<hr/>
	<b>921,709</b>	1,685,139
– Dividend income from an unlisted investment	<b>3,000</b>	–
– Other consultancy fee income	<b>252,543</b>	406,248
	<hr/>	<hr/>
	<b>255,543</b>	406,248
Total other revenue	<b>1,177,252</b>	2,091,387
Total revenue	<b>101,207,136</b>	104,622,597



**3. TURNOVER AND OTHER REVENUE AND SEGMENT INFORMATION (cont'd)**

(b) The Group, principally operates in the following business segments:

- Management and administrative services: provision of management and administrative services to private medical and dental practitioners, and licensing of the name TOWN HEALTH CENTRE
- Dental consultation services: operations of the Group's own dental practices

	Management and administrative services		Dental consultation services		Corporate and others		Elimination		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>REVENUE</b>										
External revenue	83,743,584	87,421,403	14,046,172	9,801,401	2,240,128	5,308,406	-	-	100,029,884	102,531,210
Inter-segment revenue	334,302	-	-	-	8,534,000	3,989,000	(8,868,302)	(3,989,000)	-	-
	<u>84,077,886</u>	<u>87,421,403</u>	<u>14,046,172</u>	<u>9,801,401</u>	<u>10,774,128</u>	<u>9,297,406</u>			<u>100,029,884</u>	<u>102,531,210</u>
Other revenue	802,080	663,735	-	-	375,172	1,427,652			<u>1,177,252</u>	<u>2,091,387</u>
<b>RESULTS</b>										
Segment results	7,675,733	37,444,805	(21,686)	888,539	(3,041,245)	(902,818)			4,612,802	37,430,526
Finance costs									(4,987,272)	(1,965,136)
Share of profits of associates									9,391,132	2,655,944
Amortisation of goodwill arising on acquisitions of associates									(3,289,244)	(330,080)
Taxation									(3,554,731)	(5,710,079)
Minority interests									(143,509)	(30,892)
Net profit attributable to shareholders									<u>2,029,178</u>	<u>32,050,283</u>



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**3. TURNOVER AND OTHER REVENUE AND SEGMENT INFORMATION (cont'd)**

(b) (cont'd)

	Management and administrative services		Dental consultation services		Corporate and others		Elimination		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
OTHER INFORMATION										
Segment assets	112,074,409	38,464,938	23,919,616	10,130,298	128,891,446	51,858,965	(120,532,257)	(9,181,230)	144,353,214	91,272,971
Interests in associates									118,468,009	76,709,698
Total assets									262,821,223	167,982,669
Segment liabilities	84,479,525	5,851,105	23,269,066	9,349,601	66,503,645	46,970,328	(120,532,257)	(9,181,230)	53,719,979	52,989,804
Capital expenditures incurred during the year	4,012,709	2,694,555	197,041	917,068	1,682,975	1,631,109			5,892,725	5,242,732
Depreciation	2,567,916	1,470,512	324,685	296,746	591,055	449,484			3,483,656	2,216,742
Amortisation of goodwill arising on acquisitions of subsidiaries, medical and dental practices	697,363	2,550	499,202	181,250	379,824	24,995			1,576,389	208,795
Amortisation of intangible asset	-	-	-	-	202,215	-			202,215	-
Impairment loss recognised in income statement	-	-	-	-	137,500	-			137,500	-
Provision for bad and doubtful debts	473,819	-	-	-	23,878	-			497,697	-

(c) No geographical segment information is presented because the business activities of the Group are conducted in Hong Kong.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**4. PROFIT FROM OPERATIONS**

Profit from operations is determined after charging the following:

	<b>2002</b>	2001
	\$	\$
Depreciation	<b>3,483,656</b>	2,216,742
Amortisation of intangible asset	<b>202,215</b>	–
Amortisation of goodwill arising on acquisitions of subsidiaries, medical and dental practices	<b>1,576,389</b>	208,795
Loss on disposal of properties and equipment	<b>120,004</b>	–
Provision for impairment in value of investment in equity securities	<b>137,500</b>	–
Provision for an amount due from an investee	<b>23,878</b>	–
Provision for bad and doubtful debts	<b>473,819</b>	–
Staff costs (including directors' emoluments and medical salaries paid to doctors, dentists and nurses)	<b>57,627,522</b>	40,937,242
Operating lease rental	<b>13,206,961</b>	8,990,588
Auditors' remuneration	<b>700,000</b>	773,000
Website development costs	–	316,950

Comparative figure of amortisation of goodwill arising on acquisitions of associates is reclassified from operating expenses and separately presented on the consolidated income statement in order to conform to the current year's presentation.

**5. FINANCE COSTS**

	<b>2002</b>	2001
	\$	\$
Interest expense on		
– bank overdraft	<b>6,573</b>	78,727
– convertible notes	<b>4,539,473</b>	1,676,866
– bank loan wholly repayable within one year	<b>440,524</b>	209,543
– bank loan not wholly repayable within one year	<b>702</b>	–



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS**

- (a) Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	<b>2002</b>	2001
	\$	\$
Executive directors		
– Fees	<b>6,000</b>	24,000
– Other emoluments		
– Basic salaries, allowances and benefits in kind	<b>4,283,846</b>	2,532,267
– Performance bonus	<b>643,054</b>	495,954
– Pension scheme contributions	<b>60,000</b>	12,130
Non-executive and independent non-executive directors		
– Fees	<b>12,000</b>	12,000
	<b>5,004,900</b>	3,076,351

No directors waived any emoluments during the year. No payment as inducement to join or upon joining the Group or as compensation for loss of office was paid or is payable to any directors.

An analysis of directors' emoluments by number of directors and emolument range is as follows:

	<b>2002</b>	2001
Executive directors		
– Nil to \$1,000,000	<b>11</b>	10
– \$1,000,001 to \$1,500,000	<b>2</b>	1
Non-executive and independent non-executive directors		
– Nil to \$1,000,000	<b>4</b>	4
	<b>17</b>	15



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (cont'd)**

(a) (cont'd)

Details of emoluments of individual executive and non-executive and independent non-executive directors are set out as below:

	<b>2002</b>	2001
	\$	\$
Executive director A	<b>1,452,000</b>	1,443,033
Executive director B	<b>999,601</b>	748,773
Executive director C	<b>1,102,833</b>	–
Executive director D	<b>943,013</b>	386,499
Executive director E	<b>489,453</b>	465,046
Executive director F	<b>3,000</b>	3,000
Executive director G	<b>3,000</b>	–
Another six executive directors	–	18,000
Non-executive director A	<b>3,000</b>	3,000
Non-executive director B	<b>3,000</b>	3,000
Independent non-executive director A	<b>3,000</b>	3,000
Independent non-executive director B	<b>3,000</b>	3,000
	<b>5,004,900</b>	<b>3,076,351</b>

(b) Details of emoluments paid to the five highest paid individuals (including directors and other employees) are as follows:

	<b>2002</b>	2001
	\$	\$
Basic salaries and allowances	<b>5,292,000</b>	4,886,800
Performance bonus	<b>4,882,323</b>	2,069,997
Pension scheme contributions	<b>60,000</b>	15,163
	<b>10,234,323</b>	<b>6,971,960</b>

One (2001–1) of the five highest paid individuals is a director of the Company, whose emoluments are included in Note 6(a) above.

During the year, no emoluments of the five highest paid individuals (including directors and other employees) were incurred as inducement to join or upon joining the Group or as compensation for loss of office.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS** (cont'd)

(b) (cont'd)

An analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument range is as follows:

	2002	2001
Nil to \$1,000,000	–	–
\$1,000,001 to \$1,500,000	1	4
\$1,500,001 to \$2,000,000	4	1
	<u>5</u>	<u>5</u>

**7. TAXATION**

Hong Kong profits tax has been provided at 16% (2001-16%) of the estimated assessable profits for the year.

	2002	2001
	\$	\$
Taxation attributable to the Group		
– Current tax	2,124,355	5,708,941
Taxation attributable to associates		
– Current tax	1,430,376	1,138
	<u>3,554,731</u>	<u>5,710,079</u>

There was no significant unprovided deferred taxation as at March 31, 2001 and 2002 and for the years then ended because there were no significant timing differences.

**8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The consolidated profit attributable to shareholders includes a loss of approximately \$6,378,000 (2001–profit of \$16,224,000) dealt with in the financial statements of the Company.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**9. DIVIDEND**

	2002 \$	2001 \$
Special dividend	—	18,116,594

On April 30, 2000, a special dividend of approximately \$18,117,000 was declared to the shareholders then registered prior to the Group's reorganisation completed in August 2000 (the "Reorganisation").

No dividend was declared or proposed during the year.

**10. EARNINGS PER SHARE****(a) Basic**

The calculation of basic earnings per share for the year ended March 31, 2002 is based on the consolidated profit attributable to shareholders of approximately \$2,029,000 (2001—\$32,050,000) and on the weighted average of approximately 519,000,000 shares (2001—337,000,000) outstanding during the year.

**(b) Diluted**

The calculation of diluted earnings per share for the year ended March 31, 2002 is based on the consolidated profit attributable to shareholders of approximately \$6,569,000 (2001—\$33,727,000) and on approximately 574,000,000 shares (2001—364,000,000), being the weighted average number of shares outstanding during the year, and all potential ordinary shares as at March 21, 2002.

No diluted earnings per share is presented for 2002 since the outstanding convertible note was anti-dilutive.

**(c) Reconciliation**

Reconciliation of the number of ordinary shares for calculation of basic and diluted earnings per share:

	2002	2001
Weighted average number of ordinary shares used in calculating basic earnings per share	519,000,000	337,000,000
Effect of dilutive potential ordinary shares in respect of convertible note	55,000,000	27,000,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	574,000,000	364,000,000





(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**11. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

- (a) Particulars of significant transactions between the companies comprising the Group and related parties during the year are summarised below:

	<b>2002</b>	2001
	<b>\$</b>	<b>\$</b>
Management and administrative service fee income and licence fee income from Dr. Cho, Chan, Fung & Associates (the "Partnership"), the partners of which are employee-doctors of the Group (Note (i))		
– Management and administrative service fee income	<b>63,000,689</b>	70,442,442
– Licence fee income	<b>10,020,000</b>	9,130,000
Management and administrative service fee income and licence fee income from four medical practices owned and operated by two executive directors of the Company and two employee-doctors of the Group (the "Medical Practices") (Note (i))		
– Management and administrative service fee income	<b>5,257,108</b>	2,066,285
– Licence fee income	<b>850,000</b>	600,000
Licence fee income from (Note (ii))		
– Medical and dental practices which are owned and operated by certain medical and dental practitioners who were executive directors of the Company (the "Medical and Dental Practices"). The executive directors resigned on October 24, 2001	<b>960,000</b>	960,000



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**11. RELATED PARTY TRANSACTIONS (cont'd)**

- (a) Particulars of significant transactions between the companies comprising the Group and related parties during the year are summarised below: (cont'd)

	<b>2002</b>	2001
	<b>\$</b>	<b>\$</b>
– A dental practice, which is a limited company, with one of its two shareholders being an executive director of the Company. The executive director retired on July 24, 2001	<b>960,000</b>	960,000
Management and administrative service income from associates (Note (iii))	<b>1,640,129</b>	840,000
Patient referral fee received from a dental practice, which is a limited liability company, with one of its shareholders being an executive director of the Company	–	144,600
Acquisition of a property from Mr. Cho Kwai Yee, an executive director of the Company and a brother of Dr. Cho Kwai Chee, at fair value	<b>400,000</b>	–
Acquisition of a 49% equity interest in Oriental Elite Limited (“Oriental Elite”), of which Dr. Cho Kwai Chee, an executive director of the Company, is a director, at fair value	<b>776,234</b>	–
Rental expenses charged by Oriental Elite, a 49%-owned associate	<b>600,000</b>	600,000
Purchase of pharmaceutical supplies from a supplier controlled and owned by an initial management shareholder of the Company. The initial management shareholder disposed of all his interests in the supplier on January 23, 2001	–	1,322,401
Purchase of health food from Health Matrix International Limited (“Health Matrix”), a 20%-owned associate	<b>869,090</b>	–



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**11. RELATED PARTY TRANSACTIONS (cont'd)**

- (a) Particulars of significant transactions between the companies comprising the Group and related parties during the year are summarised below: (cont'd)

	2002 \$	2001 \$
Purchase of traditional Chinese medicine from Wai Yuen Tong Medicine Company Limited, a 24%-owned associate	<b>4,638,692</b>	–
Interest income from Luxembourg Medicine Company Limited (“Luxembourg”), a 49.88%-owned associate (Note (iv))	<b>181,236</b>	–

- (i) Pursuant to several licence and management services agreements, the Group granted a licence to the medical practices owned and operated by the Partnership and the Medical Practices to use the name TOWN HEALTH CENTRE and all proprietary rights and know-how owned by the Group in relation thereto and also agreed to provide a comprehensive range of management and administrative services to the Partnership and the Medical Practices to assist them to carry on their medical or dental business for an initial period of three years with automatic renewal upon expiry of the agreement. The Group receives management and administrative service fee income and licence fee income in return.
- (ii) Pursuant to several limited scope licence and management services agreements with the Medical and Dental Practices, the Group granted a licence to them to use the name TOWN HEALTH CENTRE and all proprietary rights and know-how owned by the Group in relation thereto and also agreed to provide limited scope management services to those practices to assist them to carry on their medical or dental business for a term of three years. The Group receives licence fee income in return.
- (iii) The Group agreed to provide financial management, accounting, administrative and support services to two associates. In return the Group receives management and administrative service fee income.
- (iv) During the year, the Group advanced loans to Luxembourg for working capital purposes. The maximum aggregate balance of the loans during the year was \$12,500,000. The advances were unsecured and repayable within one year. Interest was charged at prevailing market rate plus 1% per annum. All such advances were repaid as at March 31, 2002.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**11. RELATED PARTY TRANSACTIONS (cont'd)**

(b) Details of the amounts due from related parties of the Group are summarised below:

	<b>2002</b>	<b>Group</b>
	\$	2001
		\$
Management and administrative service fee income receivable from the Partnership	<b>1,497,354</b>	648,795
Licence fee income receivable from related parties	<b>291,476</b>	1,924,140
Advances to Origin Limited, a substantial shareholder of the Company	<b>136,888</b>	121,838
	<b><u>1,925,718</u></b>	<b><u>2,694,773</u></b>

Balances with the related parties are unsecured, non-interest bearing and have no fixed repayment terms.

- (c) Included in accounts payable and accruals is an amount of \$2,838,692 due to an associate, arising from purchase of inventories from the associate in the ordinary course of business. The balance is unsecured, interest-free and has a credit term of 60 days.
- (d) Amounts due to minority shareholders of a subsidiary represent amounts advanced from the minority shareholders. The balances are unsecured, interest-free and have no fixed repayment dates.

In the opinion of the directors, all the above transactions were conducted in the ordinary course of business and on normal commercial terms.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**12. PROPERTIES AND EQUIPMENT****Group**

Details of movements in properties and equipment are as follows:

	2002					Total	2001
	Land and buildings	Leasehold improvements	Furniture and fixtures	Motor vehicle	Tools and equipment		
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Beginning of year	-	5,036,284	392,053	88,925	4,605,594	10,122,856	5,006,334
Additions	2,484,820	2,030,514	60,068	-	1,317,323	5,892,725	5,242,732
Disposal	-	(187,856)	(5,480)	-	(49,680)	(243,016)	(126,210)
End of year	2,484,820	6,878,942	446,641	88,925	5,873,237	15,772,565	10,122,856
<b>Accumulated depreciation</b>							
Beginning of year	-	1,438,492	87,776	88,925	1,239,445	2,854,638	764,106
Charge for the year	20,339	2,173,745	84,629	-	1,204,943	3,483,656	2,216,742
Disposal	-	(84,791)	(1,098)	-	(9,014)	(94,903)	(126,210)
End of year	20,339	3,527,446	171,307	88,925	2,435,374	6,243,391	2,854,638
<b>Net book value</b>							
End of year	2,464,481	3,351,496	275,334	-	3,437,863	9,529,174	7,268,218
Beginning of year	-	3,597,792	304,277	-	3,366,149	7,268,218	4,242,228

All the land and buildings of the Group are held on medium-term leases in Hong Kong.

As at March 31, 2002, land and building with an aggregate net book value of approximately \$1,217,000 (2001–Nil) were mortgaged as collateral for a mortgage loan of the Group (Note 30).



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**13. INTANGIBLE ASSETS****Group**

Intangible assets represent the costs of acquisition of (i) an exclusive right to produce and sell four health products in the People's Republic of China (the "Production and Sale Right"); and (ii) an exclusive right to operate a maximum of three franchise shops in Shatin in the name of "Wai Yuen Tong" for a term of five years (the "Franchise Right").

Details of movements in intangible assets are as follows:

	2002		
	Production and Sale right	Franchise Right	Total
	\$	\$	\$
Cost			
Addition and end of year	<b>8,088,600</b>	<b>450,000</b>	<b>8,538,600</b>
Amortisation			
Addition and end of year	<b>(202,215)</b>	<b>–</b>	<b>(202,215)</b>
Net book value			
End of year	<b>7,886,385</b>	<b>450,000</b>	<b>8,336,385</b>

No amortisation has been provided for the Franchise Right as the franchise period has not yet commenced.

The directors are of the opinion that the underlying value of the intangible assets is not less than the carrying value at March 31, 2002.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**14. GOODWILL****Group**

Details of movements in goodwill arising on acquisitions of interests in two subsidiaries, four medical and three dental practices are summarised below:

	2002			2001
	Subsidiaries	Medical and dental practices	Total	Total
	\$	\$	\$	\$
Cost				
Beginning of year	2,999,236	8,768,000	11,767,236	–
Addition	8,860,200	13,970,769	22,830,969	11,767,236
End of year	11,859,436	22,738,769	34,598,205	11,767,236
Accumulated amortisation				
Beginning of year	(24,995)	(183,800)	(208,795)	–
Charge for the year	(379,824)	(1,196,565)	(1,576,389)	(208,795)
End of year	(404,819)	(1,380,365)	(1,785,184)	(208,795)
Net book value				
End of year	11,454,617	21,358,404	32,813,021	11,558,441
Beginning of year	2,974,241	8,584,200	11,558,441	–

The directors are of the opinion that the underlying value of the goodwill is not less than the carrying value at March 31, 2002.

Comparative figures of goodwill are restated because goodwill arising on acquisitions of associates are reclassified and disclosed under interests in associates in order to conform to the current year's presentation.

**15. INTERESTS IN SUBSIDIARIES**

Details of the interests in subsidiaries in the Company's balance sheet are as follows:

	<b>2002</b>	2001
	\$	\$
Unlisted shares, at cost	<b>28,537,379</b>	28,537,379
Amounts due from the subsidiaries	<b>186,387,384</b>	128,135,649
Amounts due to the subsidiaries	–	(16,952,876)
	<b><u>214,924,763</u></b>	<b><u>139,720,152</u></b>

The balances with the subsidiaries are unsecured, interest free and have no fixed repayment terms.

The directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying value at March 31, 2002.

The following is a list of principal subsidiaries as at March 31, 2002:

Name	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of equity interest attributable to the Group	Principal activities
Town Health (BVI) Limited (a)	British Virgin Islands	US\$1,331,131	100%	Investment holding
Town Health Sourcing Limited	British Virgin Islands	US\$1	100%	Holder of trade name and other intellectual property rights
Town Health Trademark Limited	British Virgin Islands	US\$1	100%	Holder of trade name and other intellectual property rights
Town Health Management and Services Limited	Hong Kong	\$2	100%	Provision of management and administrative services





(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**15. INTERESTS IN SUBSIDIARIES (cont'd)**

<b>Name</b>	<b>Place of incorporation/ operation</b>	<b>Issued and fully paid share capital</b>	<b>Percentage of equity interest attributable to the Group</b>	<b>Principal activities</b>
Town Health Medical & Dental Services Limited	Hong Kong	\$2	100%	Provision of management services, premises and facilities to medical practitioners
Town Health Para-medical Services Limited	Hong Kong	\$2	100%	Provision of para-medical services and investment holding
Town Health Preventive Healthcare Services Limited	British Virgin Islands	US\$1	100%	Investment holding
Town Health Dental Limited	Hong Kong	\$2	100%	Provision of dental consultation services
Town Health IT Resources Limited	Hong Kong	\$2	100%	Investment holding
Health-easy.com Limited	Hong Kong	\$2	100%	Operation of website
Health Matrix Network Limited	Hong Kong	\$2	100%	Provision of network services to medical cardholders
Wisesure Limited	Hong Kong	\$2,000	76.4%	Provision of management services, premises and facilities to medical practitioners
Audio Health Hearing Care Limited	British Virgin Islands	US\$10,000	51%	Investment holding
Audio Health Hearing Care (Hong Kong) Limited	Hong Kong	\$1,000	51%	Provision of audio diagnostic tests and sale of hearing-aid devices
Audio Health Hearing Care (Shatin) Limited	Hong Kong	\$1,000	35.7%	Provision of audio diagnostic tests and sale of hearing-aid devices



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**15. INTERESTS IN SUBSIDIARIES (cont'd)**

<b>Name</b>	<b>Place of incorporation/ operation</b>	<b>Issued and fully paid share capital</b>	<b>Percentage of equity interest attributable to the Group</b>	<b>Principal activities</b>
Charter Most Limited	Hong Kong	\$2	100%	Operation of a traditional Chinese medicine retail shop under a franchise agreement
Wishful Sincere Limited	Hong Kong	\$1,000	51%	Provision of management services, premises and facilities to medical practitioners
Town Health Elderly Services Limited	Hong Kong	\$2	100%	Inactive
Town Health Pediatric Healthcare Services Limited	Hong Kong	\$2	100%	Inactive
Town Health Research Centre Limited	Hong Kong	\$2	100%	Inactive
Town Health Traditional Chinese Medicine Services Limited	Hong Kong	\$2	100%	Investment holding
Town Health Children's Club Limited	Hong Kong	\$2	100%	Inactive
Town Health Bio-Medical Technology Limited (a)	British Virgin Islands	US\$1,000	100%	Investment holding
Plenty Time Investments Limited ("Plenty Time")	British Virgin Islands	US\$1,000	100%	Investment holding
Spring Biotech Limited	British Virgin Islands	US\$1	100%	Investment holding
Spring Biotech (China) Limited	Hong Kong	\$2	100%	Inactive



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**15. INTERESTS IN SUBSIDIARIES (cont'd)**

<b>Name</b>	<b>Place of incorporation/ operation</b>	<b>Issued and fully paid share capital</b>	<b>Percentage of equity interest attributable to the Group</b>	<b>Principal activities</b>
Manifold China Limited	Hong Kong	\$100	51%	Inactive
Healthvision Club Limited	Hong Kong	\$2	100%	Inactive
Town Health Food and Beverage Culture Company Limited	Hong Kong	\$2	100%	Inactive
Celltech Limited	Hong Kong	\$100	51%	Inactive
Venture Asia Limited	British Virgin Islands	US\$100	100%	Investment holding
Health Walk Limited	British Virgin Islands	US\$1	100%	Inactive
Bio Chapter Limited	British Virgin Islands	US\$1	100%	Inactive
Nice World Limited	British Virgin Islands	US\$1	100%	Investment holding

*Note:*

- (a) Town Health (BVI) Limited and Town Health Bio-Medical Technology Limited are directly held by the Company, while all other subsidiaries are indirectly held by the Company through Town Health (BVI) Limited.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

**16. INTERESTS IN ASSOCIATES**

Details of the interests in associates are as follows:

	Group		Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Investment in unlisted shares at cost	<b>108,263,668</b>	71,437,753	–	–
Add: Accumulated share of profits less distributions	<b>8,521,085</b>	2,146,287	–	–
Less: Accumulated amortisation of goodwill arising on acquisitions of associates	<b>(3,619,324)</b>	(330,080)	–	–
	<b>113,165,429</b>	73,253,960	–	–
Amounts due from associates (a)	<b>5,302,580</b>	3,455,738	<b>74,641</b>	260,254
	<b>118,468,009</b>	76,709,698	<b>74,641</b>	260,254

Note:

- (a) Of the total amounts due from associates, approximately \$785,000 (2001 – \$950,000) and \$163,000 (2001 – Nil) are due from Health Matrix and Oriental Elite respectively.

The amount due from Health Matrix represents the monthly management and administrative service fees receivable, is interest bearing, unsecured and without fixed repayment date. Interest is charged at prevailing market rate plus 2% per annum on any outstanding amount receivable from the associate for more than 30 days after it falls due. During the year, interest of approximately \$33,986 (2001 – Nil) was charged on overdue balances.

The amount due from Oriental Elite bears interest at 2% per annum, is unsecured and has no fixed repayment date. Interest of \$1,355 was received from Oriental Elite during the year.

Except for the amounts disclosed above, the balances with other associates are unsecured, interest-free and have no fixed repayment dates.

The directors are of the opinion that the underlying value of the associates is not less than the carrying amount at March 31, 2002.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**16. INTERESTS IN ASSOCIATES (cont'd)**

The following is a list of associates as at March 31, 2002:

Name	Place of incorporation	Particulars of issued and paid-up capital	Equity interest attributable to the Group		Principal activities
			2002	2001	
Health Matrix International Limited	Hong Kong	Ordinary shares \$7,000,000	20%	20%	Distribution of healthcare products
Luxembourg Medicine Company Limited	Hong Kong	Ordinary shares \$434,747	49.88%	46.43%	Manufacturing and distribution of cough syrup
Wai Yuen Tong Medicine Company Limited ("Wai Yuen Tong")	Hong Kong	Ordinary shares \$217,375 Deferred shares \$17,373,750	24%	24%	Manufacturing and distribution of traditional Chinese medicine
Wise Hope Limited	Hong Kong	Ordinary shares \$2	50%	50%	Inactive
3 Ben Genomics Hong Kong Limited ("3 Ben Genomics")	Republic of Mauritius	Ordinary shares US\$100	45%	-	Research and development of bio-medical technologies
Incell Limited	Hong Kong	Ordinary shares \$1,000	45%	-	Investment holding
Union Crown International Limited	Hong Kong	Ordinary shares \$10,000	25%	-	Provision of medical diagnostic services
Health Dental Surgery Limited	Hong Kong	Ordinary shares \$100	49%	-	Provision of dental consultation services
Plasmagene Limited	Hong Kong	Ordinary shares \$4,000,000	24.25%	-	Research and development of bio-medical technologies
Bess Dental Services Limited	Hong Kong	Ordinary shares \$100	49%	-	Provision of dental card services to dental card holders
Oriental Elite Limited	Hong Kong	Ordinary shares \$100	45%	-	Property holding
Advance Bond Limited	Hong Kong	Ordinary shares \$100	49%	-	Operation of a medical clinic in Hong Kong
Charter Chain Limited	Hong Kong	Ordinary shares \$100	40%	-	Operation of a medical clinic in clinic in Hong Kong



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**16. INTERESTS IN ASSOCIATES (cont'd)**

Supplementary financial information of the associates is as follows:

	2002	2001
	\$	\$
Balance sheet		
Share of net assets	<b>17,653,851</b>	8,362,344
Goodwill	<b>95,511,578</b>	64,891,616
	<b>113,165,429</b>	73,253,960
Profit and loss		
Share of profits before tax	<b>9,391,132</b>	2,655,944
Share of tax	<b>(1,430,376)</b>	(1,138)
	<b>7,960,756</b>	2,654,806



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**17. INVESTMENTS IN EQUITY SECURITIES****Group**

Details of the investments in equity securities are as follows:

	2002 \$	2001 \$
Unlisted, at cost	5,504,529	980,000
Less: Provision for impairment in value	(137,500)	–
	<u>5,367,029</u>	<u>980,000</u>
Amounts due from investees	486,526	47,755
Less: Provision for doubtful debts	(23,878)	–
	<u>462,648</u>	<u>47,755</u>
	<u>5,829,677</u>	<u>1,027,755</u>

The amounts due from investees are unsecured, non-interest bearing and have no fixed repayment dates.

The directors are of the opinion that the underlying value of the equity securities is not less than the carrying amount at March 31, 2002.

**18. INVENTORIES****Group**

Inventories consist of:

	2002 \$	2001 \$
Pharmaceutical supplies	2,810,086	3,187,583
Health food	901,519	–
Traditional Chinese medicine	6,517,065	–
At cost	<u>10,228,670</u>	<u>3,187,583</u>



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**19. ACCOUNTS RECEIVABLE****Group**

Accounts receivable consist of:

	2002 \$	2001 \$
Accounts receivable	9,580,446	10,165,251
Less: Provision for doubtful debts	(473,819)	–
	<u>9,106,627</u>	<u>10,165,251</u>

An aging analysis of accounts receivable is set out below:

	2002 \$	2001 \$
0-60 days	3,216,497	5,665,455
61-120 days	2,683,742	2,203,458
121-180 days	1,879,396	1,079,285
181-240 days	331,036	528,189
241-360 days	688,451	688,864
Over 360 days	781,324	–
	<u>9,580,446</u>	<u>10,165,251</u>
Less: Provision for doubtful debts	(473,819)	–
	<u>9,106,627</u>	<u>10,165,251</u>

The normal credit period granted by the Group is an average of 120 to 270 days from the date of invoice.





(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**20. PREPAYMENTS, DEPOSITS AND OTHER CURRENT ASSETS**

Details of prepayments, deposits and other current assets are as follows:

	Group		Company	
	2002	2001	2002	2001
	\$	\$	\$	\$
Deposit for purchase of equity securities	-	4,500,000	-	4,500,000
Rental deposits	<b>4,522,684</b>	4,457,926	-	-
Deposit for initial assessment of investment opportunities	-	4,394,000	-	-
Deposit to a property agent	<b>500,000</b>	-	-	-
Tendering deposits	<b>679,332</b>	615,882	-	-
Utility deposits	<b>360,393</b>	162,357	-	-
Prepaid insurance	<b>257,917</b>	-	<b>122,917</b>	-
Receivables from other shareholders of equity securities	<b>500,000</b>	-	-	-
Others	<b>1,534,553</b>	2,229,133	<b>216,684</b>	43,875
	<b>8,354,879</b>	16,359,298	<b>339,601</b>	4,543,875

**21. ACCOUNTS PAYABLE AND ACCRUALS****Group**

An aging analysis of accounts payable and accruals is set out below:

	2002	2001
	\$	\$
0-60 days	<b>8,063,236</b>	4,567,990
61-120 days	<b>1,547,393</b>	-
121-240 days	-	-
Over 240 days	<b>92,670</b>	24,800
	<b>9,703,299</b>	4,592,790

**Company**

All the accounts payable and accruals of the Company are aged within 60 days.

**22. BANK BORROWINGS**

Bank borrowings consist of the following:

	Group		Company	
	2002 \$	2001 \$	2002 \$	2001 \$
Repayable within one year				
Secured bank loan	<b>67,807</b>	–	–	–
Unsecured bank loan	<b>2,508,000</b>	12,000,000	<b>2,508,000</b>	12,000,000
Included under current liabilities	<b>2,575,807</b>	12,000,000	<b>2,508,000</b>	12,000,000
Not repayable within one year but within two years				
Secured bank loan (a)	<b>67,807</b>	–	–	–
Unsecured bank loan (b)	<b>2,492,000</b>	–	<b>2,492,000</b>	–
	<b>2,559,807</b>	–	<b>2,492,000</b>	–
Not repayable within two years but within five years				
Secured bank loan (a)	<b>203,421</b>	–	–	–
Not repayable within five years				
Secured bank loan (a)	<b>500,965</b>	–	–	–
Included under non-current liabilities	<b>3,264,193</b>	–	<b>2,492,000</b>	–
	<b>5,840,000</b>	12,000,000	<b>5,000,000</b>	12,000,000

**Notes:**

- (a) As at March 31, 2002, the secured bank loan is secured by certain land and building of the Group and repayable by 180 equal monthly instalments extending to March 2017. Interest is charged at the best lending rate offered by the lender minus 2.5% per annum (Note 30).
- (b) The unsecured bank loan of the Group is repayable by monthly instalments extending to March 2004. Interest is charged at the best lending rate offered by the lender.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**23. CONVERTIBLE NOTE**

Details of the convertible note as at March 31, 2002 are as follows:

	<b>Group and Company</b>		
	<b>Principal amount</b>	<b>Accrued interest</b>	<b>Carrying value</b>
	\$	\$	\$
As at March 31, 2001	31,562,500	1,600,000	33,162,500
Accrued finance costs	–	4,539,473	4,539,473
	<u>31,562,500</u>	<u>6,139,473</u>	<u>37,701,973</u>
<b>As at March 31, 2002</b>	<b><u>31,562,500</u></b>	<b><u>6,139,473</u></b>	<b><u>37,701,973</u></b>

On September 20, 2000, the Company entered into a subscription agreement with Topson Profits Limited (formerly known as Topson Limited ("Topson")), an indirect wholly-owned subsidiary of Cheung Kong (Holdings) Limited. Pursuant to the agreement, the Company issued a convertible note with a principal amount of \$31,562,500 to Topson for cash at face value on October 17, 2000.

The convertible note or any part thereof is convertible into the Company's shares at the conversion price (subject to adjustments) at the option of the noteholder at any time during the period commencing from July 18, 2001 and up to and including July 31, 2002 (i.e. maturity date).

As a result of placements of new shares during the year and subsequent to year end described in Notes 24 and 32 respectively, the conversion price of the convertible note is adjusted to \$0.571 per share with effect from May 21, 2002 in accordance with the note instrument.

Unless previously converted, the convertible note will be redeemed by the Company on the maturity date at redemption amounts equal to 125% of the principal amount, which implies a yield-to-maturity rate of approximately 13% per annum to the noteholder.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**24. SHARE CAPITAL**

	Group and Company			
	2002		2001	
	Number of shares	Amount \$	Number of shares	Amount \$
<b>Authorised (ordinary shares of \$0.10 each)–</b>				
Upon incorporation of the Company	3,500,000	350,000	3,500,000	350,000
Increase in authorised share capital	<u>996,500,000</u>	<u>99,650,000</u>	<u>996,500,000</u>	<u>99,650,000</u>
	<u><b>1,000,000,000</b></u>	<u><b>100,000,000</b></u>	<u><b>1,000,000,000</b></u>	<u><b>100,000,000</b></u>
<b>Issued and fully paid (ordinary shares of \$0.10 each)–</b>				
Beginning of year	400,000,000	40,000,000	2	–
Issue of shares arising from the Reorganisation	–	–	3,499,998	350,000
Exercise of convertible notes	–	–	35,676,000	3,567,600
Private placements during the year (a)	<u>291,000,000</u>	<u>29,100,000</u>	494,294	49,429
Issue of shares through placing and public offering	–	–	44,324,000	4,432,400
Capitalisation of share premium	–	–	<u>316,005,706</u>	<u>31,600,571</u>
	<u><b>691,000,000</b></u>	<u><b>69,100,000</b></u>	<u><b>400,000,000</b></u>	<u><b>40,000,000</b></u>

*Notes:*

- (a) During the year, 291,000,000 ordinary shares of \$0.10 each were issued through the following placements:

Date	Number of shares	Amount \$	Issue price \$
June 18, 2001	34,000,000	3,400,000	0.45
July 12, 2001	46,000,000	4,600,000	0.57
October 15, 2001	31,000,000	3,100,000	0.21
November 30, 2001	65,000,000	6,500,000	0.28
January 17, 2002	<u>115,000,000</u>	<u>11,500,000</u>	<u>0.25</u>
	<u><b>291,000,000</b></u>	<u><b>29,100,000</b></u>	

- (b) The changes in shares capital subsequent to March 31, 2002 are described in Note 32(b).



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**25. OTHER RESERVES**

Movements in other reserves are as follows:

	Share premium \$	Capital reserve (a) \$	Contributed surplus (b) \$	Total \$
<b>Group</b>				
Balance as at March 31, 2000	-	-	-	-
Effect of the Reorganisation	-	10,032,822	-	10,032,822
Exercise of convertible notes	25,812,300	-	-	25,812,300
Private placement	9,850,571	-	-	9,850,571
Issue of shares through placing and public offering	50,972,600	-	-	50,972,600
Share issue expense	(22,156,268)	-	-	(22,156,268)
Capitalisation of share premium	(31,600,571)	-	-	(31,600,571)
Balance as at March 31, 2001	32,878,632	10,032,822	-	42,911,454
Private placements during the year (Note 24(a))	65,880,000	-	-	65,880,000
Share issue expense	(3,044,896)	-	-	(3,044,896)
<b>Balance as at March 31, 2002</b>	<b>95,713,736</b>	<b>10,032,822</b>	<b>-</b>	<b>105,746,558</b>
<b>Company</b>				
Balance as at March 31, 2000	-	-	-	-
Effect of the Reorganisation	-	-	28,179,599	28,179,599
Exercise of convertible notes	25,812,300	-	-	25,812,300
Private placement	9,850,571	-	-	9,850,571
Issue of shares through placing and public offering	50,972,600	-	-	50,972,600
Share issue expense	(22,156,268)	-	-	(22,156,268)
Capitalisation of share premium	(31,600,571)	-	-	(31,600,571)
Balance as at March 31, 2001	32,878,632	-	28,179,599	61,058,231
Private placements during the year (Note 24(a))	65,880,000	-	-	65,880,000
Share issue expense	(3,044,896)	-	-	(3,044,896)
<b>Balance as at March 31, 2002</b>	<b>95,713,736</b>	<b>-</b>	<b>28,179,599</b>	<b>123,893,335</b>



(CONT'D)

*(Amounts expressed in Hong Kong dollars unless otherwise stated)***25. OTHER RESERVES (cont'd)***Notes:*

- (a) Capital reserve of the Group represents the difference between the nominal value of \$350,000 of the ordinary shares issued by the Company and the nominal value of the share capital of approximately \$10,383,000 of Town Health (BVI) Limited, a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.
- (b) Contributed surplus of the Company represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of approximately \$28,530,000 of Town Health (BVI) Limited, a subsidiary acquired through an exchange of shares pursuant to the Reorganisation.

Under the Companies Law of the Cayman Islands, a company's reserves are distributable to shareholders subject to the provisions of the company's Memorandum and Articles of Association, and provided that immediately following the distribution or payment of dividend, the company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, no dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution. As at March 31, 2002, approximately \$19,878,000 of the Company's reserves (represented by the contributed surplus less accumulated losses) were available for distribution to shareholders (2001-\$26,257,000).

**26. SHARE OPTION SCHEME****(a) Existing Share Option Scheme**

Pursuant to the share option scheme (the "Existing Share Option Scheme") adopted by the Company on September 20, 2000, the Company may grant options to employees of the Group (including directors of the Company) to subscribe for shares of the Company, subject to a maximum of 10% of the nominal value of the issued share capital. As at the date of the approval of the financial statements, no options were granted under the Existing Share Option Scheme.



(CONT'D)

*(Amounts expressed in Hong Kong dollars unless otherwise stated)***26. SHARE OPTION SCHEME (cont'd)****(b) New Share Option Scheme**

Pursuant to a resolution dated April 24, 2002, the Existing Share Option 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 became effective from October 1, 2001.

Under the New Scheme, the Company may grant options to employees of the Group (including directors of the Company) to subscribe for shares of the Company, subject to a maximum of 10% of the number of shares in issue at the date of approval of the New Scheme. The subscription price will be determined by the Board of directors of the Company and shall be at least the higher of (i) the nominal value of the shares, (ii) the average closing price of shares quoted on the GEM on the five trading days immediately preceding the date of offer of the grant, and (iii) the closing price of shares quoted on the GEM on the date of grant.

On May 24, 2002, share options were granted to nine eligible persons pursuant to the New Scheme, entitling them to subscribe for a total of 70,482,000 shares of the Company at \$0.23 per share. As at the date of approval of these financial statements, all these share options were exercised, resulting in net proceeds of approximately \$16,211,000.

**27. COMMITMENTS****(a) Capital commitment**

As at March 31, 2002, the Group had authorised and contracted capital commitment of approximately \$5,950,000 (2001 – Nil) for decoration of a new integrated healthcare services centre.

**(b) Operating lease commitments**

As at March 31, 2002, the Group had commitments in respect of rented premises under various non-cancellable operating lease agreements amounting to approximately \$15,720,000 (2001–\$15,388,000). The total future minimum lease payments payable under these agreements are analysed as follows:

	<b>2002</b>	2001
	\$	\$
Within one year	<b>9,759,000</b>	10,513,000
After one year but within five years	<b>3,561,000</b>	4,600,000
After five years	<b>2,400,000</b>	275,000
	<b>15,720,000</b>	15,388,000

Comparative figures of the analysis of the total future minimum lease payments are presented to conform to the current year's presentation in accordance with the SSAP 14 (revised) "Leases".

**(c) Other commitment**

Pursuant to a shareholders' agreement dated June 13, 2001, the Group had undertaken to provide working capital to 3 Ben Genomics, a 45%-owned associate, to the extent of \$750,000 every year for an initial term of two years with automatic renewal upon expiry of the agreement (the "Undertaking"). The amount of the Undertaking is subject to revision after approval by the shareholders.

**28. PENSION SCHEME – MANDATORY PROVIDENT FUND SCHEME**

Since December 1, 2000, the Group has arranged for its employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"). The MPF Scheme is a defined contribution scheme managed by an independent trustee. Under the MPF scheme, each of the Group and its employees make monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employee's contributions are subject to a cap of monthly earnings of \$20,000 per employee and thereafter contributions are voluntary. During the year, the aggregate amount of employer's contribution made by the Group to the MPF Scheme was approximately \$1,295,000 (2001 – \$328,000).





(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

- (a) Reconciliation of profit before tax and minority interests to net cash inflow from operating activities:

	<b>2002</b>	2001
	\$	\$
Profit before tax and minority interests	<b>5,727,418</b>	37,791,254
Amortisation of goodwill arising on acquisitions of associates	<b>3,289,244</b>	330,080
Share of profits of associates	<b>(9,391,132)</b>	(2,655,944)
Interest expense	<b>4,987,272</b>	1,965,136
Interest income	<b>(921,709)</b>	(1,685,139)
Dividend income from an unlisted investment	<b>(3,000)</b>	–
Depreciation	<b>3,483,656</b>	2,216,742
Loss on disposal of properties and equipment	<b>120,004</b>	–
Amortisation of intangible asset	<b>202,215</b>	–
Amortisation of goodwill arising on acquisitions of subsidiaries, medical and dental practices	<b>1,576,389</b>	208,795
Provision for impairment in value of investment in equity securities	<b>137,500</b>	–
Provision for an amount due from an investee	<b>23,878</b>	–
Increase in inventories	<b>(7,041,087)</b>	(899,977)
Decrease (Increase) in accounts receivable	<b>1,058,624</b>	(4,678,116)
Increase in prepayments, deposits and other current assets	<b>(889,581)</b>	(2,195,713)
Decrease (Increase) in amounts due from related parties	<b>769,055</b>	(2,694,773)
Increase in accounts payable and accruals	<b>5,110,509</b>	2,176,661
Decrease in amount due to a director	–	(1,109,605)
Net cash inflow from operating activities	<b>8,239,255</b>	28,769,401



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)**

## (b) Acquisitions of interests in medical and dental practices

Details of the acquisitions of medical and dental practices are as follows:

	<b>2002</b>	2001
	<b>\$</b>	<b>\$</b>
Share of net assets acquired	–	–
Goodwill	<b>13,970,769</b>	8,768,000
	<hr/>	<hr/>
Cash consideration paid	<b>13,970,769</b>	8,768,000
	<hr/>	<hr/>

## (c) Acquisitions of interests in subsidiaries

Details of the acquisitions of subsidiaries are as follows:

	<b>2002</b>	2001
	<b>\$</b>	<b>\$</b>
Cash and bank balances	<b>1,200</b>	1,000
Investment in an associate		
– Share of net assets	<b>202,843</b>	–
– Goodwill	<b>6,377,149</b>	–
Minority interests	<b>(588)</b>	(236)
	<hr/>	<hr/>
Share of net assets acquired	<b>6,580,604</b>	764
Goodwill	<b>8,860,200</b>	2,999,236
	<hr/>	<hr/>
Cash consideration paid	<b>15,440,804</b>	3,000,000
	<hr/>	<hr/>

Net cash outflow in respect of the acquisitions:

	<b>2002</b>	2001
	<b>\$</b>	<b>\$</b>
Cash consideration	<b>15,440,804</b>	3,000,000
Less: Cash and bank balances acquired	<b>(1,200)</b>	(1,000)
	<hr/>	<hr/>
	<b>15,439,604</b>	2,999,000
	<hr/>	<hr/>



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

**29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)**

(d) Analysis of changes in financing is as follows:

	Share capital and share premium	Convertible notes	Bank borrowings	Amounts due to minority shareholders of a subsidiary	Total
	\$	\$	\$		\$
Balance as at March 31, 2000	10,382,822	-	-	-	10,382,822
Net effect of the Reorganisation	(10,032,822)	-	-	-	(10,032,822)
Issue of shares through public offering and placing	65,305,000	-	-	-	65,305,000
Reversal of deferred share issue expense	(3,447,201)	-	-	-	(3,447,201)
Share issue expense	(18,709,067)	-	-	-	(18,709,067)
Issue of convertible notes	-	60,942,400	-	-	60,942,400
Exercise of convertible notes	29,379,900	(29,379,900)	-	-	-
Accrued finance costs	-	1,600,000	-	-	1,600,000
New bank loan	-	-	14,000,000	-	14,000,000
Repayment of bank loan	-	-	(2,000,000)	-	(2,000,000)
Balance as at March 31, 2001	72,878,632	33,162,500	12,000,000	-	118,041,132
Issue of shares through public offering and placing	94,980,000	-	-	-	94,980,000
Share issue expense	(3,044,896)	-	-	-	(3,044,896)
Accrued finance costs	-	4,539,473	-	-	4,539,473
New mortgage loan	-	-	840,000	-	840,000
New other bank loan	-	-	5,000,000	-	5,000,000
Repayment of bank loan	-	-	(12,000,000)	-	(12,000,000)
Advances from minority shareholders	-	-	-	391,510	391,510
<b>Balance as at March 31, 2002</b>	<b>164,813,736</b>	<b>37,701,973</b>	<b>5,840,000</b>	<b>391,510</b>	<b>208,747,219</b>



(CONT'D)

*(Amounts expressed in Hong Kong dollars unless otherwise stated)***30. BANKING FACILITIES**

As at March 31, 2002, the Group had aggregate facilities for a mortgage loan and an instalment loan of a total of \$13,840,000 (2001-\$20,000,000), of which \$5,840,000 was utilised as at the same date. Other than a loan of \$5,000,000 which is unsecured, the remaining banking facilities of \$8,840,000 are secured by:

- (a) a corporate guarantee to the extent of \$8,000,000 given by the Company; and
- (b) certain land and building with an aggregate net book value of approximately \$1,217,000 (Note 12).

In accordance with the bank loan agreements, the Group is required to comply with certain financial covenants, including minimum debt to consolidated net worth ratio and maximum dividend to net profit ratio.

**31. CONTINGENT LIABILITIES**

As at March 31, 2002, the Group had provided a corporate guarantee to a financial institution in respect of the banking facilities granted to an associate to the extent of \$7,060,000 (2001 - Nil), out of which \$6,640,000 was utilised on the same date.

**32. SUBSEQUENT EVENTS**

Save as disclosed elsewhere in the financial statements, the following significant events have taken place subsequent to March 31, 2002 and up to the date of the Board of Directors' approval of these financial statements:

- (a) The Company entered into a disposal agreement (the "Disposal Agreement") and a placing agreement (the "Placing Agreement") on May 22, 2002 and June 13, 2002 respectively, the details of which are set out below and also in a circular of the Company dated June 17, 2002:

Pursuant to the Disposal Agreement between the Company, Wang On Group Limited ("Wang On"), being another shareholder of the Group's two associates, which are Wai Yuen Tong and Luxembourg) and Dailywin Group Limited ("Dailywin"), the shares of which are listed on the Exchange, the Company conditionally agreed to dispose of its entire equity interest in Plenty Time, wholly-owned subsidiary of the Company, to Dailywin (the "Disposal"). Plenty Time is beneficially interested in 24% of the entire issued voting share capital of Wai Yuen Tong. As consideration, the Company will receive 3,291,111,334 shares of Dailywin and convertible notes of total face value of \$20,000,000.



(CONT'D)

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 32. SUBSEQUENT EVENTS (cont'd)

(a) (cont'd)

Pursuant to the Placing Agreement with an independent placing agent, 1,500,000,000 shares of Dailywin to be received by the Company in consideration for the Disposal will be placed at \$0.01 per share to independent investors, conditional upon the completion of the Disposal Agreement.

Each of the Company and Wang On also agreed to severally guarantee that the audited profit of Wai Yuen Tong for the year ending March 31, 2003 will not be less than \$18,000,000. The Company and Wang On undertook to pay to Dailywin a cash sum computed with reference to the basis set out in the Disposal Agreement. The cash sum is subject to a maximum of \$220,000,000, being the total consideration for the Disposal, out of which approximately \$53,000,000 is attributable to the Company.

The above transactions are subject to approval by the Company's shareholders at an extraordinary general meeting to be held on July 3, 2002.

(b) On May 21, 2002, the Company underwent a placing of 138,200,000 new shares, resulting in net proceeds of approximately \$25,424,000.

(c) In May 2002, the Group acquired one of the two subscriber shares in Top Creator Investment Limited ("Top Creator"), a company incorporated in Hong Kong, at par value of \$1. Pursuant to an agreement between Top Creator and Luxembourg dated May 24, 2002, Top Creator agreed to acquire all the rights and benefits of Luxembourg in connection with a memorandum of understanding between Luxembourg and a third party dated March 30, 2001 relating to the proposed establishment of a joint venture in the People's Republic of China (the "Proposed Establishment") for the manufacturing of cough syrup. As consideration, Top Creator agreed to reimburse Luxembourg for all the costs incurred in connection with the Proposed Establishment subject to a maximum of \$7,000,000.

### 33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on June 25, 2002.

**FOUR YEAR FINANCIAL SUMMARY**

The following table summarises the results, assets and liabilities of the Group for the four years ended 31st March 2002.

	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Turnover	<b>100,030</b>	102,531	71,317	54,714
Profit attributable to shareholders	<b>2,029</b>	32,050	23,666	16,478
Total assets	<b>262,821</b>	167,983	35,318	
Total liabilities	<b>(53,720)</b>	(52,990)	(6,818)	
Minority interests	<b>(175)</b>	(31)	–	
Surplus on shareholders' funds	<b>208,926</b>	114,962	28,500	

**Notes:**

1. The Company was incorporated in the Cayman Islands on 24th August 1999 and became the holding company of the companies comprising the Group on 6th April 2000 as a result of a group reorganization and business restructuring. Accordingly, the first published balance sheet for the Group that has been prepared is as at 31st March 2000.
2. The results of the Group for each of the two years ended 31st March 1999 and 2000 presented above have been extracted from the Company's prospectus dated 9th October 2000 when the listing of the Company's shares was sought on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.
3. The results for the year ended 31st March 2001 presented above have been extracted from the consolidated income statement as set out in the Company's annual report for the year 31st March 2001.
4. The results for the year ended 31st March 2002 have been extracted from the consolidated income statement as set out on page 35 of the accounts.
5. The financial summary of the Group, which is presented for information only, has been prepared on the basis that the structure and business activities of the Group immediately after the completion of the group reorganisation and business restructuring had been in existence throughout the four years ended 31st March 2002.