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TOWN HEALTH INTERNATIONAL HOLDINGS COMPANY LIMITED

康健國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

QUARTERLY REPORT FOR THE THREE MONTHS ENDED 30TH JUNE 2003

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

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

RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30th June 2003, together with the comparative unaudited figures for the corresponding period in 2002, as follows:

	Notes	For the three months ended 30th June	
		2003 HK\$'000	2002 HK\$'000
Turnover	b	21,376	33,935
Cost of sales		(13,694)	(17,367)
Gross profit		7,682	16,568
Other operating income	c	812	1,555
Administrative expenses		(14,380)	(10,967)
(Loss) Profit from operations		(5,886)	7,156
Finance costs		(419)	(1,262)
Share of results of associates		(4,377)	960
Amortisation of goodwill arising on acquisitions of associates		(2,334)	(1,324)
(Loss) Profit before taxation		(13,016)	5,530
Taxation	d	(34)	(883)
(Loss) Profit before minority interests		(13,050)	4,647
Minority interests		-	(117)
Net (loss) profit for the period		(13,050)	4,530
(Loss) Earnings per share – basic	e	(1.45) cents	0.58 cents
– diluted	e	N/A	N/A

Notes:

a. Basis of preparation

The Company was incorporated in the Cayman Islands under the Companies Law (1998 Revision) of the Cayman Islands as an exempted company with limited liability on 24th August 1999. The Company's shares were listed on the GEM of the Stock Exchange on 18th October 2000.

The financial statements of the Group 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 GEM Listing Rules.

b. Turnover

	For the three months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Provision of healthcare and dental services	19,291	24,286
Sales of healthcare and pharmaceutical products	2,085	9,649
	21,376	33,935

c. Other operating income

	For the three months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Interest income from bank deposits	118	70
Sundry income	694	1,485
	812	1,555

d. Taxation

	For the three months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
– Hong Kong Profits Tax attributable to the Group	–	739
– Share of taxation attributable to associates	34	144
	34	883

Hong Kong Profits Tax is calculated at 16% (2002 – 16%) of the estimated assessable profits for the period.

The Group had no significant unprovided deferred taxation as at 30th June 2003 and 2002 and for the three-month periods then ended.

e. Loss per share

The calculation of the basic loss per share for the three months ended 30th June 2003 is based on the unaudited net loss of approximately HK\$13,050,000 (2002 – net profit of approximately HK\$4,530,000) and the weighted average number of 899,682,000 shares (2002 – approximately 777,777,000 shares) in issue during the period.

The diluted loss per share for the three months ended 30th June 2003 is not presented as there was no dilutive potential ordinary shares outstanding during the period.

The diluted earnings per share for the three months ended 30th June 2002 is not presented as the exercise of the conversion right of the convertible note issued by the Company would have an anti-dilutive effect.

f. Movements in reserves

The movements in reserves for the three months ended 30th June 2002 are as follows:

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2002	95,714	10,033	34,079	139,826
Premium on issuance of ordinary shares	22,983	–	–	22,983
Share issuance expenses	(2,336)	–	–	(2,336)
Profit for the three months ended 30th June 2002	–	–	4,530	4,530
Balance, 30th June 2002	116,361	10,033	38,609	165,003

The movements in reserves for the three months ended 30th June 2003 are as follows:

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2003	116,060	10,033	38,820	164,913
Loss for the three months ended 30th June 2003	–	–	(13,050)	(13,050)
Balance, 30th June 2003	116,060	10,033	25,770	151,863

g. Comparative figures

Certain comparative figures have been reclassified to conform to current period presentation.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June 2003 (2002 – Nil).

MANAGEMENT DISCUSSION AND ANALYSIS**Business review**

The Group is principally engaged in the provision of healthcare and dental services and the sale of healthcare and pharmaceutical products. With the sudden outbreak of the Severe Acute Respiratory Syndrome (“SARS”) in April 2003, the Group’s performance was affected adversely.

During the period under review, the Group recorded a drastic drop in number of patient-visits. Such a drop was beyond expectation and was mainly attributable to the following reasons:

- Except for receiving curative treatments for relief of acute conditions, people were generally reluctant to visit medical and dental clinics during the SARS period to avoid the possibility of being infected with SARS. This resulted in a loss of patients who would otherwise visit the clinics for preventive healthcare advices and treatments/operations for non-acute illness and minor problems.

- People were more conscious of the importance of good personal hygiene. Through a number of effective measures like wearing of face masks and frequent washing of hands, the occurrence of other common diseases (like upper respiratory tract infection which accounts for about 60% to 70% of all general practice visits) was also greatly decreased.
- To avoid possible spread of the virus to other patients, the doctors who had been exposed to proven SARS patients undertook self-quarantine. During the quarantine period, those affected clinics could only provide limited services, which resulted in a loss of revenue.

The Group operates a “one-stop” retail complex in Shatin, which comprises shop-fronts for sale of traditional Chinese medicine, hearing-aid devices, beauty services, etc. Owing to the outbreak of SARS, people are generally not in the mood to spend. The retail complex was hit hardily, resulting in a drop in turnover.

Future prospect

With the retreat of SARS in late June, the market environment has been gradually improving. The Group is confident that its core business will recover and become stable in the coming quarters. The Group expects that the funds to be generated by its core business, together with the bank facilities currently available to the Group, is sufficient to finance the Group's daily operations.

The Group will continue to strengthen its revenue base and monitor its cost efficiency so that the Group's market competitiveness can be enhanced.

Financial review

For the three months ended 30th June 2003, the Group recorded a turnover of approximately HK\$21,376,000, representing a drop of approximately 37% as compared with the corresponding period in prior year. The drop was mainly due to the decrease in patient-visits during the SARS period.

The gross profit margin of the Group for the 3-month periods ended 30th June 2003 and 2002 was 36% and 49% respectively. The Group's cost of sales composes mainly of remuneration to doctors and nurses. Since remuneration cost is fixed in nature, the drop in turnover was not followed by a corresponding drop in cost of sales. Therefore, the gross profit margin of the Group shrank.

Administrative expenses increased by approximately HK\$3,413,000 as compared with the corresponding period in prior year. The increase was mainly attributable to the additional operating and promotion costs incurred in relation to the retail complex which has been put into full-scale operation during the period under review (the complex was only at a test-run stage during the 3 months ended 30th June 2002).

A number of non-cash items were included in the Administrative Expenses, namely,

- Depreciation of fixed assets
- Amortization of goodwill arising on acquisitions of subsidiaries and medical and dental practices
- Amortization of intangible assets

Discounting these items, the loss from operations before depreciation and amortization for the 3 months ended 30th June 2003 amounted to approximately HK\$3,257,000.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June 2003, the interests of the Directors, the chief executive of the Company and their respective associates in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Sections 352 or 345 of Part XV of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(A) The Company:

Long position in shares

Name	Number of shares of the Company	Nature of interests	Percentage of interests
Mr. Cho Kam Luk	–	Other interests (<i>Note</i>)	–
Dr. Cho Kwai Chee	180,475,846	Corporate interests (<i>Note</i>)	20.06%
Dr. Fung Yiu Tong, Bennet	–	Other interests (<i>Note</i>)	–

Note:

An aggregate of 180,475,846 shares were held by Origin Limited, representing approximately 20.06% of the Company's shares in issue as at 30th June 2003. The entire issued share capital of Origin Limited is owned as to approximately 90.50% by Dr. Cho Kwai Chee, 0.71% by Mr. Cho Kam Luk and 1.49% by Dr. Fung Yiu Tong, Bennet.

(B) Health Matrix International Limited ("Health Matrix"), an associated corporation (within the meaning of Part XV of the SFO) of the Company:

Long position in shares

Name	Number of shares of Health Matrix	Nature of interests	Percentage of interests
Mr. Cho Kam Luk	5,600,000	Corporate interests (<i>Note</i>)	80.00%

Note:

An aggregate of 5,600,000 shares were held by True Destination Incorporated, representing 80% of the shares of Health Matrix in issues as at 30th June 2003. True Destination Incorporated is owned as to approximately 72.50% by Mr. Cho Kam Luk.

Save as disclosed above, as at 30th June 2003, none of the Directors, the chief executive of the Company, nor their respective associates had any interests in the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8

of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 or 345 of Part XV of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company had adopted a share option scheme (the "Old Scheme") approved at an extraordinary general meeting of the Company held on 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 under the Old Scheme since its adoption.

Pursuant to a resolution passed by the shareholders of the Company at an extraordinary general meeting held on 24th April 2002, the Old Scheme was superseded by a new share option scheme (the "New Scheme") in order to comply with the amended Chapter 23 of the GEM Listing Rules governing share option schemes, which become effective from 1st October 2001. Pursuant to the New Scheme, the Company may grant options to those eligible persons (including directors of the Company) to subscribe for shares of the Company. No option was granted under the New Scheme to any Director, the chief executive of the Company or their respective associates.

Apart from the share option scheme as detailed above, at no time during the period was the Company or its holding company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the Directors, their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company or had exercised any such rights during the period.

SUBSTANTIAL SHAREHOLDER

As at 30th June 2003, the person or company (not being a Director or the chief executive of the Company) who had interests or short positions in the shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of the Company is as follows:

Long position in shares

Name	Number of shares of the Company	Nature of interests	Percentage of interests
Origin Limited	180,475,846	Corporate interests (<i>Note</i>)	20.06%

Note:

An aggregate of 180,475,846 shares were held by Origin Limited, representing approximately 20.06% of the Company's shares in issue as at 30th June 2003. The entire issued share capital of Origin Limited is owned as to approximately 90.50% by Dr. Cho Kwai Chee, 0.71% by Mr. Cho Kam Luk and 1.49% by Dr. Fung Yiu Tong, Bennet.

Save for the shareholder as disclosed herein, the Directors are not aware of any persons who, as at 30th June 2003, had an interest or short position in the shares of the Company which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or interested in 5% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, interim reports and quarterly reports and to provide advice and comments thereon to the Board. 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, Mr. Chan Kam Chiu and Mr. Wai Kwok Hung. Mr. Chan Kam Chiu is the chairman of the audit committee.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the three months ended 30th June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

BOARD PRACTICES AND PROCEDURES

For the three months ended 30th June 2003, the Company was in compliance with the Board Practices and Procedures as set out in Rule 5.28 to 5.39 of the GEM Listing Rules.

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

Hong Kong, 13th August 2003