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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)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2003

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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.

INTERIM RESULTS (UNAUDITED)

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

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) For the three months ended 30th September		(Unaudited) For the six months ended 30th September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	b	28,611	26,281	49,987	60,216
Cost of sales		(15,285)	(19,408)	(28,979)	(36,775)
Gross profit		13,326	6,873	21,008	23,441
Other operating income	d	1,180	324	1,992	1,879
Administrative expenses		(11,558)	(16,690)	(25,938)	(27,657)
Profit (Loss) from operations		2,948	(9,493)	(2,938)	(2,337)
Finance costs		(453)	(841)	(872)	(2,103)
Gain on disposal of associates		–	16,030	–	16,030
Share of results of associates		(982)	(2,534)	(5,359)	(1,574)
Less: Amortization of goodwill arising on acquisition of associates		(1,866)	(1,181)	(4,200)	(2,505)
(Loss) Profit before taxation		(353)	1,981	(13,369)	7,511
Taxation	e	(214)	(299)	(248)	(1,182)
(Loss) Profit before minority interests		(567)	1,682	(13,617)	6,329
Minority interests		(204)	(37)	(204)	(154)
(Loss) Profit attributable to shareholders		(771)	1,645	(13,821)	6,175
(Loss) Earnings per share – basic	f	0 cent	0.18 cents	(1.54) cents	0.74 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	(Unaudited) 30th September 2003	(Audited) 31st March 2003
Notes	HK\$'000	HK\$'000
Non-current assets		
Property, Plant and equipment	29,132	24,751
Intangible assets	5,324	5,691
Goodwill	41,657	29,514
Interests in associates	134,053	144,634
Investments in securities	249	249
	210,415	204,839
Current assets		
Inventories	11,043	12,983
Trade and other receivable	29,158	30,133
Amounts due from related parties	4,489	5,652
Tax recoverable	1,121	1,203
Pledged bank deposits	46,785	40,000
Bank balances and cash	24,966	28,581
	117,562	118,552
Current liabilities		
Trade and other payables	11,366	8,941
Amount due to minority shareholders of subsidiaries	944	944
Borrowings		
– due within one year	58,222	56,421
	70,532	66,306
Net current assets	47,030	52,246
Total assets less current liabilities	257,445	257,085
Non-current liabilities		
Borrowings		
– due after one year	16,207	2,135
Minority interests	177	69
	241,061	254,881
Capital and reserves		
Share capital	8,997	89,968
Reserves	232,064	164,913
	241,061	254,881

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 30th September 2003 <i>HK\$'000</i>	(Unaudited) Six months ended 30th September 2002 <i>HK\$'000</i>
Net cash inflow (outflow) from operating activities	7,987	(28,304)
Net cash inflow from returns on investments and servicing of finance	–	4,200
Net cash outflow from investing activities	(15,285)	(19,216)
Net cash outflow before financing	(7,298)	(43,320)
Net cash inflow from financing	10,453	10,377
Increase (Decrease) in cash and cash equivalents	3,155	(32,943)
Cash and cash equivalents at beginning of the period	28,733	49,347
Cash and cash equivalents at the end of the period	31,888	16,404
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	71,751	56,213
Bank overdrafts	(39,863)	(39,809)
	31,888	16,404

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The movements in reserves for the six months ended 30th September 2002 are as follows:

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Distributable reserve arising from capital reduction HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance, 1st April 2002	69,100	95,714	10,033	-	34,079	208,926
Premium on issuance of ordinary shares	20,868	22,983	-	-	-	43,851
Share issuance expenses	-	(2,336)	-	-	-	(2,336)
Profits for the three months ended 30th June 2002	-	-	-	-	4,530	4,530
Balance, 30th June 2002	89,968	116,361	10,033	-	38,609	254,971
Share issuance expenses	-	(301)	-	-	-	(301)
Profits for the three months ended 30th September 2002	-	-	-	-	1,645	1,645
Balance, 30th September 2002	89,968	116,060	10,033	-	40,254	256,315

The movements in reserves for the six months ended 30th September 2003 are as follows:

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Distributable reserve arising from capital reduction HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance, 1st April 2003	89,968	116,060	10,033	-	38,820	254,881
Loss for the three months ended 30th June 2003	-	-	-	-	(13,050)	(13,050)
Balance, 30th June 2003	89,968	116,060	10,033	-	25,770	241,831
Capital reduction	(80,971)	-	-	72,670	8,301	-
Loss for the three months ended 30th September 2003	-	-	-	-	(771)	(771)
Balance, 30th September 2003	8,997	116,060	10,033	72,670	33,300	241,060

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 unaudited consolidated condensed 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 GEM Listing Rules.

b. Turnover

	For the three months ended 30th September		For the six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Provision of healthcare and dental services	26,245	24,591	45,536	48,877
Sale of healthcare and pharmaceutical products	2,366	1,690	4,451	11,339
	28,611	26,281	49,987	60,216

c. Segment information

	Provision of healthcare and dental services		Sales of healthcare and pharmaceutical products		Elimination		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
	For the six months ended 30th September							
TURNOVER	45,536	48,877	4,451	11,339	-	-	49,987	60,216
RESULTS								
Segment results	(15)	(3,667)	(489)	3,458			(504)	(209)
Unallocated corporate expenses							(2,434)	(2,128)
Loss from operations							(2,938)	(2,337)
Finance costs							(872)	(2,103)
Gain on disposal of associates							-	16,030
Share of results of associates							(5,359)	(1,574)
Amortization of goodwill arising on acquisition of associates							(4,200)	(2,505)
(Loss) Profit before taxation							(13,369)	7,511
Taxation							(248)	(1,182)
Loss before minority interests							(13,617)	6,329
Minority interests							(204)	(154)
Net (loss) profit for the period							(13,821)	6,175

No geographic segment information is presented because the business activities of the Group are conducted in Hong Kong.

d. Other operating income

	For the three months ended 30th September		For the six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interest income from bank deposits	106	308	224	378
Sundry income	1,074	16	1,768	1,501
	1,180	324	1,992	1,879

e. Taxation

	For the three months ended 30th September		For the six months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The charge comprises:				
– Hong Kong Profits Tax attributable to the Group	164	132	164	871
– Share of taxation attributable to associates	50	167	84	311
	214	299	248	1,182

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 September 2003 and 2002 and for the six-month periods then added.

f. (Loss) Earnings per share

The calculation of basic loss per share for the three months ended 30th September 2003 is based on the unaudited net loss of approximately HK\$771,000 (2002 – net profit of approximately HK\$1,645,000) and the weighted average number of approximately 899,682,000 shares (2002 – 899,682,000 shares) in issue during the period.

The calculation of basic loss per share for the six months ended 30th September 2003 is based on the unaudited net loss of approximately HK\$13,821,000 (2002 – net profit of approximately HK\$6,175,000) and the weighted average number of approximately 899,682,000 shares (2002 – 839,063,000 shares) in issue during the period.

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

The dilutive earnings per share for the three and six months ended 30th September 2002 are not presented as the exercise of the conversion right of the convertible note issued by the Company will have an anti-dilutive effect.

g. Trade and other receivables

	As at 30th September 2003 <i>HK\$'000</i>	As at 31st March 2003 <i>HK\$'000</i>
Trade receivables	6,843	9,288
Prepayments, deposits and other receivables	22,315	20,845
	29,158	30,133

An aged analysis of trade receivables at the balance sheet date is as follows:

	As at 30th September 2003 <i>HK\$'000</i>	As at 31st March 2003 <i>HK\$'000</i>
0 – 60 days	3,451	3,985
61 – 120 days	2,249	2,721
121 – 180 days	1,178	1,254
181 – 240 days	394	2,678
241 – 360 days	439	510
Over 360 days	1,075	–
	8,786	11,148
Less: Provision for doubtful debts	(1,943)	(1,860)
	6,843	9,288

The Group allows its trade customers with an average credit period of 60 days to 240 days.

h. Trade and other payables

	As at 30th September 2003 <i>HK\$'000</i>	As at 31st March 2003 <i>HK\$'000</i>
Trade payables	2,462	2,616
Other payables	4,823	257
Accruals	4,081	6,068
	11,366	8,941

An aged analysis of trade payables at the balance sheet date is as follows:

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
0 – 60 days	2,372	2,134
61 – 120 days	56	140
121 – 240 days	34	269
Over 240 days	–	73
	2,462	2,616

i. Borrowings

	As at 30th September 2003 HK\$'000	As at 31st March 2003 HK\$'000
Bank loans	29,005	18,708
Bank overdrafts	39,863	39,848
Other borrowings	5,561	–
	74,429	58,556
Analysed as:		
Secured	59,760	40,641
Unsecured	14,669	17,915
	74,429	58,556
Repayable as follows:		
Within one year	58,222	56,421
Between one to two years	3,817	1,439
Between two to five years	10,443	155
Over five years	1,947	541
	74,429	58,556
Less: Amount due within one year included under current liabilities	(58,222)	(56,421)
Amount due after one year	16,207	2,135

j. Comparative figures

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th September 2003 (2002 – Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

The Group is principally engaged in the provision of healthcare and dental services and the sale of healthcare and pharmaceutical products. Due to the sudden outbreak of the Severe Acute Respiratory Syndrome (“SARS”) in April 2003, the Group’s performance in the first quarter of the year was disappointing. However, with the retreat of SARS in late June and the positive result of a series of economic stimulating measures implemented by the Central and the SAR Governments, the economy of Hong Kong has been recovering significantly. The Group was benefited from such recovery, as evidenced by the significant increase in turnover of the Group during the second quarter.

The Group has started the business of photofacial and laser treatment in order to meet the market demand of professional beauty and skincare treatments. The related centre will be equipped with state-of-the-art photofacial and laser equipments and will be operated by fully qualified professionals. The Group believes that the centre will on the one hand be benefited from our strong customer-pool, and on the other hand brings in new segment of customers to the Group for other services.

Looking forward, 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 second quarter ended 30th September 2003, the Group recorded a turnover of approximately HK\$28,611,000, representing an increase of approximately 34% as compared with the turnover of HK\$21,376,000 recorded during the preceding quarter ended 30th June 2003. The increase was mainly attributable to the recovery of the economy.

The gross profit margin of the Group for the second quarter ended 30th September 2003 was 47%, representing a substantial improvement from the gross profit margin of 36% recorded during the preceding quarter ended 30th June 2003.

The administrative expenses incurred during the second quarter ended 30th September 2003 and the first quarter ended 30th June 2003 was approximately HK\$11,558,000 and approximately HK\$14,380,000 respectively. The decrease was mainly due to the cost-cutting measures which has been implementing by the Group during the past quarter.

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 profit from operations before depreciation and amortization for the 3 months and 6 months ended 30th September 2003 amounted to approximately HK\$5,574,000 and approximately HK\$2,317,000 respectively.

Liquidity and financial resources

As at 30th September 2003, the Group held cash and bank balances of approximately HK\$71.8 million (31st March 2003 – approximately HK\$68.6 million). Net current assets amounted to approximately \$47.0 million (31st March 2003 – approximately HK\$52.2 million). Current ratio (defined as total current assets divided by total current liabilities) of the Group as at 30th September 2003 was 1.67 (31st March 2003 – 1.79).

As at 30th September 2003, the Group had outstanding borrowings of approximately HK\$75.4 million, comprising secured bank borrowings of approximately HK\$54.2 million, unsecured bank borrowings of approximately HK\$14.7 million and other borrowings of approximately HK\$6.5 million. The other borrowings comprises secured loan payable of approximately HK\$2.0 million, obligations under finance leases of approximately HK\$3.6 million and amounts due to minority shareholders of certain subsidiaries of approximately HK\$0.9 million.

The secured bank borrowings as mentioned above were secured by bank deposits of approximately HK\$44.8 million and certain land and buildings of the Group with an aggregate net book value of approximately HK\$6.7 million.

The secured other borrowings as mentioned above were secured by bank deposits of approximately HK\$2.0 million and certain property, plant and equipment of the Group with an aggregate net book value of approximately HK\$10.6 million under finance lease.

Capital structure

As at 30th September 2003, the Group had shareholders' equity of approximately HK\$241 million (31st March 2003 – approximately HK\$255 million).

Pursuant to a resolution of the shareholders of the Company dated 23rd May 2003 and as sanctioned by the Grand Court of the Cayman Islands, the nominal value of each of the 899,682,000 existing shares of the Company in issue was reduced by HK\$0.09, from HK\$0.10 to HK\$0.01, whereby the Company's existing issued share capital of HK\$89,968,200 was reduced by HK\$80,971,380 to HK\$8,996,820 (the "Capital Reduction"). The credit in the sum of HK\$80,971,380 arising from the Capital Reduction was applied towards the elimination of the accumulated loss of HK\$8,301,135 of the Company with the balance of such credit be credited to a distributable reserve of the Company. The Capital Reduction was taken effect from 20th August 2003.

Debt-to-equity ratio (defined as total liabilities divided by shareholders' equity) of the Group as at 30th September 2003 was 0.36 (31st March 2003 – 0.27).

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars. As at 30th September 2003, the Group had no significant exposure to foreign exchange and interest rate risks.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th September 2003, the interests of the Directors and chief executive of the Company 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 SFO (including interests and short positions which they were taken or deemed to have under such provisions of 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 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 September 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 September 2003. True Destination Incorporated is owned as to approximately 72.50% by Mr. Cho Kam Luk.

Save as disclosed above, as at 30th September 2003, none of the directors or their 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 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, chief executive or their respective associates.

SUBSTANTIAL SHAREHOLDER

As at 30th September 2003, the person or company (not being a director or 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 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 September 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 September 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 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 six months ended 30th September 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

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

Hong Kong, 13th November 2003