



TOWN HEALTH INTERNATIONAL HOLDINGS COMPANY LIMITED

康健國際控股 有限公司

(incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT 2004/05

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website 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 www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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

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

FINANCIAL HIGHLIGHTS

For the three months ended 30th June 2004:

The Group recorded a turnover of approximately HK\$40,862,000, representing an increase of approximately 91.2% as compared with the corresponding period of prior year

- Profit from operations before (1) depreciation of fixed assets and (2) amortization of goodwill arising on acquisitions of subsidiaries and medical and dental practices amounted to approximately HK\$4,195,000 (2003 – loss of approximately HK\$3,257,000)
- Net profit of the Group amounted to approximately HK\$1,344,000 (2003 – net loss of approximately HK\$13,050,000)

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 2004, together with the comparative unaudited figures for the corresponding period in 2003, as follows:

	<i>Notes</i>	For the three months ended 30th June	
		2004	2003
		HK\$'000	HK\$'000
Turnover	b	40,862	21,376
Cost of sales		(22,030)	(13,694)
<hr/>			
Gross profit		18,832	7,682
Other operating income	c	331	812
Administrative expenses		(19,803)	(14,380)
<hr/>			
Loss from operations		(640)	(5,886)
Finance costs		(77)	(419)
Share of results of associates		(72)	(4,377)
Amortisation of goodwill arising on acquisitions of associates		(2,214)	(2,334)
Gain on deemed disposal of an associate		5,949	–
<hr/>			
Profit (loss) before taxation		2,946	(13,016)
Taxation	d	(285)	(34)
<hr/>			
Profit (Loss) before minority interests		2,661	(13,050)
Minority interests		(1,317)	–
<hr/>			
Net profit (loss) for the period		1,344	(13,050)
<hr/>			
Earnings (loss) per share – basic	e	0.11 cents	(1.45) cents
<hr/>			
– diluted	e	N/A	N/A
<hr/>			

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 as modified for the valuation of investments in securities, and in accordance with accounting principles generally accepted in Hong Kong.

b. Turnover

	For the three months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Provision of healthcare and dental services	25,625	19,291
Sales of healthcare and pharmaceutical products	15,237	2,085
	40,862	21,376

c. Other operating income

	For the three months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Interest income from bank deposits	8	118
Sundry income	323	694
	331	812

d. Taxation

	For the three months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
– Hong Kong Profits Tax attributable to the Group	156	–
– Share of taxation attributable to associates	59	34
	<hr/>	<hr/>
	215	34
Deferred tax		
– Current year	70	–
	<hr/>	<hr/>
	285	34
	<hr/>	<hr/>

Hong Kong Profits Tax is calculated at 17.5% (2003 – 17.5%) of the estimated assessable profits for the period.

The Group has no significant unprovided deferred taxation as at 30th June 2004 and 2003 and for the three-month periods then ended.

e. Earnings (loss) per share

The calculation of the basic earnings (loss) per share for the three months ended 30th June 2004 is based on the unaudited net profit of approximately HK\$1,344,000 (2003 – net loss of approximately HK\$13,050,000) and the weighted average number of 1,249,182,000 shares (2003 – 899,682,000 shares) in issue during the period.

The diluted earnings (loss) per share for the three-month periods ended 30th June 2004 and 2003 respectively is not presented as there was no dilutive potential ordinary shares outstanding during the periods.

f. Movements in reserves

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>	Distributable reserve <i>HK\$'000</i>	Retained profit <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2003	116,060	10,033	–	38,820	164,913
Net 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

The movements in reserves for the three months ended 30th June 2004 are as follows:

	Share reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Distributable reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance, 1st April 2004	135,194	10,033	72,670	(40,548)	177,349
Net profit for the three months ended 30th June 2004	–	–	–	1,344	1,344
Balance, 30th June 2004	135,194	10,033	72,670	(39,204)	178,693

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June 2004 (2003 – 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.

The Group was hard hit by the sudden outbreak of the Severe Acute Respiratory Syndrome (SARS) last year. Fortunately, the scattered cases of SARS reported in Beijing this year did not have any significant impact on the local economy. The Group managed to record a significant bounce back in its core business – the provision of healthcare and dental services during the three months ended 30th June 2004, as evidenced by the approximately 32.8% increase in revenue in this segment.

The Group's investments in bio-medical technologies and para-medical services have started to generate favourable returns. Plasmagene Biosciences Limited, a company engages in the provision of the state-of-the-art genetic diagnostic technology of which the Group holds 20.67% equity interests, was successfully listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong on 18th June 2004.

The Group acquired in March 2004 51% equity interests in First Oriental Medical Technology Group Limited ("First Oriental"), a company focusing on the development and production of radioactive medical preparation used in positron scanning. The Group also acquired in April 2004 56.13% equity interests in Pacific Medical (Holding) Company Limited ("Pacific Medical"), which engages in the provision of cardiology and peripheral vascular related surgical solutions to hospitals in the Mainland China and Hong Kong. The performance of these two newly acquired subsidiaries is encouraging, contributing in aggregate a turnover of approximately HK\$13,609,000 and operating profit of approximately HK\$2,744,000 to the Group for the three months ended 30th June 2004.

Financial review

The Group recorded a turnover of approximately HK\$40,862,000 for the three months ended 30th June 2004 (2003 – approximately HK\$21,376,000), representing an increase of approximately 91.2% as compared with the corresponding period in prior year. The significant increase was due to the turnaround in the performance of the segment of provision of medical and dental services, as well as the additional revenue contributed by the two newly acquired subsidiaries, First Oriental and Pacific Medical, during the period.

Gross profit margin increased from approximately 35.9% in the corresponding period in prior year to approximately 46.1% for the three months ended 30th June 2004. Since a significant part of the cost of sales, i.e. medical salaries, is fixed in nature, an increase in revenue resulted in an increase in gross profit margin.

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

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

Discounting these items, the Group recorded a profit from operations before depreciation and amortization of approximately HK\$4,195,000 (2003 – loss of approximately HK\$3,257,000).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June 2004, the interests of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share of the Company
Mr. Cho Kam Luk	Beneficial owner	1,281,378	0.10%
Dr. Cho Kwai Chee	Held by controlled corporation (<i>Note</i>)	163,330,641	13.08%
Dr. Fung Yiu Tong, Bennet	Beneficial owner	2,689,090	0.22%

Note:

An aggregate of 163,330,641 shares were held by Origin Limited, representing approximately 13.08% of the Company's shares in issue as at 30th June 2004. The entire issued share capital of Origin Limited is owned by Dr. Cho Kwai Chee.

(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	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of Health Matrix
Mr. Cho Kam Luk	Held by controlled corporation (<i>Note</i>)	5,600,000	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 2004. True Destination Incorporated is owned as to approximately 72.50% by Mr. Cho Kam Luk.

Other than as disclosed above, none of the Directors, the chief executive of the Company, nor their respective associates had any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations as at 30th June 2004 as recorded in the register required to be kept by the Company under sections 352 or 345 of the SFO.

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.

SUBSTANTIAL SHAREHOLDER

As at 30th June 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholder had notified the Company of relevant interests or short positions in the shares or underlying shares of the Company:

Long position in shares

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Origin Limited	Trustee (<i>Note</i>)	163,330,641	13.08%

Note:

An aggregate of 163,330,641 shares were held by Origin Limited, representing approximately 13.08% of the Company’s shares in issue as at 30th June 2004. The entire issued share capital of Origin Limited is owned by Dr. Cho Kwai Chee.

Other than as disclosed above, the Company has not been notified by any person (other than directors or the chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company as at 30th June 2004 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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.

This report, including the Group's unaudited results for the three months ended 30th June 2004, had been reviewed by the audit committee of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the three months ended 30th June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

BOARD PRACTICE AND PROCEDURES

For the three months ended 30th June 2004, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules.

As at the date of this report, the executive directors of the Company are Mr. Cho Kwai Chee, Mr. Cho Kam Luk, Mr. Cho Kwai Yee, Kevin and Mr. Fung Yiu Tong, Bennet, and the independent non-executive directors of the Company are Mr. Chan Kam Chiu and Mr. Wai Kwok Hung.

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

Hong Kong, 13th August 2004