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

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The Stock Exchange 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 six months ended 30th September 2004:

- The Group recorded a turnover of HK\$82,694,000, representing an increase of 65.4% as compared with the corresponding period in 2003.
- Profit from operations before (1) depreciation of property, plant and equipment, and (2) amortization of goodwill arising on acquisitions of subsidiaries and medical and dental practices was HK\$11,389,000 (2003 – HK\$2,317,000).
- The Group reached breakeven (2003 – net loss of HK\$13,821,000).

INTERIM RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of Town Health International Holdings Company Limited and its subsidiaries (collectively, the "Group") for the three and six months ended 30th September 2004, together with the comparative unaudited figures for the corresponding period in 2003, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) For the three months ended 30th September		(Unaudited) For the six months ended 30th September	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	<i>b</i>	41,832	28,611	82,694	49,987
Cost of sales		<u>(21,438)</u>	<u>(15,285)</u>	<u>(43,468)</u>	<u>(28,979)</u>
Gross profit		20,394	13,326	39,226	21,008
Other operating income	<i>d</i>	276	1,180	607	1,992
Administrative expenses		<u>(18,233)</u>	<u>(11,558)</u>	<u>(38,036)</u>	<u>(25,938)</u>
Profit (loss) from operations		2,437	2,948	1,797	(2,938)
Finance costs		(143)	(453)	(220)	(872)
Share of results of associates		267	(982)	195	(5,359)
Amortization of goodwill arising on acquisitions of associates		(2,213)	(1,866)	(4,427)	(4,200)
Gain on deemed disposal of an associate		<u>–</u>	<u>–</u>	<u>5,949</u>	<u>–</u>
Profit (loss) before taxation		348	(353)	3,294	(13,369)
Taxation	<i>e</i>	<u>(210)</u>	<u>(214)</u>	<u>(495)</u>	<u>(248)</u>
Profit (loss) before minority interests		138	(567)	2,799	(13,617)
Minority interests		<u>(1,400)</u>	<u>(204)</u>	<u>(2,717)</u>	<u>(204)</u>
Net (loss) profit for the period		<u>(1,262)</u>	<u>(771)</u>	<u>82</u>	<u>(13,821)</u>
(Loss) earnings per share – basic	<i>f</i>	<u>(0.10) cents</u>	<u>(0.09) cents</u>	<u>0.01 cents</u>	<u>(1.54) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30th September 2004	(Audited) 31st March 2004
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		32,021	35,672
Intangible assets		–	1,800
Goodwill		67,263	44,570
Interests in associates		51,280	47,448
Investments in securities		6,457	4,358
		<u>157,021</u>	<u>133,848</u>
Current assets			
Inventories		16,822	4,266
Trade and other receivables	<i>g</i>	26,416	20,742
Amounts due from related parties		4,590	3,209
Tax recoverable		727	654
Pledged bank deposits		14,000	10,000
Bank balances and cash		20,343	47,008
		<u>82,898</u>	<u>85,879</u>
Current liabilities			
Trade and other payables	<i>h</i>	26,876	22,361
Amount due to minority shareholders of subsidiaries		709	2,815
Borrowings			
– due within one year	<i>i</i>	2,331	–
		<u>29,916</u>	<u>25,176</u>
Net current assets		<u>52,982</u>	<u>60,703</u>
Total assets less current liabilities		<u>210,003</u>	<u>194,551</u>
Non-current liabilities			
Deferred tax liabilities		838	780
Borrowings			
– due after one year	<i>i</i>	10,237	–
		<u>11,075</u>	<u>780</u>
Minority interests		<u>9,005</u>	<u>3,929</u>
		<u>189,923</u>	<u>189,842</u>
Capital and reserves			
Share capital		12,492	12,492
Reserves		177,431	177,350
		<u>189,923</u>	<u>189,842</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 30th September 2004 <i>HK\$'000</i>	(Unaudited) Six months ended 30th September 2003 <i>HK\$'000</i>
Net cash from operating activities	9,696	7,987
Net cash used in investing activities	(42,334)	(15,285)
Net cash from financing activities	5,973	10,453
	<hr/>	<hr/>
(Decrease) Increase in cash and cash equivalents	(26,665)	3,155
Cash and cash equivalents at beginning of the period	47,008	28,733
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>20,343</u>	<u>31,888</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	20,343	71,751
Bank overdrafts	–	(39,863)
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	<u>20,343</u>	<u>31,888</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2003 are as follows:

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

For the six months ended 30th September 2004 are as follows:

	Share capital <i>HK\$'000</i>	Share premium <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>
At 1st April 2004	12,492	135,194	10,033	72,670	(40,548)	189,841
Net profit for the three months ended 30th June 2004	-	-	-	-	1,344	1,344
At 30th June 2004	12,492	135,194	10,033	72,670	(39,204)	191,185
Net loss for the three months ended 30th September 2004	-	-	-	-	(1,262)	(1,262)
At 30th September 2004	<u>12,492</u>	<u>135,194</u>	<u>10,033</u>	<u>72,670</u>	<u>(40,466)</u>	<u>189,923</u>

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 accounting principles generally accepted in Hong Kong.

b. Turnover

	For the		For the	
	three months ended		six months ended	
	30th September		30th September	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of healthcare and dental services	27,118	26,245	52,743	45,536
Sale of healthcare and pharmaceutical products	14,714	2,366	29,951	4,451
	<u>41,832</u>	<u>28,611</u>	<u>82,694</u>	<u>49,987</u>

c. Segment information

(i) Business segments

The following table presents revenue and profit/(loss) information for the Group's business segments for the six months ended 30th September 2004.

	Provision of healthcare and dental services		Sale of healthcare and pharmaceutical products		Total	
	For the six months ended 30th September				2004 HK\$'000	2003 HK\$'000
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000		
TURNOVER	52,743	45,536	29,951	4,451	82,694	49,987
RESULTS						
Segment results	(258)	(972)	2,579	(772)	2,321	(1,744)
Unallocated corporate expenses					(524)	(1,194)
Profit (Loss) from operations					1,797	(2,938)
Finance costs					(220)	(872)
Share of results of associates					195	(5,359)
Amortization of goodwill arising on acquisitions of associates					(4,427)	(4,200)
Gain on deemed disposal of an associate					5,949	–
Profit (loss) before taxation					3,294	(13,369)
Taxation					(495)	(248)
Profit (loss) before minority interests					2,799	(13,617)
Minority interests					(2,717)	(204)
Net profit (loss) for the period					82	(13,821)

(ii) *Geographical segments*

The following table presents revenue information for the Group's geographical segments for the six months ended 30th September 2004.

	Hong Kong		Mainland China		Total	
	For the six months ended 30th September					
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	64,085	49,987	18,609	–	82,694	49,987

d. **Other operating income**

	For the three months ended 30th September		For the six months ended 30th September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from bank deposits	10	106	18	224
Sundry income	266	1,074	589	1,768
	<u>276</u>	<u>1,180</u>	<u>607</u>	<u>1,992</u>

e. **Taxation**

	For the three months ended 30th September		For the six months ended 30th September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Charge comprises:				
– Profits tax attributable to the Group	99	164	255	164
– Share of taxation attributable to associates	94	50	153	84
	<u>193</u>	<u>214</u>	<u>408</u>	<u>248</u>
Deferred tax				
– Current year	17	–	87	–
	<u>210</u>	<u>214</u>	<u>495</u>	<u>248</u>

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

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The Group had no significant unprovided deferred taxation as at 30th September 2004 and 2003 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 2004 is based on the unaudited net loss of HK\$1,262,000 (2003 – HK\$771,000) and the weighted average number of 1,249,182,000 shares (2003 – 899,682,000 shares) in issue during the period.

The calculation of basic earnings (loss) per share for the six months ended 30th September 2004 is based on the unaudited net profit of HK\$82,000 (2003 – net loss of HK\$13,821,000) and the weighted average number of 1,249,182,000 shares (2003 – 899,682,000 shares) in issue during the period.

The diluted (loss) earnings per share for the three and six months ended 30th September 2004, and the three and six months ended 30th September 2003 are not presented as there was no dilutive potential ordinary shares outstanding during the periods.

g. Trade and other receivables

	As at 30th September 2004	As at 31st March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	13,091	6,472
Prepayments, deposits and other receivables	13,325	14,270
	<u>26,416</u>	<u>20,742</u>

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

	As at 30th September 2004	As at 31st March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-60 days	6,319	3,918
61-120 days	4,846	2,376
121-180 days	1,752	1,230
181-240 days	783	216
241- 360 days	262	190
Over 360 days	819	–
	<u>14,781</u>	<u>7,930</u>
Less: Provision for doubtful debts	(1,690)	(1,458)
	<u>13,091</u>	<u>6,472</u>

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 2004	As at 31st March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	17,783	2,398
Other payables	1,178	14,035
Accruals	7,915	5,928
	<u>26,876</u>	<u>22,361</u>

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

	As at 30th September 2004	As at 31st March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-60 days	14,485	1,940
61-120 days	1,504	387
121-240 days	1,773	68
Over 240 days	21	3
	<u>17,783</u>	<u>2,398</u>

i. Borrowings

	As at 30th September 2004	As at 31st March 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans	<u>12,568</u>	<u>–</u>
Analysed as:		
Secured	12,568	–
Unsecured	<u>–</u>	<u>–</u>
	<u>12,568</u>	<u>–</u>
Repayable as follows:		
Within one year	2,331	–
Between one to two years	2,445	–
Between two to five years	5,759	–
Over five years	<u>2,033</u>	<u>–</u>
	12,568	–
Less: Amount due within one year included under current liabilities	<u>(2,331)</u>	<u>–</u>
Amount due after one year	<u>10,237</u>	<u>–</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th September 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.

With the continuing recovery of the economy of Hong Kong, the Group managed to record a significant bounce back in its core business – the provision of healthcare and dental services during the six months ended 30th September 2004. The revenue of this segment increased by 15.8% as compared with the corresponding period in prior year. The Group has set up new medical centres in Central Kowloon and the East New Territories. The Group has also strengthened its specialist consultation services by engaging additional specialist to provide consultation at the Group's flagship Integrated Medical Centre in Shatin at a full-time basis.

The Group is actively searching for suitable locations to expand its network of medical centres so that existing and potential clients of the Group can be served at a more efficient and convenient manner.

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 is engaged in the provision of cardiology and peripheral vascular related surgical solutions to hospitals in the Mainland China and Hong Kong. These two newly acquired subsidiaries have been providing positive contribution to the Group's revenue and operating profits. Moreover, with the strong customer pool and network of Pacific Medical in the Mainland China, the acquisition of Pacific Medical offers the Group a platform to develop its healthcare related business in the Mainland China.

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 currently holds 22.9% equity interests, was successfully listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong on 18th June 2004.

Financial review

The Group recorded a turnover of HK\$82,694,000 for the six months ended 30th September 2004 (2003 – HK\$49,987,000), representing an increase of approximately 65.4% 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 42.0% for the corresponding period in prior year to 47.4% for the six months ended 30th September 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 property, plant and equipment; 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 HK\$11,389,000 (2003 – HK\$4,195,000).

Liquidity and financial resources

As at 30th September 2004, the Group held cash and bank balances of HK\$34,343,000 (31st March 2004 – HK\$57,008,000). Net current assets amounted to HK\$52,982,000 (31st March 2004 – HK\$60,703,000). Current ratio (defined as total current assets divided by total current liabilities) of the Group as at 30th September 2004 was 2.8 (31st March 2004 – 3.4).

As at 30th September 2004, the Group had outstanding bank borrowings of HK\$12,568,000, which are secured by bank deposits of HK\$14,000,000 and a premises of the Group with a net book value of HK\$6,515,000.

CAPITAL STRUCTURE

As at 30th September 2004, the Group had shareholders' equity of HK\$189,923,000 (31st March 2004 – HK\$189,842,000). Debt-to-equity ratio (defined as total liabilities divided by shareholders' equity) of the Group as at 30th September 2004 was 0.22 (31st March 2004 – 0.14).

Major currencies used for the Group's transactions were Hong Kong Dollars, Renminbi and US Dollars. As Hong Kong Dollars are pegged to the US Dollars and the fiscal policy of the Central Government of the People's Republic of China in relation to Renminbi is stable throughout the period, the Group considers that the potential foreign exchange exposure of the Group is limited.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th September 2004, the interests of the Directors and the 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 (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:

Long position in shares

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
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 13.08% of the Company's shares in issue as at 30th September 2004. The entire issued share capital of Origin Limited is owned by Dr. Cho Kwai Chee.

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 September 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 September 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 position 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 (Note)	163,330,641	13.08%

Note:

An aggregate of 163,330,641 shares were held by Origin Limited, representing 13.08% of the Company's shares in issue as at 30th September 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 the 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 September 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 Institute of Certified Public 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 three independent non-executive Directors, namely, Mr. Chan Kam Chiu, Mr. Wai Kwok Hung and Mr. Ho Kwok Wah, George. Mr. Chan Kam Chiu is the chairman of the audit committee.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30th September 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 six months ended 30th September 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.

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

Hong Kong, 12th November 2004

As at the date of this report, the executive directors of the Company are Mr. Cho Kwai Chee, 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, Mr. Wai Kwok Hung and Mr. Ho Kwok Wah, George.