



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 NINE MONTHS ENDED
31ST DECEMBER 2004



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 nine months ended 31st December 2004:

- The Group recorded a turnover of HK\$127,624,000, representing an increase of 59.9% 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\$13,262,000 (2003 – HK\$6,261,000).

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 nine months ended 31st December 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 31st December		(Unaudited) For the nine months ended 31st December	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	b	44,930	29,808	127,624	79,795
Cost of sales		(25,790)	(15,181)	(69,258)	(44,160)
Gross profit		19,140	14,627	58,366	35,635
Other operating income	c	734	376	1,341	2,368
Administrative expenses		(23,537)	(14,132)	(61,573)	(40,070)
(Loss) profit from operations		(3,663)	871	(1,866)	(2,067)
Finance costs		(182)	(401)	(402)	(1,273)
Loss on disposal of associates		(183)	(46,421)	(183)	(46,421)
Share of results of associates		545	(402)	740	(5,761)
Amortization of goodwill arising on acquisition of associates		(2,148)	(1,260)	(6,575)	(5,460)
Gain on deemed disposal of an associate		–	–	5,949	–
Loss before taxation		(5,631)	(47,613)	(2,337)	(60,982)
Taxation	d	(203)	(17)	(698)	(265)
Loss before minority interests		(5,834)	(47,630)	(3,035)	(61,247)
Minority interests		(670)	(74)	(3,387)	(278)
Net loss for the period		<u>(6,504)</u>	<u>(47,704)</u>	<u>(6,422)</u>	<u>(61,525)</u>
Loss per share					
– basic	e	(0.52) cents	(4.77) cents	(0.51) cents	(6.59) cents
– diluted	e	(0.50) cents	(4.67) cents	(0.50) cents	(6.54) cents

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 consolidated 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 three months ended 31st December		For the nine months ended 31st December	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Provision of healthcare and dental services	28,999	27,551	81,742	73,087
Sale of healthcare and pharmaceutical products	15,931	2,257	45,882	6,708
	<u>44,930</u>	<u>29,808</u>	<u>127,624</u>	<u>79,795</u>

c. Other operating income

	For the three months ended 31st December		For the nine months ended 31st December	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Interest income from bank deposits	18	44	36	268
Gain on investments in securities	575	–	575	–
Sundry income	141	332	730	2,100
	<u>734</u>	<u>376</u>	<u>1,341</u>	<u>2,368</u>

d. Taxation

	For the three months ended 31st December		For the nine months ended 31st December	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:				
– Profits tax attributable to the Group	72	(7)	327	157
– Share of taxation attributable to associates	141	24	294	108
	<u>213</u>	<u>17</u>	<u>621</u>	<u>265</u>
Deferred tax				
– Current year	(10)	–	77	–
	<u>203</u>	<u>17</u>	<u>698</u>	<u>265</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 31st December 2004 and 2003 and for the nine-month periods then added.

e. Loss per share

The calculation of basic loss per share for the three months ended 31st December 2004 is based on the unaudited net loss of HK\$6,504,000 (2003 – HK\$47,704,000) and the weighted average number of 1,249,182,000 shares (2003 – 1,000,429,000 shares) in issue during the period.

The calculation of basic loss per share for the nine months ended 31st December 2004 is based on the unaudited net loss of HK\$6,422,000 (2003 – HK\$61,525,000) and the weighted average number of 1,249,182,000 shares (2003 – 933,387,000 shares) in issue during the period.

The calculation of diluted loss per share for the three months ended 31st December 2004 is based on the unaudited net loss of HK\$6,474,000 (2003 – HK\$47,704,000) and 1,299,714,000 shares (2003 – 1,021,557,000 shares), being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares.

The calculation of diluted loss per share for the nine months ended 31st December 2004 is based on the unaudited net loss of HK\$6,392,000 (2003 – HK\$61,525,000) and 1,266,087,000 shares (2003 – 940,455,000 shares), being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares.

f. Movements in reserves

The movements in reserves for the nine months ended 31st December 2003 are as follows:

	Share capital	Share premium	Capital reserve	Distributable reserve	Retained profits/ Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2003	89,968	116,060	10,033	–	38,820	254,881
Effect of capital reduction	(80,971)	–	–	72,670	8,301	–
Net loss for the six months ended 30th September 2003	–	–	–	–	(13,821)	(13,821)
At 30th September 2003	8,997	116,060	10,033	72,670	33,300	241,060
Issue of new share	1,625	11,375	–	–	–	13,000
Share issue expenses	–	(288)	–	–	–	(288)
Net loss for the three months ended 31st December 2003	–	–	–	–	(47,704)	(47,704)
At 31st December 2003	<u>10,622</u>	<u>127,147</u>	<u>10,033</u>	<u>72,670</u>	<u>(14,404)</u>	<u>206,068</u>

The movements in reserves for the nine months ended 31st December 2004 are as follows:

	Share capital	Share premium	Capital reserve	Distributable reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2004	12,492	135,194	10,033	72,670	(40,548)	189,841
Net profit for the six months ended 30th September 2004	–	–	–	–	82	82
Balance, 30th September 2004	12,492	135,194	10,033	72,670	(40,466)	189,923
Net loss for the three months ended 31st December 2004	–	–	–	–	(6,504)	(6,504)
At 31st December 2004	<u>12,492</u>	<u>135,194</u>	<u>10,033</u>	<u>72,670</u>	<u>(46,970)</u>	<u>183,419</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December 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 Hong Kong economy, the Group recorded an improvement in performance of its core business – the provision of healthcare and dental services. The turnover of this segment rose 11.8% to HK\$81.7 million for the nine months ended 31st December 2004, as compared with the corresponding amount of HK\$73.1 million registered in prior year.

The Group endeavours to expand its medical centre network in a view of providing more convenient services to its patients, and of meeting the increasing demand of medical services arising from the trend of shifting patients from the public sector to the private sector. The Group is in the process of setting up a number of new medical centres in Hong Kong. These new centres are expected to commence business in the last quarter of the current financial year.

During the period under review, the Group acquired controlling stake in First Oriental Medical Technology Group Limited (“First Oriental”) which is engaged in the development and production of radioactive medical preparation used in positron scanning, and 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. Since acquisitions, these two 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.

Financial review

The Group recorded a turnover of HK\$127,624,000 for the nine months ended 31st December 2004 (2003 – HK\$79,795,000), representing an increase of 59.9% as compared with the corresponding period in prior year. The significant increase was due to the improvement in the performance of the segment of provision of medical and dental services, as well as the additional turnover contributed by the two newly acquired subsidiaries, First Oriental and Pacific Medical, during the period.

Gross profit margin for the nine months ended 31st December 2004 was 45.7% (2003 – 44.7%).

Administrative expenses rose by 53.7% to HK\$61,573,000 for the nine months ended 31st December 2004, as compared with the corresponding amount of HK\$40,070,000 in prior year. Out of the amount recorded in current period, an aggregate of HK\$15,274,000 was attributable to First Oriental and Pacific Medical, the two newly acquired subsidiaries. Discounting this amount, the administrative expenses rose by 15.5% which was largely due to the Group's business expansion initiatives that involved increase in administrative staff costs and promotion expenses.

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\$13,262,000 for the nine months ended 31st December 2004 (2003 – HK\$6,261,000).

Impact of change in accounting standards

In August 2004, the Hong Kong Institute of Certified Public Accountants issued a number of revised accounting standards. So far as the Company is concerned, these standards will be effective from financial years beginning on 1st April 2005. One of the significant changes from current Hong Kong GAAP proposed by these revised standards is that amortization of goodwill is no longer allowed. Instead, annual impairment test will be required.

In anticipation of the enactment of these revised standards, the Board plans to conduct a full-scope review on the prospect of all the Group's investments and goodwill. Should there be indication that the recoverable amount of these investments and goodwill is lower than their carrying value, the Board may consider to providing for such impairment loss right in the current financial year ending 31st March 2005. In case such provision is made, the results of the Group for the current financial year may be greatly affected adversely.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31st December 2004, the interests of the Directors and chief executive of the Company in the shares, underlying shares or 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 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 of Part XV of the SFO, to be entered in the register referred to therein, or which required, pursuant to Rule 5.46 to 5.67 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
Mr. Cho Kwai Chee	Held by controlled corporation (<i>Note</i>)	163,330,641	13.08%
Mr. 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 31st December 2004. The entire issued share capital of Origin Limited is owned by Mr. 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, underlying shares or debentures of the Company or any of its associated corporations as at 31st December 2004 as recorded in the register required to be kept by the Company under sections 352 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, chief executive of the Company or their respective associates.

SUBSTANTIAL SHAREHOLDER

As at 31st December 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 approximately 13.08% of the Company's shares in issue as at 31st December 2004. The entire issued share capital of Origin Limited is owned by Mr. 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 31st December 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.

This report, including the Group's unaudited results for the nine months ended 31st December 2004, had been reviewed by the audit committee of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the nine months ended 31st December 2004, 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, 14th February 2005

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.