



2006

Quarterly Report

For the three months ended 30th June 2006



Town Health International Holdings Company Limited

康健國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8138)

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 2006

- The Group recorded a turnover of approximately HK\$56,640,000 (2005 – approximately HK\$55,286,000).
- Gross profit amounted to approximately 27,160,000, representing an increase of 14.5% as compared with the corresponding period in 2005. Such improvement was mainly due to the exercise of more stringent control on direct costs during the period.
- Profit attributable to equity holders of the Company amounted to approximately HK\$9,625,000 (2005 – approximately HK\$6,148,000).
- The Board does not recommend the payment of any dividend for the three months ended 30th June 2006 (2005 – nil).



RESULTS (UNAUDITED)

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30th June 2006, together with the comparative unaudited figures for the corresponding period in 2005, as follows:

	Notes	For the three months ended 30th June	
		2006 HK\$'000	2005 HK\$'000
Turnover	c	56,640	55,286
Cost of sales		(29,480)	(31,575)
Gross profit		27,160	23,711
Other income	d	2,172	3,095
Administrative expenses		(22,767)	(19,976)
Finance costs		(1,104)	(71)
Gain on partial disposal of an associate		1,090	–
Share of results of associates		(556)	736
Increase in fair value of investments held for trading		6,697	–
Profit before taxation		12,692	7,495
Taxation	e	(585)	(478)
Profit for the year		12,107	7,017
Attributable to:			
Equity holders of the Company		9,625	6,148
Minority interests		2,482	869
		12,107	7,017
Earnings per share	f		
– Basic		0.19 cents	0.20 cents
– Diluted		N/A	0.19 cents

Notes:

a. General

The Company is incorporated as an exempted company with limited liability in the Cayman Islands and its shares are listed on the Growth Enterprise Market (“GEM Board”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The consolidated financial statements have been prepared under the historical cost basis except for the investment properties and financial instruments, which are measured at fair value.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

b. Basis of preparation

Pursuant to a conditional subscription agreement on 9th December, 2005 entered into between Town Health Medical Technology Holdings Company Limited (formerly known as Starbow Holdings Limited) (“THMT”) and Top Act Group Limited (“Top Act”), a wholly-owned subsidiary of the Group, on 23rd February 2006, Top Act subscribed for convertible bonds of an aggregate principal amount of HK\$60,000,000 issued by THMT.

The bonds are convertible into 1,463,414,634 shares at a conversion price of HK\$0.041. Upon conversion of the bonds, the Group will acquire 55.79% of ownership interest and as a consequence voting rights in THMT. As at the balance sheet date the Group had the ability to exercise control over the financial and operating policies of THMT as the bonds were currently convertible. Accordingly, THMT has been consolidated as a subsidiary of the Group.

c. Turnover

	For the three months ended 30th June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision of healthcare and dental services	38,880	31,797
Sales of healthcare and pharmaceutical products	4,662	3,950
Sales of cardiology and peripheral vascular related surgical equipment	8,113	14,128
Others	4,985	5,411
	<hr/>	<hr/>
	56,640	55,286

d. Other income

	For the three months ended 30th June	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income from bank deposits	754	74
Dividend income from listed investments	9	184
Gain on disposal of investments held for trading	(651)	(16)
Rental income	539	–
Fair value adjustment on investment held for trading, excluding dividend income	(45)	–
Sundry income	1,566	2,853
	<hr/>	<hr/>
	2,172	3,095



e. Taxation

	For the three months ended 30th June	
	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
– Hong Kong Profits Tax attributable to the Group	488	379
Deferred tax		
– Current year	97	99
	585	478

Hong Kong Profits Tax is calculated at 17.5% (2005 – 17.5%) of the estimated assessable profits for the period.

For the three months ended 30th June 2006, taxation on share of associates' profits amounted to approximately HK\$95,000 (2005 – approximately HK\$165,000).

f. Earnings per share

The calculation of the basic earnings per share for the three months ended 30th June 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$9,625,000 (2005 – approximately HK\$6,148,000) and the weighted average number of 5,063,992,795 shares (2005 – 3,117,012,544 shares) in issue during the period.

The diluted earnings per share for the three months ended 30th June 2006 is not presented as the exercise of the conversion right attached to the outstanding convertible bonds would result in an increase in profit per share.

The calculation of diluted earnings per share for the three months ended 30th June 2005 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$6,197,000 and 3,329,070,756 shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares.

g. Movements in reserves

The movements in reserves for the three months ended 30th June 2005 are as follows:

	Share capital HK\$'000	Convertible		Capital reserve HK\$'000	Distributable reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
		Share premium HK\$'000	bonds equity reserve HK\$'000					
At 1st April 2005	17,468	148,122	-	10,033	72,670	-	(124,878)	123,415
Issue of new shares	32,498	86,794	-	-	-	-	-	119,292
Share issue expenses	-	(5,935)	-	-	-	-	-	(5,935)
Profit attributable to equity holders of the Company for the period	-	-	-	-	-	-	6,148	6,148
At 30th June 2005	49,966	228,981	-	10,033	72,670	-	(118,730)	242,920

The movements in reserves for the three months ended 30th June 2006 are as follows:

	Share capital HK\$'000	Convertible		Capital reserve HK\$'000	Distributable reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
		Share premium HK\$'000	bonds equity reserve HK\$'000					
At 1st April 2006	49,966	228,847	2,260	10,033	62,677	220	(104,848)	249,155
Issue of shares upon conversion of convertible bonds	2,667	24,560	(1,582)	-	-	-	-	25,645
Exchange difference arising on translation of foreign operations recognized directly in equity	-	-	-	-	-	(26)	-	(26)
Profit attributable to equity holders of the Company for the period	-	-	-	-	-	-	9,625	9,625
At 30th June 2006	52,633	253,407	678	10,033	62,677	194	(95,223)	284,399



INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June 2006 (2005 – nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review and outlook

During the quarter under review, the Group recorded stable growth in its core segments of business, representing a 22.3% increase as compared with the corresponding period in prior year. The increase was mainly due to the Group's persistent effort in solidifying its core business, continuing recovery of the Hong Kong economy as well as growing demand of citizens who are craving for better health.

The Group has set up 4 additional medical centres and has completed the acquisition of 49% equity interest in a medical group, Pak On Medical Centres. Moreover, the Board had appointed Ms. Choi Ka Yee, Crystal, a daughter of Dr. Francis Choi Chee Ming JP, as executive director and vice-chairman of the Company to strengthen the Group's financial management and financing. Ms. Choi is in charge of the Group's merger and acquisition activities and financing arrangements.

The Group plans to open its dental centre in Jordan Road in September 2006, specializing in providing dental healthcare and clinical services. The centre has an area of about 5,000 sq. ft. and will become one of the largest centres of its kind in Hong Kong. It is expected that the centre will contribute significantly to the Group's turnover.

Taking into account the speedy pace of economic growth in Macau in recent years, increasing income of citizens and growing demand of medical and healthcare services in the region, the Group will grasp this opportunity to set up a medical centre in Macau. The centre is expected to commence operation in short period of time. The new business will mark a wider horizon of the Group's business scopes as it will expand its business outside Hong Kong.

The demand for the life-style related healthcare services have been increasing day by day, which becomes a global trend. Owing to this, in addition to the continuing expansion of its core business, the Group will also actively develop its presence in the said life-style related services, especially in the field of body shape re-engineering and face beautifying.

With the unequivocal business directions in each of the business, the Group has full confidence in its business prospects.

Financial review

The Group recorded a turnover of approximately HK\$56,640,000 for the three months ended 30th June 2006 (2005 – approximately HK\$55,286,000), representing an increase of approximately 2.4% as compared with the corresponding period in prior year.

The Group managed to record a significant 14.5% increase in gross profit (from approximately HK\$23,711,000 in 2005 to approximately HK\$27,160,000 in 2006), which is mainly attributable to the stringent control exercised by the management over the direct costs of the Group during the period under review.

Profit attributable to equity holders of the Company for the three months ended 30th June 2006 was approximately HK\$9,625,000, representing an increase of 56.6% as compared with the approximately HK\$6,148,000 recorded in the corresponding period in prior year.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30th June 2006, the interests of the Directors and the chief executive of the Company and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code"), were as follows:

The Company

Long position in ordinary shares of HK\$0.01 each

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>	2,615,027,451	49.68%
Dr. Francis Choi Chee Ming JP	Held by controlled corporation <i>(note)</i>	2,615,027,451	49.68%
Mr. Fung Yiu Tong, Bennet	Beneficial owner	2,689,090	0.05%

Note: These 2,615,027,451 shares are owned by Broad Idea International Limited. Mr. Cho Kwai Chee and Dr. Francis Choi Chee Ming JP are deemed to be interested in the 2,615,027,451 shares owned by Broad Idea International Limited under Part XV of the SFO given that they are beneficially interested in 50.1% and 49.9% of the issued share capital of Broad Idea International Limited respectively.

Other than as disclosed above, none of the Directors, the chief executive of the Company, nor their associates had any interests or short positions in the shares, underlying shares or convertible bonds of the Company or any of its associated corporations as at 30th June 2006 as recorded in the register required to be kept by the Company under Section 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, the chief executive of the Company or their respective associates.

SUBSTANTIAL SHAREHOLDER

As at 30th June 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and the chief executive of the Company, the following shareholders had notified the Company of relevant interests or short position in the shares or underlying shares of the Company:

Long position in the ordinary shares of HK\$0.01 each

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Broad Idea International Limited	Beneficial Owner (note)	2,615,027,451	49.68%
Prudential Plc	Beneficial Owner	306,742,000	5.83%

Note: Broad Idea International Limited is interested in the 2,615,027,451 shares under Part XV of the SFO. Broad Idea International Limited is beneficially owned by Mr. Cho Kwai Chee as to 50.1% and Dr. Francis Choi Chee Ming JP as to 49.9%.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June 2006.

COMPETING INTERESTS

None of the Directors, the management shareholders or the controlling 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 in compliance with the GEM Listing Rules. 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 *JP* and Mr. Ho Kwok Wah, George. Mr. Chan Kam Chiu is the chairman of the audit committee.

The audit committee has reviewed this report, together with the Group's unaudited results for the three months ended 30th June 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the three months ended 30th June 2006, 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, 11th August 2006

As at the date of this report, the executive directors of the Company are Mr. Cho Kwai Chee, Ms. Choi Ka Yee, Crystal, Mr. Cho Kwai Yee, Kevin and Mr. Fung Yiu Tong, Bennet, the non-executive director of the Company is Dr. Francis Choi Chee Ming JP, and the independent non-executive directors of the Company are Mr. Chan Kam Chiu, Mr. Wai Kwok Hung JP and Mr. Ho Kwok Wah, George.