



## **Quarterly Report**

*( For the nine months ended 31 December 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](http://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.*

*This report will remain on the GEM website on the “Latest Company Announcements” page for at least 7 days from the day of its posting and on the website of Town Health International Holdings Company Limited.*

## FINANCIAL HIGHLIGHTS

*For the nine months ended 31 December 2006:*

- The Group recorded a turnover of approximately HK\$194,808,000, representing an increase of 14.1% as compared with the corresponding period in 2005.
- Profit attributable to equity holders of the Company amounted to approximately HK\$67,892,000, representing an increase of approximately 2.4 times as compared with the corresponding period in 2005.

The Board does not recommend the payment of any dividend for the nine months ended 31 December 2006 (2005 – HK0.2 cents per ordinary share).

## 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 nine months ended 31 December 2006, together with the comparative unaudited figures for the corresponding period in 2005, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited)		(Unaudited)	
		For the three months ended 31 December		For the nine months ended 31 December	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	c	67,757	58,782	194,808	170,764
Cost of sales		(38,096)	(30,831)	(103,192)	(93,370)
Gross profit		29,661	27,951	91,616	77,394
Other income	d	5,541	2,884	18,184	7,641
Administrative expenses		(21,222)	(21,215)	(75,624)	(59,586)
Finance costs		(749)	(362)	(3,039)	(497)
Gain on disposal of investment		–	–	37,705	–
Gain on partial disposal of an associate		–	–	1,915	–
Share of results of associates		766	235	(513)	952
Profit before taxation		13,997	9,493	70,244	25,904
Taxation	e	(1,622)	(433)	(6,027)	(1,559)
Profit for the period		12,375	9,060	64,217	24,345
Attributable to:					
Equity holders of the Company		9,644	7,999	67,892	20,203
Minority interests		2,731	1,061	(3,675)	4,142
		12,375	9,060	64,217	24,345
Dividends Interim		–	–	–	9,993
Earnings per share – basic	f	0.19 cents	0.16 cents	1.32 cents	0.46 cents
– diluted		0.19 cents	0.15 cents	1.30 cents	0.45 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 9 December 2005 entered into between Hong Kong Health Check and Laboratory Holdings Company Limited (formerly known as Town Health Medical Technology Holdings Company Limited or Starbow Holdings Limited) ("HKHC") and Top Act Group Limited ("Top Act"), a wholly-owned subsidiary of the Group, on 23 February 2006, Top Act subscribed for convertible bonds (the "Convertible Bonds I") of an aggregate principal amount of HK\$60,000,000 issued by HKHC.

The Convertible Bonds I are convertible into 1,463,414,634 shares at a conversion price of HK\$0.041. Upon conversion of the Convertible Bonds I, the Group will acquire 55.79% of ownership interest and as a consequence voting rights in HKHC.

On 3 October 2006, HKHC issued additional convertible bonds (the "Convertible Bonds II") of an aggregate principal amount of HK\$40,000,000 at a conversion price of HK\$0.041 to third parties. Upon conversion of both Convertible Bonds I and Convertible Bonds II, the Group's ownership interest (and as a consequence voting rights) in HKHC will drop to below 50%.

During the period from 23 February 2006 to 2 October 2006, arising from the 55.79% ownership interest, the Group had the ability to exercise control over the financial and operating policies of HKHC. Accordingly, HKHC has been consolidated as a subsidiary of the Group during the said period.

Upon the issue of the Convertible Bonds II by HKHC on 3 October 2006, the Group's ownership interest in HKHC dropped to below 50%. Accordingly, HKHC has not been consolidated as a subsidiary of the Group since that date.

## c. Turnover

	For the three months ended 31 December		For the nine months ended 31 December	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Provision of healthcare and dental services	47,043	36,867	136,650	100,505
Sales of healthcare and pharmaceutical products	5,533	3,896	15,434	12,233
Sales of cardiology and peripheral vascular related surgical equipment	9,999	12,269	26,829	41,299
Others	5,182	5,750	15,895	16,727
	<u>67,757</u>	<u>58,782</u>	<u>194,808</u>	<u>170,764</u>

## d. Other income

	For the three months ended 31 December		For the nine months ended 31 December	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest income	638	902	2,073	1,755
Dividend income from listed investments	–	15	137	2,549
Gain on disposal of investment held for trading	4,367	134	7,206	108
Rental income	657	251	1,816	424
Fair value adjustment on investment held for trading, excluding dividend income	(830)	1,243	3,938	(1,690)
Sundry income	709	339	3,014	4,495
	<u>5,541</u>	<u>2,884</u>	<u>18,184</u>	<u>7,641</u>

## e. Taxation

	For the three months ended 31 December		For the nine months ended 31 December	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
The Charge comprises:				
– Hong Kong Profits Tax attributable to the Group	1,680	378	5,748	1,362
Deferred tax				
– Current year	(58)	55	279	197
	<u>1,622</u>	<u>433</u>	<u>6,027</u>	<u>1,559</u>

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 31 December 2006, taxation on share of associates' profits amounted to approximately HK\$193,000 (2005 – write-back of approximately HK\$12,000).

For the nine months ended 31 December 2006, taxation on share of associates' profits amounted to approximately HK\$351,000 (2005 – approximately HK\$142,000).

## f. Earnings per share

The calculation of the basic earnings per share for the three months ended 31 December 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$9,644,000 (2005 – approximately HK\$7,999,000) and the weighted average number of 5,170,323,287 shares (2005 – 4,996,593,528 shares) in issue during the period.

The calculation of the basic earnings per share for the nine months ended 31 December 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$67,892,000 (2005 – approximately HK\$20,203,000) and the weighted average number of 5,161,955,224 shares (2005 – 4,374,623,093 shares) in issue during the period.

The calculation of diluted earnings per share for the three months ended 31 December 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$9,754,000 (2005 – approximately HK\$8,251,000) and 5,217,528,256 shares (2005 – 5,377,545,909 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 earnings per share for the nine months ended 31 December 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$68,962,000 (2005 – approximately HK\$20,509,000) and 5,319,738,774 shares (2005 – 4,575,011,534 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**

For the nine months ended 31 December 2005 are as follows:

	Attributable to equity holders of the Company										
	Share capital	Share premium	Convertible bonds equity reserve	Capital reserve	Capital redemption reserve	Distributable reserve	Translation reserve	Accumulated losses	Total	Minority interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	17,468	148,122	-	10,033	-	72,670	-	(124,879)	123,414	11,969	135,383
Profit for the period	-	-	-	-	-	-	-	12,204	12,204	3,081	15,285
Issue of new shares	32,498	86,794	-	-	-	-	-	-	119,292	-	119,292
Share issue expenses	-	(6,172)	-	-	-	-	-	-	(6,172)	-	(6,172)
Capital contributed by minority shareholders	-	-	-	-	-	-	-	-	-	175	175
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	(105)	(105)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(1,754)	(1,754)
At 30 September 2005	49,966	228,744	-	10,033	-	72,670	-	(112,675)	248,738	13,366	262,104
Profit for the period	-	-	-	-	-	-	-	7,999	7,999	1,061	9,060
Capital contributed by minority shareholders	-	-	-	-	-	-	-	-	-	49	49
Dividends paid	-	-	-	-	-	(9,993)	-	-	(9,993)	-	(9,993)
At 31 December 2005	<u>49,966</u>	<u>228,744</u>	<u>-</u>	<u>10,033</u>	<u>-</u>	<u>62,677</u>	<u>-</u>	<u>(104,676)</u>	<u>246,744</u>	<u>14,476</u>	<u>261,220</u>



For the nine months ended 31 December 2006 are as follows:

	Attributable to equity holders of the Company										
	Convertible bonds			Capital redemption			Translation reserve	Accumulated losses	Total	Minority interest	Total
	Share capital	Share premium	equity reserve	Capital reserve	reserve	Distributable reserve					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2006	49,966	228,847	2,260	10,033	-	62,677	220	(104,848)	249,155	(649)	248,506
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(31)	-	(31)	(24)	(55)
Profit for the period	-	-	-	-	-	-	-	58,248	58,248	(6,406)	51,842
Issue of shares upon conversion of convertible bonds	2,666	24,560	(1,582)	-	-	-	-	-	25,644	-	25,644
Share repurchase	(408)	(9,018)	-	-	408	(408)	-	-	(9,426)	-	(9,426)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	9,068	9,068
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(188)	(188)
At 30 September 2006	52,224	244,389	678	10,033	408	62,269	189	(46,600)	323,590	1,801	325,391
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	4	-	4	4	8
Profit for the period	-	-	-	-	-	-	-	9,644	9,644	2,731	12,375
Issue of shares upon conversion of convertible bonds	1,143	10,836	(678)	-	-	-	-	-	11,301	-	11,301
Share repurchase	(1,338)	(29,806)	-	-	1,338	(1,338)	-	-	(31,144)	-	(31,144)
De-consolidation of subsidiary	-	-	-	-	-	-	-	-	-	14,743	14,743
At 31 December 2006	<u>52,029</u>	<u>225,419</u>	<u>-</u>	<u>10,033</u>	<u>1,746</u>	<u>60,931</u>	<u>193</u>	<u>(36,956)</u>	<u>313,395</u>	<u>19,279</u>	<u>332,674</u>

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2006 (2005 – HK0.2 cents per ordinary share).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review and outlook

The Group is principally engaged in the provision of healthcare and dental services, sale of healthcare and pharmaceutical products, and sale of cardiology and peripheral vascular related surgical equipment.

During the period under review, the Group continues to record stable growth in its core segment of business, i.e. the provision of healthcare and dental services. The Group has added a number of new medical centres in its network. In particular, the Group's new flagship dental centre, located at Jordon, Kowloon with 5,000 squared feet floor area, has already been put into full operation. This centre, one of the largest of its kind in Hong Kong, is dedicated to provide all kinds of dental treatments and services with state-of-the-art equipment and technology in a spacious and comfortable environment.

Looking forward, on top of expanding its network of medical centres, the Group will also strength its co-operation with medical specialists (e.g. cardiologist, dermatologists, etc.) so as to provide a full range of consultation and referral services to its customers to cater for their different medical needs.

The Group also actively develops its life-style related healthcare services. The Group has partnered with B.A.L. Holdings Limited to set up "B.A.L. Medical Centers" for providing one-stop innovative beauty services. Two centres in Hong Kong and one centre in Macau have been opened during the period under review. Intensive advertising programmes have been carried out during the past few months to promote the services and the market response was encouraging. The partners are exploring the possibilities of establishing more centres in suitable locations, as well as expanding the scope of services of the centres.

With innovative initiatives to expand its businesses, the Board believes that the Group is able to succeed in the future in terms of business growth and enhancement of shareholders' value.

## Financial review

The Group recorded a turnover of approximately HK\$194,808,000 for the nine months ended 31 December 2006 (2005 – approximately HK\$170,764,000), representing an increase of approximately 14.1% as compared with the corresponding period in prior year.

Gross profit margin for the nine months ended 31 December 2006 was 47.0%, which represents a modest improvement over the gross margin of 45.3% as recorded in the corresponding period in prior year.

Profit attributable to equity holders of the Company for the nine months ended 31 December 2006 was approximately HK\$67,892,000 (2005 – approximately HK\$20,203,000). The increase is mainly attributable to the gain of approximately HK\$37 million arising on the disposal of the Group's investment in the shares in Mindray Medical International Limited, a company listed on the New York Exchange, USA. Details of the disposal are contained in the Company's announcement and circular to shareholders dated 3 October 2006 and 25 October 2006 respectively.

In order to reserving funds for possible acquisition or expansion of the Group's business in the future, the Board does not recommend the payment of any dividend for the nine months ended 31 December 2006.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 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
Dr. Cho Kwai Chee	Held by controlled corporation (note)	2,615,027,451	50.26%
Dr. Francis Choi Chee Ming JP	Held by controlled corporation (note)	2,615,027,451	50.26%
Dr. 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. Dr. 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 31 December 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 20 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 24 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 1 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 31 December 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	50.26%

*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 Dr. 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 31 December 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 announcement, together with the Group's unaudited results for the nine months ended 31 December 2006.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 31 December 2006, the Company repurchased its own shares on GEM as follows:

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration HK\$
		Highest HK\$	Lowest HK\$	
August 2006	19,554,000	0.228	0.224	4,425,938
September 2006	21,262,000	0.230	0.229	4,879,298
October 2006	133,828,000	0.233	0.227	30,773,142
	<u>174,644,000</u>			<u>40,078,378</u>

The above shares were cancelled upon repurchases and accordingly the issued share capital of the Company was reduced by the par value of these shares which amounted to HK\$1,746,440. Apart from the repurchases of the shares as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the nine months ended 31 December 2006.

By order of the Board  
**Town Health International Holdings**  
**Company Limited**  
**Choi Ka Yee, Crystal**  
*Chairman*

Hong Kong, 13 February 2007

*As at the date of this report, the executive directors of the Company are Miss Choi Ka Yee, Crystal, Dr. Cho Kwai Chee, Mr. Cho Kwai Yee, Kevin and Dr. 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.*