



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)

Interim Report 2007

For the six months ended 30 September 2007

TOWN HEALTH  
International



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*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 30 September 2007:*

- The Group recorded a turnover of approximately HK\$189,486,000, representing an increase of 49% as compared with the corresponding period in 2006.
- Profit attributable to equity holders of the Company amounted to approximately HK\$95,214,000, representing a increase of 63% as compared with the corresponding period in 2006.

*As at 30 September 2007:*

- The Group had a current ratio (defined as total current assets divided by total current liabilities) of 4.3 and a gearing ratio (defined as total long-term liabilities divided by total shareholders' equity) of 3.1%.
- The Group recorded a net asset value of HK\$837,076,000.

The Board does not recommend the payment of any dividend for the six months ended 30 September 2007 (2006 – Nil).

## 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 30 September 2007, together with the comparative unaudited figures for the corresponding period in 2006, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	(Unaudited) For the		(Unaudited) For the	
		three months ended 30 September 2007 HK\$'000	2006 HK\$'000	six months ended 30 September 2007 HK\$'000	2006 HK\$'000
Revenue	c	<b>89,265</b>	70,411	<b>189,486</b>	127,051
Cost of sales		<b>(41,425)</b>	(35,616)	<b>(92,144)</b>	(65,096)
Gross profit		<b>47,840</b>	34,795	<b>97,342</b>	61,955
Other income	e	<b>17,922</b>	2,168	<b>19,525</b>	5,036
Gain on fair value changes on held for trading investments		<b>22,693</b>	39,311	<b>37,147</b>	45,312
Administrative expenses		<b>(33,266)</b>	(31,635)	<b>(54,070)</b>	(54,402)
Finance costs		<b>(2,805)</b>	(1,186)	<b>(3,516)</b>	(2,290)
Gain on disposal of subsidiaries		<b>61</b>	–	<b>61</b>	–
Gain on disposal of associates		<b>490</b>	825	<b>7,180</b>	1,915
Share of results of associates		<b>6,792</b>	(723)	<b>6,032</b>	(1,279)
Profit before taxation		<b>59,727</b>	43,555	<b>109,701</b>	56,247
Income tax expense	f	<b>(4,394)</b>	(3,820)	<b>(10,556)</b>	(4,405)
Profit for the period		<b>55,333</b>	39,735	<b>99,145</b>	51,842
Attributable to:					
Equity holders of the Company		<b>53,124</b>	48,623	<b>95,214</b>	58,248
Minority interests		<b>2,209</b>	(8,888)	<b>3,931</b>	(6,406)
		<b>55,333</b>	39,735	<b>99,145</b>	51,842
Dividend – Interim		–	–	–	–
Earnings per share					
– basic	g	<b>0.32 cents</b>	0.31 cents	<b>0.59 cents</b>	0.38 cents
– diluted		<b>N/A</b>	0.30 cents	<b>N/A</b>	0.37 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

	(Unaudited)	(Audited)
	30 September	31 March
	2007	2007
Notes	HK\$'000	HK\$'000
<b>Non-current assets</b>		
Investment properties	38,125	38,125
Property, plant and equipment	18,746	15,798
Prepaid lease payments	9,589	9,509
Goodwill	41,215	37,172
Interests in associates	113,559	17,491
Available-for-sale investments	336,069	53,243
Deposit paid on acquisition of property, plant and equipment	9,863	10,098
	<b>567,166</b>	181,436
<b>Current assets</b>		
Inventories	12,604	13,778
Trade and other receivables	101,863	51,643
Prepaid lease payments	78	242
Amounts due from associates	14,024	26,527
Amounts due from investees	1,217	1,288
Amounts due from related parties	2,365	2,847
Amounts due from minority shareholders of subsidiaries	7,721	10,596
Tax recoverable	720	539
Held for trading investments	30,866	21,021
Conversion options embedded in convertible bonds	121,604	182,405
Pledged bank deposits	10,382	10,000
Bank balances and cash	83,184	75,624
	<b>386,628</b>	396,510

## Town Health International Holdings Company Limited

		<b>(Unaudited)</b>	(Audited)
		<b>30 September</b>	31 March
		<b>2007</b>	2007
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Current liabilities</b>			
Trade and other payables	i	<b>38,504</b>	41,054
Early redemption option embedded in convertible bonds		<b>913</b>	913
Amounts due to minority shareholders of subsidiaries		<b>10,188</b>	11,542
Amounts due to related parties		<b>883</b>	915
Bank and other borrowings			
– due within one year	j	<b>15,196</b>	29,734
Obligations under finance leases			
– due within one year		<b>126</b>	46
Tax payable		<b>24,806</b>	14,428
		<b>90,616</b>	98,632
<b>Net current assets</b>		<b>296,012</b>	297,878
<b>Total assets less current liabilities</b>		<b>863,178</b>	479,314
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>3,762</b>	3,762
Bank and other borrowings			
– due after one year	j	<b>22,340</b>	23,288
Obligations under finance leases			
– due after one year		<b>–</b>	78
		<b>26,102</b>	27,128
		<b>837,076</b>	452,186
<b>Capital and reserves</b>			
Share capital		<b>167,610</b>	50,720
Reserves		<b>654,500</b>	385,867
Equity attributable to equity holders of the Company		<b>822,110</b>	436,587
Minority interests		<b>14,966</b>	15,599
<b>Total equity</b>		<b>837,076</b>	452,186

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	(Unaudited)	
	For the	
	six months ended	
	30 September	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	<b>56,737</b>	6,113
Net cash used in investing activities	<b>(317,411)</b>	(29,386)
Net cash from financing activities	<b>255,793</b>	31,934
(Decrease)/increase in cash and cash equivalents	<b>(4,881)</b>	8,661
Cash and cash equivalents at beginning of period	<b>75,624</b>	116,406
Cash and cash equivalents at end of period	<b>70,743</b>	125,067
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b>83,184</b>	125,783
Bank overdrafts	<b>(12,441)</b>	(716)
	<b>70,743</b>	125,067

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006 are as follows:

	Attributable to equity holders of the Company									
	Share capital	Share premium	Convertible equity reserve	Capital reserve	Distributable reserve	Translation reserve	Accumulated losses	Total	Minority interests	Total
	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	(650)	248,505
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	(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 repurchased	(408)	(9,018)	-	-	-	-	-	(9,426)	-	(9,426)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	9,069	9,069
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(188)	(188)
At 30 September 2006	52,224	244,389	678	10,033	62,677	189	(46,600)	323,590	1,801	325,391

For the six months ended 30 September 2007 are as follows:

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Distributable reserve	Investment revaluation reserve	Translation reserve	Accumulated profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	50,720	200,104	10,033	62,677	2,544	507	110,002	436,587	15,599	452,186
Profit for the period	-	-	-	-	-	-	95,214	95,214	3,931	99,145
Issue of new shares	5,150	295,584	-	-	-	-	-	300,734	-	300,734
Bonus issue of shares	111,740	(111,740)	-	-	-	-	-	-	-	-
Shares issue expenses	-	(10,425)	-	-	-	-	-	(10,425)	-	(10,425)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(4,564)	(4,564)
At 30 September 2007	167,610	373,523	10,033	62,677	2,544	507	205,216	822,110	14,966	837,076



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

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

The Group's unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the 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**

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007 except for the following accounting treatment on incorporated the results and assets and liabilities of Hong Kong Health Check and Laboratory Holdings Limited ("HKHC") into the Group.

Pursuant to a conditional subscription agreement dated 9 December 2005 entered into between HKHC and Top Act Group Limited ("Top Act"), a wholly-owned subsidiary of the Company, on 23 February 2006, Top Act subscribed for convertible notes (the "Convertible Notes I") of an aggregate principal amount of HK\$60,000,000 issued by HKHC.

Upon subscription in February 2006, the Convertible Notes I were immediately convertible into 1,463,414,634 shares of HKHC at a convertible price of HK\$0.041. Upon conversion of the Convertible Notes I, the Group would be given 55.79% of ownership interest and as a consequence voting rights in HKHC. As at 30 September 2006, HKHC was consolidated as a subsidiary of the Group because the Group had the ability to exercise control over the financial and operating policies of HKHC as the Convertible Notes I were currently convertible.

On 3 October 2006 and 1 December 2006, HKHC further issued convertible bonds (the "Convertible Notes II") of an aggregate principal amount of HK\$60,000,000 at a conversion price of HK\$0.041 to independent third parties.

On 2 August 2007, HKHC further issued convertible bonds (the "Convertible Bond II") of an aggregate principal amount of HK\$500,000,000 at a conversion price of HK\$0.25 to Top Act.

On 6 August 2007, HKHC further issued convertible bonds (the "Convertible Bonds I") of an aggregate principal amount of HK\$250,000,000 at a conversion price of HK\$0.25 to independent third parties.

Upon full conversion of the Convertible Notes II, Convertible Bond I and Convertible Bond II, the Group's ownership interests in HKHC will be diluted to below 50%. The Group did not have the ability to exercise control over the financial and operating policies of HKHC. Accordingly, the results and assets and liabilities of HKHC have to be incorporated in the condensed consolidated results using equity method of accounting since 3 October 2006.

From 3 October 2006 to 8 July 2007, the Group has no present equity interest in HKHC, no results and changes in shareholders' equity of HKHC were shared by the Group. On 9 July 2007, Top Act requested for a partial conversion of Convertible Notes I at a principal amount of HK\$20,000,000. As a result, HKHC has issued a total of 487,804,878 shares to Top Act at a conversion price of HK\$0.041 per share. As at 30 September 2007, the Group has 10.67% equity interests in HKHC.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs"), which are effective for the Group's financial year beginning 1 April 2007. The adoption of the new HKFRS had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards or interpretations that have been issued but not yet effective.

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

**c. Revenue**

	For the three months ended 30 September		For the six months ended 30 September	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Provision of healthcare and dental services	<b>51,167</b>	50,727	<b>119,966</b>	89,607
Sales of healthcare and pharmaceutical products	<b>22,043</b>	5,239	<b>33,975</b>	9,901
Sales of cardiology and peripheral vascular related surgical equipment	<b>9,561</b>	8,717	<b>20,223</b>	16,830
Others	<b>6,494</b>	5,728	<b>15,322</b>	10,713
	<b>89,265</b>	70,411	<b>189,486</b>	127,051

**d. 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 30 September 2006.

	Provision of healthcare and dental services <i>HK\$'000</i>	Sales of healthcare and pharmaceutical products <i>HK\$'000</i>	Sales of cardiology and peripheral vascular related surgical equipment <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
REVENUE	89,607	9,901	16,830	10,713	127,051
RESULTS					
Segment results	17,519	4,529	(791)	(9,721)	11,536
Unallocated corporate income					1,053
Finance costs					(2,290)
Gain on fair value changes on held for trading investments					45,312
Gain on disposal of associates					1,915
Share of results of associates					(1,279)
Profit before taxation					56,247
Income tax expense					(4,405)
Profit before minority interests					51,842
Minority interests					6,406
Profit attributable to equity holders of the Company					58,248

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The following table presents revenue and profit (loss) information for the Group's business segments for the six months ended 30 September 2007.

	Provision of healthcare and dental services HK\$'000	Sales of healthcare and pharmaceutical products HK\$'000	Sales of cardiology and peripheral vascular related surgical equipment HK\$'000	Others HK\$'000	Total HK\$'000
REVENUE	119,966	33,975	20,223	15,322	189,486
RESULTS					
Segment results	32,959	22,324	(963)	(2,537)	51,783
Unallocated					
corporate income					11,014
Finance costs					(3,516)
Gain on fair value changes on held for trading investments					37,147
Gain on disposal of subsidiaries					61
Gain on disposal of associates					7,180
Share of results of associates					6,032
Profit before taxation					109,701
Income tax expense					(10,556)
Profit before minority interests					99,145
Minority interests					(3,931)
Profit attributable to equity holders of the Company					95,214

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### (ii) Geographical segments

The following table presents revenue information for the Group's geographical segments for the six months ended 30 September 2007.

	Hong Kong		Mainland China		Total	
	For the six months ended 30 September					
	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE	<b>172,135</b>	112,734	<b>17,351</b>	14,317	<b>189,486</b>	127,051

### e. Other income

	For the three months ended 30 September		For the six months ended 30 September	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from bank deposits	<b>1,493</b>	681	<b>2,121</b>	1,435
Dividend income from listed investments	<b>648</b>	128	<b>648</b>	137
Rental income	<b>769</b>	620	<b>1,043</b>	1,159
Premium received for early redemption of convertible loan notes	<b>10,000</b>	–	<b>10,000</b>	–
Sundry income	<b>5,012</b>	739	<b>5,713</b>	2,305
	<b>17,922</b>	2,168	<b>19,525</b>	5,036

**f. Income tax expense**

	For the three months ended 30 September		For the six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
The charge comprises:				
– Hong Kong Profits Tax attributable to the Group	<b>4,394</b>	3,580	<b>10,556</b>	4,068
Deferred tax				
– Current period	–	240	–	337
	<b>4,394</b>	3,820	<b>10,556</b>	4,405

Hong Kong Profits Tax is calculated at 17.5% (2006 – 17.5%) of the estimated assessable profit for the period.

For the three months ended 30 September 2007, the credit of taxation on share of associates' profits amounted to approximately HK\$66,000 (2006 – charge of approximately HK\$63,000).

For the six months ended 30 September 2007, taxation on share of associates' profits amounted to approximately HK\$117,000 (2006 – approximately HK\$158,000).

**g. Earnings per share**

The calculation of the basic earnings per share for the three months ended 30 September 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$53,124,000 (2006 – approximately HK\$48,623,000) and the weighted average number of 16,760,945,724 shares (2006 – 15,751,454,343 shares) in issue during the period. For the purpose of providing comparable figures after bonus issue of shares, the weighted average number of shares for the three months ended 30 September 2006 was increased from 5,250,484,781 to 15,751,454,343.

The calculation of the basic earnings per share for the six months ended 30 September 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$95,214,000 (2006 – approximately HK\$58,248,000) and the weighted average number of 16,121,437,527 shares (2006 – 15,473,244,987 shares) in issue during the period. For the purpose of providing comparable figures after bonus issue of shares, the weighted average number of shares for the six months ended 30 September 2006 was increased from 5,157,748,329 to 15,473,244,987.

Diluted earnings per share for the three and six months ended 30 September 2007 are not applicable as there were no potential ordinary shares in existence for these periods.

The calculation of diluted earnings per share for the three months ended 30 September 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$48,884,000 and 16,094,311,485 shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares. For the purpose of providing comparable figures after bonus issue of shares, the weighted average number of shares was increased from 5,364,770,495 to 16,094,311,485.

The diluted earnings per share for the six months ended 30 September 2006 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$59,208,000 and 16,113,369,891 shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares. For the purpose of providing comparable figures after bonus issue of shares, the weighted average number of shares was increased from 5,371,123,297 to 16,113,369,891.

**h. Trade and other receivables**

	<b>As at 30 September 2007 HK\$'000</b>	As at 31 March 2007 HK\$'000
Trade receivables	<b>39,538</b>	29,143
Prepayments, deposits and other receivables	<b>62,325</b>	22,500
	<b>101,863</b>	51,643



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

	<b>As at 30 September 2007 HK\$'000</b>	As at 31 March 2007 HK\$'000
0-60 days	<b>25,900</b>	15,621
61-120 days	<b>10,105</b>	8,278
121-180 days	<b>2,448</b>	4,297
181-240 days	<b>666</b>	1,500
241- 360 days	<b>862</b>	2,866
Over 360 days	<b>1,066</b>	3,221
	<b>41,047</b>	35,783
Less: accumulated impairment	<b>(1,509)</b>	(6,640)
	<b>39,538</b>	29,143

Most of the patients of the medical and dental practices settle in cash. Payments by patients using medical cards will normally be settled within 180 to 240 days. The Group allows an average credit period of 60 days to 240 days to its trade customers under other business activities.

**i. Trade and other payables**

	<b>As at 30 September 2007 HK\$'000</b>	As at 31 March 2007 HK\$'000
Trade payables	<b>19,102</b>	17,400
Other payables and accruals	<b>19,402</b>	23,654
	<b>38,504</b>	41,054

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

	<b>As at 30 September 2007 HK\$'000</b>	As at 31 March 2007 HK\$'000
0-60 days	<b>11,318</b>	9,115
61-120 days	<b>4,626</b>	5,896
121-240 days	<b>3,158</b>	–
Over 240 days	<b>–</b>	2,389
	<b>19,102</b>	17,400

### j. Bank and other borrowings

	<b>As at 30 September 2007 HK\$'000</b>	As at 31 March 2007 HK\$'000
Bank overdrafts	<b>12,441</b>	824
Trust receipt loan	<b>–</b>	249
Bank loans	<b>25,095</b>	51,949
	<b>37,536</b>	53,022
Analyzed as:		
Secured	<b>24,247</b>	27,773
Unsecured	<b>13,289</b>	25,249
	<b>37,536</b>	53,022
Carrying amount repayable:		
Within one year or on demand	<b>15,196</b>	29,734
In the second year	<b>1,991</b>	1,929
In the third year	<b>2,103</b>	2,040
In the fourth year	<b>2,222</b>	2,156
In the fifth year	<b>2,146</b>	2,213
Over five years	<b>13,878</b>	14,950
	<b>37,536</b>	53,022
Less: Amount due within one year included under current liabilities	<b>(15,196)</b>	(29,734)
Amount due after one year	<b>22,340</b>	23,288

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2007 (2006 – Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review and outlook

Town Health International Holdings Company Limited (“Town Health” or “the Group”) is one of the largest medical services groups in Hong Kong. The Group’s activities are focused on offering a comprehensive range of quality medical and healthcare services in Hong Kong, mainland China and worldwide.

The Group recorded a turnover of HK\$189,486,000 for the six months ended 30 September 2007 (2006 – HK\$127,051,000), representing an increase of 49% as compared with the corresponding period in prior year. This was due to the continued growth of core business, provision of healthcare and dental services with further acquisitions of medical clinic chains in Hong Kong. Good progress has been made across all of the key organic growth drivers.

Gross profit margin for the six months ended 30 September 2007 was 51%, which representing a significant increase over the gross margin of 49% as recorded in the corresponding period in prior year. The recorded increase of gross margin was due 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 six months ended 30 September 2007 was approximately HK\$95,214,000 (2006 – HK\$58,248,000). In view of the Group’s active development of its core medical businesses and potential acquisitions or expansions, the Board does not recommend the payment of dividend for the six months ended 30 September 2007.

***Review of operations***

*Established the biggest clinic chain in Hong Kong*

During the period, the Group's provision of healthcare and dental services recorded significant progress and achieved strong results. The business made a profit of HK\$32,959,000 during the first six months of 2007, compared to a profit of HK\$17,519,000 in the same period last year. Turnover increased by 34% to HK\$119,966,000 as the growing demand for the private medical services remained strong.

The Company has made good progress during the period with its increasing marketing penetration. On 23 July 2007, the Group entered into a sale and purchase agreement with Jolly Park Limited in relation to the acquisition of 100% equity interest comprising 21 medical clinics for a cash consideration of approximately HK\$48 million. Following the completion of the acquisition, the total number of the Group's clinic chain has increased to more than 100 resulting with a solid clinic and patient base. Furthermore, this gives out strategic implications to Town Health's network coverage expanding into the healthcare related business in the north western part of the New Territories, one of the fastest growing population areas in Hong Kong.

*Expanding the medical chain segments in China*

This is the Group's strategy to extend the reach of affordable quality medical and healthcare services to all Chinese through entering the hospital chain, clinic chain and laboratory chain sectors.

The Group has set up an office in Shenzhen and built a team of medical professionals with versatile experiences. Town Health's hospital chain business has expanded with injecting capital, technology and management expertise into hospitals in the first- and second-tier cities in China.

Furthermore, leverage the sound corporate image of the Town Health, the Group is set to work with reputable partners to expand the clientele and develop the clinic & laboratory chain business in China. Moreover, the Group will also engage in the pharmaceutical business in China. This is the committed direction of the Group to tap into the industry riding on the market strength.

*Establishment of worldwide men's healthcare services centre*

Town Health concentrated on its strengths and took another positive step towards its goal of expansion worldwide. In May 2007, the Group has signed a non-binding term sheet in relation to the Group's acquisition of 51% equity interest in a number of companies which operate nine existing Nu/Hart Hair Clinics located in Atlanta, Chicago, New York, Philadelphia and Pittsburgh in the US and in Dubai, Manila, and Puerto Rico, Hong Kong. The US Nu/Hart Hair Clinics Group will branch out into an additional division to be known as Nu/Hart Men's Clinics dedicating to men's sexual health and related services.

Other businesses include the investment in healthcare-related business. Hong Kong Health Check and Laboratory Holdings Company Limited, which is the only listed healthcare company focuses on the healthcare and diagnostic check in Hong Kong, it had recorded an aggregate revenue of approximately HK\$29,538,000 for the six months ended 30 September 2007. Much of the Company work has focused on the provision of healthcare and medical check services.

The Company is pursuing a number of promising developments to raise the number of satellite diagnostic centers in Hong Kong through merger and acquisitions. In addition, the Company is committed to enter into the medical diagnostic scanning and laboratory services industry and plans to establish two to three medical diagnostic medical centers in China.

***Prospect***

The outlook for Town Health continues to be very encouraging with the increasing penetration into the local private medical services. Organic growth is set to continue. Taking into consideration the balance between both operation efficiency and the cost control, we are confident that profit margin will increase in the second half.

Building on the Group's substantial presence in Hong Kong, the Group will seek further expansion in China and worldwide.

Demand for quality medical services in China remains strong, supported by government initiatives and a growing healthcare services market. The Group has planned to expand the China hospital chain business through acquiring and building hospital chain in China. In addition, the Group has set to build clinic & laboratory chains in Southern China through the replication of the successful business model in China market. We are meeting the growing market through continued investments and acquisitions of hospitals.

China represents the most fast-growing pharmaceutical market in the world. The sales of pharmaceutical products has increased 15% from RMB160 billion in 2000 to approximately RMB280 billion in 2004. And China's pharmaceutical market is expected to achieve an annual growth rate exceeding 20% in the next three years. This demand is being further underpinned by an aging population, new technology and treatment options, as well as the increasing incidence of lifestyle diseases, reflecting the underlying potential of pharmaceutical market in China. The Group wants to take advantage of the opportunities in China and explore the manufacturing and distribution of pharmaceutical products industry in China. Town Health is well placed to pursue the business growth in the industry with very exciting prospects.

In addition, the Group will further venture into the global market through its acquired brand "Nu/Hart". Riding on the existing operation and network coverage of Nu/Hart Hair Clinics, the Group is dedicated to develop the hair transplant business internationally, and to explore into men's sexual health and related services worldwide. The outlook for the Group remains extremely positive.

### **Liquidity and financial resources**

As at 30 September 2007, the Group held bank balances and cash of approximately HK\$83,184,000 (31 March 2007: HK\$75,624,000). Net current assets amounted to approximately HK\$296,012,000 (31 March 2007: HK\$297,878,000). Current ratio (defined as total current assets divided by total current liabilities) was 4.3 (31 March 2007: 4.0).

As at 30 September 2007, the Group had outstanding bank and other borrowings of approximately HK\$37,536,000 (31 March 2007: HK\$53,022,000). The bank borrowings bore interest at prevailing market rates and repayable in accordance with the relevant loan agreements.

### **CAPITAL STRUCTURE**

As at 30 September 2007, the Group had equity attributable to equity holders of the Company of approximately HK\$822,110,000 (31 March 2007: approximately HK\$436,587,000).

On 25 May 2007, the Company placed 195,000,000 shares to independent investors at the placing price of HK\$0.5412 per placing share. The gross proceed from the placing was approximately HK\$105,534,000.

On 29 June 2007, the Company placed 320,000,000 shares to independent investors at the placing price of HK\$0.61 per placing share. The gross proceed from the placing was approximately HK\$195,200,000.

As at 30 September 2007, gearing ratio (defined as total long-term liabilities divided by total shareholders' equity) was 3.1% (31 March 2007: 6.0%). 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 year, the Group considers that the potential foreign exchange exposure of the Group is limited.

## **POST BALANCE SHEET EVENTS**

On 5 October 2007, the Board announces that the acquisition of 100% equity interest in Jolly Park Limited was completed on 29 September 2007, upon completion of the due diligence review. The consideration was finalised to be HK\$46,447,372.50 and the guaranteed amount was finalised to be HK\$7,145,749.62, being consideration divided by 6.5 pursuant to the sale and purchase agreement. For details, please refer to the Company's announcement dated 5 October 2007.

On 9 October 2007, the Board announces that the Company wishes to expand its joint venture in relation to the Nu/Hart Hair Clinic in Hong Kong to other regions in the world and that on 24 September 2007, Town Health BVI Limited and Asiatop Group Limited ("Asiatop"), its wholly-owned subsidiaries, have accordingly entered into a master acquisition agreement with the vendors in relation to the acquisition by Asiatop of the entire shareholdings in a number of companies which operate, or the entire interest in, the nine existing Nu/Hart Hair Clinics located in Atlanta, Chicago, New York, Philadelphia and Pittsburgh in the USA and in Dubai, Manila, Puerto Rico and Hong Kong. Following completion of the transaction, Asiatop will be owned as to 53% by Town Health BVI Limited and as to 47% by the original vendors. For details, please refer to the Company's announcement dated 9 October 2007.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 September 2007, 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)	7,885,742,353	47.05%
Dr. Francis Choi Chee Ming JP	Held by controlled corporation (note)	7,885,742,353	47.05%
Dr. Fung Yiu Tong, Bennet	Beneficial owner	8,067,270	0.05%

*Note:*

These 7,885,742,353 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 7,885,742,353 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 30 September 2007 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 options were granted under the New Scheme to any Director, the chief executive of the Company or their respective associates for the 6 months ended 30 September 2007.

## SUBSTANTIAL SHAREHOLDER

As at 30 September 2007, 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 <i>(note)</i>	7,885,742,353	47.05%
Atlantis Investment Management Ltd.	Beneficial owner	840,000,000	5.01%

*Note:*

Broad Idea International Limited is interested in the 7,885,742,353 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 30 September 2007.

## 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 six months ended 30 September 2007.

## PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's securities by the Company nor any of its subsidiaries during the six months ended 30 September 2007.

## CORPORATE GOVERNANCE

The Company endeavors in maintaining high standard of corporate governance for the enhancement of shareholders' value. The Company has complied with the required code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules for the six months ended 30 September 2007.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the period. The Company has also made specific enquiry to all Directors and the Company was not aware of any non-compliance with the required standard of dealing and its code of conduct regarding securities transactions by Directors.

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

Hong Kong, 13 November 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, Dr. Fung Yiu Tong, Bennet and Dr. Hui Ka Wah, Ronnie JP, 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.*