



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 : 3886



**Interim Report
2008**



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Miss. Choi Ka Yee, Crystal

Dr. Cho Kwai Chee

Dr. Hui Ka Wah, Ronnie JP

Non-executive Director

Dr. Choi Chee Ming JP

Independent Non-executive Directors

Mr. Chan Kam Chiu

Mr. Ho Kwok Wah, George

Mr. Wai Kwok Hung JP

COMPANY SECRETARY

Mr. Wong Seung Ming

AUDIT COMMITTEE

Mr. Chan Kam Chiu

Mr. Ho Kwok Wah, George

Mr. Wai Kwok Hung JP

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

35/F, One Pacific Place

88 Queensway

Hong Kong

REGISTERED OFFICE

Ugland House

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Shop 37, Level 3

Hilton Plaza Commercial Centre

3-9 Shatin Centre Street

Shatin, New Territories

Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation

Dah Sing Bank Limited

Hang Seng Bank Limited

Bank of China (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited

P.O. Box 513 GT

Strathvale House

North Church Street

George Town

Grand Cayman, Cayman Islands

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East,

Hong Kong

FINANCIAL HIGHLIGHTS

For the six months ended 30 September 2008:

- The Group recorded revenue of approximately HK\$198,358,000, representing an increase of 17.19% as compared with the corresponding period in 2007.
- Due to the loss arising from (1) fair value changes on convertible bonds held by wholly owned subsidiaries and a jointly controlled entity of the Group and (2) share-based payments on the option granted to Ping An Trust, loss attributable to equity holders of the Company for the six months ended 30 September 2008 amounted to approximately HK\$272,609,000. The accounting loss arising from the fair value changes on convertible bonds and the share-based payments on the option granted to Ping An Trust as mentioned above do not have any cash flow or financial burden to the Group.
- The Group recorded a profit of approximately HK\$40,375,000 (2007: HK\$39,688,000) after excluding non-operating income and expenses such as (loss)/gain on fair value changes on held for trading investments, gain on disposal of associates, (loss)/gain on disposal of subsidiaries, share of results of associates, share of result of a jointly controlled entity, (loss)/gain on fair value changes in convertible bonds and share-based payments.

As at 30 September 2008:

- The Group had a current ratio (defined as total current assets divided by total current liabilities) of 3.6 and a gearing ratio (defined as total bank borrowings divided by total shareholders' equity) of 14.6%.
- The Group recorded a net asset value of approximately HK\$1,067,507,000.

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2008 (2007: Nil).

RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of Town Health International Holdings Company Limited (the "Company") and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2008, together with the comparative unaudited figures for the corresponding period in 2007, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 September 2008 (unaudited) HK\$'000	2007 (unaudited) HK\$'000 (restated)
Continuing operations			
Revenue	4	198,358	169,263
Cost of sales		(90,675)	(77,018)
Gross profit		107,683	92,245
Other income	6	7,318	8,824
Administrative expenses		(63,809)	(47,309)
Finance costs	7	(3,092)	(3,516)
(Loss)/gain on fair value changes on held for trading investments		(11,133)	37,147
Gain on disposal of associates		–	7,180
(Loss)/gain on disposal of subsidiaries		(531)	61
Share of results of associates		(338)	6,032
Share of result of a jointly controlled entity		(83,252)	–
(Loss)/gain on fair value changes in convertible bonds		(25,884)	10,000
Share-based payments		(186,378)	–
(Loss)/profit before tax	8	(259,416)	110,664
Income tax expense	9	(7,725)	(10,556)
(Loss)/profit for the period from continuing operations		(267,141)	100,108
Discontinued operation			
Loss for the period from discontinued operation		–	(963)
(Loss)/profit for the period		(267,141)	99,145
Attributable to:			
Equity holders of the Company		(272,609)	95,214
Minority interests		5,468	3,931
		(267,141)	99,145
Dividends	10	–	–
(Loss)/earnings per share			
From continuing and discontinued operations	11		
– Basic		(1.57 cents)	0.59 cents
– Diluted		(1.53 cents)	0.59 cents
From continuing operations			
– Basic		(1.57 cents)	0.60 cents
– Diluted		(1.53 cents)	0.60 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30 September 2008 (unaudited) HK\$'000	As at 31 March 2008 (audited) HK\$'000
	Notes	
Non-current assets		
Investment properties	42,175	42,175
Property, plant and equipment	21,798	25,340
Prepaid lease payments	9,146	9,267
Goodwill	55,437	55,437
Intangible assets	8,841	10,173
Interests in associates	9,700	134,502
Interest in a jointly controlled entity	150,008	233,510
Available-for-sale investments	332,901	350,100
Deposits paid on acquisition of property, plant and equipment	6,846	6,846
	636,852	867,350
Current assets		
Inventories	9,093	8,786
Trade and other receivables	12 56,183	44,437
Prepaid lease payments	242	242
Amounts due from associates	7,962	13,887
Amounts due from investees	11,274	2,581
Amounts due from related parties	481	1,093
Amounts due from minority shareholders of subsidiaries	570	2,265
Amount due from a jointly controlled entity	34,031	33,706
Tax recoverable	759	210
Conversion options embedded in convertible bonds	46,174	126,649
Pledged bank deposits	146,160	10,000
Bank balances and cash	318,166	178,375
	631,095	422,231
Assets classified as held for sale	–	17,895
	631,095	440,126

		As at 30 September 2008 (unaudited) HK\$'000	As at 31 March 2008 (audited) HK\$'000
	Notes		
Current liabilities			
Trade and other payables	13	19,995	24,581
Early redemption option embedded in convertible bonds		–	14,555
Amount due to an investee		1,621	1,260
Amounts due to minority shareholders of subsidiaries		2,945	5,679
Amounts due to related parties		–	50,120
Bank borrowings – due within one year	14	133,546	88,253
Tax payable		17,767	11,784
		<hr/> 175,874	<hr/> 196,232
Liabilities associated with assets classified as held for sale		–	6,321
		<hr/> 175,874	<hr/> 202,553
Net current assets			
		455,221	237,573
Total assets less current liabilities			
		1,092,073	1,104,923
Non-current liabilities			
Bank borrowings – due after one year	14	19,988	21,089
Deferred tax liabilities		4,578	4,578
		<hr/> 24,566	<hr/> 25,667
		<hr/> 1,067,507	<hr/> 1,079,256
Capital and reserves			
Share capital	15	176,955	169,679
Reserves		878,183	894,464
		<hr/> 1,055,138	<hr/> 1,064,143
Equity attributable to equity holders of the Company		12,369	15,113
Minority interests		<hr/> 1,067,507	<hr/> 1,079,256
Total equity		<hr/> 1,067,507	<hr/> 1,079,256

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 September	
	2008	2007
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	13,862	56,737
Net cash generated from/(used in) investing activities	147,266	(317,411)
Net cash (used in)/generated from financing activities	(3,595)	255,793
Increase/(decrease) in cash and cash equivalents	157,533	(4,881)
Cash and cash equivalents at beginning of period	159,274	75,624
Cash and cash equivalents at end of period	<u>316,807</u>	<u>70,743</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	318,166	83,184
Bank overdrafts	(1,359)	(12,441)
	<u>316,807</u>	<u>70,743</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Distributable reserve HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Share options reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total 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
Shares issued	116,890	183,844	-	-	-	-	-	-	300,734	-	300,734
Transaction costs attributable to issue of shares	-	(10,425)	-	-	-	-	-	-	(10,425)	-	(10,425)
Dividend paid to minority interests	-	-	-	-	-	-	-	-	-	(4,564)	(4,564)
Profit for the period	-	-	-	-	-	-	-	95,214	95,214	3,931	99,145
At 30 September 2007	<u>167,610</u>	<u>373,523</u>	<u>10,033</u>	<u>62,677</u>	<u>2,544</u>	<u>507</u>	<u>-</u>	<u>205,216</u>	<u>822,110</u>	<u>14,966</u>	<u>837,076</u>

For the six months ended 30 September 2008 are as follows:

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Distributable reserve HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Share options reserve HK\$'000	Accumulated (Loss)/ profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 April 2008	169,679	398,067	10,033	62,677	54,668	12	5,291	363,716	1,064,143	15,113	1,079,256
Exercise of share options	7,276	75,698	-	-	-	-	(5,291)	-	77,683	-	77,683
Recognition of share-based payments	-	-	-	-	-	-	186,378	-	186,378	-	186,378
Fair value changes in available-for-sale investments	-	-	-	-	(384)	-	-	-	(384)	-	(384)
Share of reserves of a jointly controlled entity	-	-	-	-	(250)	-	-	-	(250)	-	(250)
Disposal of a subsidiary	-	-	-	-	-	177	-	-	177	-	177
Dividend paid to minority interests	-	-	-	-	-	-	-	-	-	(8,212)	(8,212)
Loss for the period	-	-	-	-	-	-	-	(272,609)	(272,609)	5,468	(267,141)
At 30 September 2008	<u>176,955</u>	<u>473,765</u>	<u>10,033</u>	<u>62,677</u>	<u>54,034</u>	<u>189</u>	<u>186,378</u>	<u>91,107</u>	<u>1,055,138</u>	<u>12,369</u>	<u>1,067,507</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is incorporated as an exempted company with limited liability in the Cayman Islands and its shares are listed in the Main Board of The Stock Exchange of Hong Kong Limited since 12 August 2008. The principal activities of the Group are provision of healthcare and dental services and the sale of healthcare and pharmaceutical products.

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the six months ended 30 September 2008 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities of the Stock Exchange.

The unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2008.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair values.

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 2008.

In the current interim period, the Group has applied, for the first time, the following amendments and new interpretations (“new HKFRSs”) issued by the HKICPA.

HKAS 39 & HKFRS 7	Reclassification of financial assets (Amendments)
HK(IFRIC) – INT 12	Service concession arrangements
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The adoption of the new HKFRSs has no material effect on the results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior or current period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of financial statements ²
HKAS 23 (Revised)	Borrowing costs ²
HKAS 27 (Revised)	Consolidated and separate financial statements ³
HKAS 32 & 1(Amendments)	Puttable financial instruments and obligations arising on liquidation ²
HKAS 39 (Amendments)	Eligible hedged items ³
HKFRS 1 & HKAS 27(Amendments)	Cost of investment in a subsidiary, jointly controlled entities or associates ²
HKFRS 2 (Amendment)	Vesting conditions and cancellations ²
HKFRS 3 (Revised)	Business combinations ³
HKFRS 8	Operating segments ²
HK(IFRIC) – INT 13	Customer loyalty programmes ⁴
HK(IFRIC) – INT 15	Agreements for the construction of real estate ²
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation ⁵

¹ Effective for accounting periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 January 2009

² Effective for accounting periods beginning on or after 1 January 2009

³ Effective for accounting periods beginning on or after 1 July 2009

⁴ Effective for accounting periods beginning on or after 1 July 2008

⁵ Effective for accounting periods beginning on or after 1 October 2008

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent company's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

4. REVENUE

Revenue represents the aggregate of the net amounts received and receivable from third parties for the period. An analysis of the group's revenue for the period, for both continuing and discontinued operations, is as follows:

	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Continuing operations:		
Provision of healthcare and dental services	162,424	119,966
Sales of healthcare and pharmaceutical products	27,661	33,975
Others	8,273	15,322
	198,358	169,263
Discontinued operation:		
Sales of cardiology and peripheral vascular related surgical equipment	–	20,223
	198,358	189,486

5. SEGMENT INFORMATION

(i) Business segments

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

	Continuing operations				Discontinued operation	Consolidated HK\$'000
	Provision of healthcare and dental services HK\$'000	Sales of healthcare and pharmaceutical products HK\$'000	Others HK\$'000	Total HK\$'000	Sales of cardiology and peripheral vascular related surgical equipment HK\$'000	
REVENUE	<u>119,966</u>	<u>33,975</u>	<u>15,322</u>	<u>169,263</u>	<u>20,223</u>	<u>189,486</u>
RESULTS						
Segment results	<u>32,959</u>	<u>22,324</u>	<u>(2,537)</u>	52,746	<u>(963)</u>	51,783
Unallocated corporate income				1,014		1,014
Finance costs				(3,516)		(3,516)
Gain on disposal of associates				7,180		7,180
Gain on fair value changes on held for trading investments				37,147		37,147
Gain on disposal of subsidiaries				61		61
Share of results of associates				6,032		6,032
Gain on fair value changes in convertible bonds				10,000		10,000
Profit before tax				110,664		109,701
Income tax expenses				(10,556)		(10,556)
Profit for the period				<u>100,108</u>		<u>99,145</u>

The following table presents revenue, profit/(loss) information for the Group's business segments for the six months ended 30 September 2008.

	Continuing operations			Discontinued operation	Consolidated HK\$'000
	Provision of healthcare and dental services HK\$'000	Sales of healthcare and pharmaceutical products HK\$'000	Others HK\$'000	Sales of cardiology and peripheral vascular related surgical equipment HK\$'000	
REVENUE	<u>162,424</u>	<u>27,661</u>	<u>8,273</u>	<u>198,358</u>	<u>198,358</u>
RESULTS					
Segment results	<u>34,471</u>	<u>20,728</u>	<u>(743)</u>	<u>54,456</u>	<u>54,456</u>
Other income				4,953	4,953
Unallocated corporate expense				(8,217)	(8,217)
Finance costs				(3,092)	(3,092)
Loss on disposal of subsidiaries				(531)	(531)
Share of results of associates				(338)	(338)
Share of result of a jointly controlled entity				(83,252)	(83,252)
Loss on fair value changes on held for trading investments				(11,133)	(11,133)
Loss on fair value changes in convertible bonds				(25,884)	(25,884)
Share-based payments				<u>(186,378)</u>	<u>(186,378)</u>
Loss before tax				(259,416)	(259,416)
Income tax expense				<u>(7,725)</u>	<u>(7,725)</u>
Loss for the period				<u>(267,141)</u>	<u>(267,141)</u>

(ii) *Geographical segments*

The Group's operations are located in Hong Kong and the PRC. Provision of healthcare and dental services and sales of healthcare and pharmaceutical products are carried out in Hong Kong. Sales of cardiology and peripheral vascular related surgical equipment were carried out in the PRC and Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market:

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Continuing operations:		
Hong Kong	<u>198,358</u>	<u>169,263</u>
Discontinued operations:		
Hong Kong	–	2,872
PRC	–	17,351
	<u>–</u>	<u>20,223</u>

6. OTHER INCOME

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Interest income	4,073	2,111
Rental income	2,367	1,043
Sundry income	878	5,670
	<u>7,318</u>	<u>8,824</u>

7. FINANCE COSTS

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	3,084	3,470
Others	8	46
	<u>3,092</u>	<u>3,516</u>

8. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging:

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Depreciation	4,973	3,476
Amortization of prepaid lease payments	121	121
Amortization of intangible assets	<u>1,333</u>	<u>—</u>

9. INCOME TAX EXPENSE

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong profits tax attributable to the Group	<u>7,725</u>	<u>10,556</u>

Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the period. Share of tax attributable to associates amounting to nil (2007: HK\$117,000) is included in "Share of results of associates" on the face of the unaudited consolidated income statement.

10. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2008 (2007: Nil).

11. (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic earnings per share for the six months ended 30 September 2008 is based on the unaudited loss attributable to equity holders of the Company of approximately HK\$272,609,000 (2007: profit of approximately HK\$95,214,000) and the weighted average number of 17,348,565,451 shares (2007: 16,121,437,527 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2008 is based on the unaudited loss attributable to equity holders of the Company of approximately HK\$272,609,000 (2007: profit of approximately HK\$95,214,000) and 17,775,515,724 shares (2007: 16,121,437,527 shares), being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares.

From continuing operations

The calculation of the basic earnings per share for the six months ended 30 September 2008 is based on the unaudited loss attributable to equity holders of the Company from continuing operations of approximately HK\$272,609,000 (2007: profit of approximately HK\$96,177,000) and the weighted average number of 17,348,565,451 shares (2007: 16,121,437,527 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2008 is based on the unaudited loss attributable to equity holders of the Company from continuing operations of approximately HK\$272,609,000 (2007: profit of approximately HK\$96,177,000) and 17,775,515,724 shares (2007: 16,121,437,527 shares), being the weighted average number of shares outstanding during the period, adjusted for the effects of all potential dilutive shares.

12. TRADE AND OTHER RECEIVABLES

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Trade receivables	12,636	13,853
Prepayments, deposits and other receivables	43,547	30,584
	<u>56,183</u>	<u>44,437</u>

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

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
0–60 days	6,253	8,133
61–120 days	3,512	4,065
121–180 days	2,443	3,178
181–240 days	1,388	51
241–360 days	826	–
	<u>14,422</u>	<u>15,427</u>
Less: Provision for doubtful debts	<u>(1,786)</u>	<u>(1,574)</u>
	<u>12,636</u>	<u>13,853</u>

The Group allows its trade customers with an average credit period of 60 days to 240 days.

13. TRADE AND OTHER PAYABLES

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Trade payables	6,372	6,057
Other payables and accruals	13,623	18,524
	<u>19,995</u>	<u>24,581</u>

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

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
0–60 days	6,199	5,872
61–120 days	172	59
121–240 days	1	5
Over 240 days	–	121
	<u>6,372</u>	<u>6,057</u>

14. BANK BORROWINGS

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Bank overdrafts	1,359	19,101
Bank loans	152,175	90,241
	<u>153,534</u>	<u>109,342</u>
Analyzed as:		
Secured	152,175	42,342
Unsecured	1,359	67,000
	<u>153,534</u>	<u>109,342</u>
Carrying amount repayable:		
Within one year	133,546	88,253
In the second year	2,257	2,221
In the third year	2,326	2,291
In the fourth year	2,208	2,299
In the fifth year	2,212	2,178
Over five years	10,985	12,100
	<u>153,534</u>	<u>109,342</u>
Less: Amount due within one year	<u>(133,546)</u>	<u>(88,253)</u>
Amount due after one year	<u>19,988</u>	<u>21,089</u>

15. SHARE CAPITAL

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Authorised: 30,000,000,000 (31 March 2008: 20,000,000,000) ordinary shares of HK\$0.01 each	<u>300,000</u>	<u>200,000</u>
Issued and fully paid: 17,695,515,724 (31 March 2008: 16,967,915,724) ordinary shares of HK\$0.01 each	<u>176,955</u>	<u>169,679</u>

The subscription rights attaching to 287,600,000 share options at an exercise price of HK\$0.111 per share and 440,000,000 share options at an exercise price of HK\$0.104 per share were exercised respectively during the period, resulting in the issue of 727,600,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of approximately HK\$77,684,000.

16. CONTINGENT LIABILITIES

The Group and the Company have no material contingent liabilities as at 30 September 2008 and 31 March 2008.

17. POST BALANCE SHEET EVENT

The following events occurred subsequent to the interim report date:

On 25 September 2008, Broad Idea International Limited ("Broad Idea") entered into the Top-up Placing and Subscription Agreement with the placing agent and the Company. Pursuant to the Top-up Placing and Subscription Agreement, Broad Idea agreed to place, through the placing agent, an aggregate of 3,400,000,000 existing shares at a price of HK\$0.04 per Top-up placing share. Pursuant to the Top-up Placing and Subscription Agreement, Broad Idea agreed to subscribe for an aggregate of 3,400,000,000 Top-up subscription shares at a price of HK\$0.04 per Top-up subscription share. The Top-up placing and the Top-up subscription were completed on 2 October 2008 and 9 October 2008 respectively.

During the period from 14 October 2008 to (and inclusive of) 18 November 2008, the Group acquired an aggregate of 999,340,000 shares of Hong Kong Health Check and Laboratory Holdings Company Limited (stock code: 397) on the market. The total consideration for such acquisitions (exclusive of levies, duties and related expenses) amounted to approximately HK\$16,660,000.

During the period from 20 November 2008 to (and inclusive of) 12 December 2008, the Group acquired an aggregate of 551,000,000 shares of Core Healthcare Investment Holdings Limited (GEM stock code: 8250) on the market. The total consideration for such acquisitions (exclusive of levies, duties and related expenses) amounted to approximately HK\$42,957,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group announced satisfactory core operating results for the period under review. The Group's turnover rose 17.19% to approximately HK\$198,358,000 (2007: HK\$169,263,000). The revenue growth was driven by the core healthcare and dental services business.

Gross profit margin for the period ended 30 September 2008 was 54.29% (2007: 54.50%). Due to the loss arising from (1) fair value changes on convertible bonds held by wholly owned subsidiaries and a jointly controlled entity of the Group and (2) share-based payments on the option granted to Ping An Trust, loss attributable to equity holders of the Company for the six months ended 30 September 2008 amounted to approximately HK\$272,609,000 (2007: profit of approximately HK\$95,214,000). The accounting loss arising from the fair value changes on convertible bonds and the share-based payments on the option granted to Ping An Trust as mentioned above do not have any cash flow or financial burden to the Group. Basic loss per share was HK1.57 cents.

REVIEW OF OPERATIONS

Consolidated Core Healthcare and Dental Services

As a result of the Group's continuous dedication to professionalism, Town Health's clinic chain in Hong Kong continues to enjoy a leading position in the industry, providing high standard and quality medical and specialty services to the community. During the period under review, the Group's provision of healthcare and dental services business recorded a profit of approximately HK\$34,471,000, compared with HK\$32,959,000 in the same period last year. Turnover increased by 35.39% to approximately HK\$162,424,000, due to the expansion in business scale and increased demand for private medical services.

Town Health's core business of healthcare and dental services provision has continued to generate a strong and healthy growth of revenue during the period. The Group continuously strives to consolidate its business and operation so as to enhance its operating efficiency and thus competitiveness. Also, Town Health has strived to capitalize on its client base to provide value-added services through clients' referral between different specialties within the Group.

The Group is now running the largest medical and healthcare clinic network in Hong Kong, underpinning its leading position in the local community. Due to its successful business model and track record, the Group successfully transferred its listing from GEM to the Main Board of the Stock Exchange on 12 August 2008. It marked an important milestone for the Group and started a new era for its future business expansion and development.

Venture into China Healthcare & Medical Market

Riding on Town Health's unique competitive edge in the core clinic chain business, as well as its economies of scale, the Group seized the right time and ventured into the Mainland China medical and healthcare markets. In April 2008, the Group entered into an exclusive agreement with Ping An Insurance Group ("Ping An") to develop and manage integrated chain clinics project with Ping An in Guangdong province. The project has been progressing well, and the first clinic will be open in the near future. With the joint force and synergy between Town Health and Ping An, it is believed that the Group could pioneer in the mainland integrated chain clinics market and contribute to the country's medical reform in the long run.

Solid Liquidity Position

As of 30 September 2008, the Group held cash and cash equivalents of approximately HK\$318,166,000 (31 March 2008: HK\$178,375,000). Town Health has exercised a prudent development and expansion plan, emphasizing on low gearing and debt ratio and maintaining ample recurring cash flow. Building on the strong fundamental of solid balance sheet and financial flexibility, the Group is well positioned to seize and capture any new growth opportunities.

OUTLOOK

Investing in Health Check business, Tapping Future Growth Potential

The financial tsunami has swept markets globally. Nonetheless, the medical and healthcare services are regarded as general population's everyday life necessity. It is believed that the Group's business will be less affected by the economic turmoil, and with the enhancing brand effect and economies of scale, it is hoped that the Group will continue to enjoy steady business growth in Hong Kong. The Group will continue its efforts and commitment to enhancing its operational efficiency and internal control systems.

Furthermore, the Group has aligned with its investee, Hong Kong Health Check and Laboratory Holdings Company Limited ("HK Health Check") (stock code: 397) and established a jointly controlled entity to enter into a convertible bonds subscription agreement of Core Healthcare Investment Holdings Limited ("Core Healthcare") (stock code: 8250). This has been a major catalyst for the Group to tap into the emerging health check and diagnostic and pharmaceutical businesses. The Group is confident with the outlook of the healthcare and medical-related industries and will continue to invest in its subsidiaries, including HK Health Check and Core Healthcare, so as to capture the future huge growth potential of these healthcare related businesses. And this will also contribute to Town Health's future growth.

Town Health Group is also the prime beneficiary of the newly launched government initiatives. The HKSAR Government has implemented a 3-year trial scheme which all elderly residents would be subsidized for seeking primary medical care services in the private market. Also, all children between 6 months to 6 years old are now subsidized for receiving influenza vaccination in the private market. There are other measures to promote public private interface. All these will create a favourable environment for the private medical and healthcare industry, and a new era of collaboration between the public and private sectors is foreseen.

Accelerating Integrated Chain Clinics Project in China

The Group is in full speed working towards rolling out the integrated chain clinics project together with Ping An Group. The strong partnership will strive to deliver quality medical services to residents in the Pearl River Delta, with an aim that the entire community will be benefited in the long haul. It is anticipated that the rapidly booming mainland healthcare market and the increasing demand for quality clinic services will offer the Group enormous business opportunities.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2008, the Group held cash and bank balances of approximately HK\$318,166,000 (31 March 2008: HK\$178,375,000). Net current assets amounted to approximately HK\$455,221,000 (31 March 2008: HK\$237,573,000). Current ratio (defined as total current assets divided by total current liabilities) was 3.6 (31 March 2008: 2.2).

As at 30 September 2008, the Group had outstanding bank borrowings of approximately HK\$153,534,000 (31 March 2008: HK\$109,342,000). The bank borrowings bore interest at prevailing market rates and repayable in accordance with the relevant loan agreements.

As at 30 September 2008, gearing ratio (defined as total bank borrowings divided by total shareholders' equity) was 14.6% (31 March 2008: 10.3%). 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.

As at 30 September 2008, the Group has pledged all of its investment properties to secure general banking facilities granted to the Group.

The subscription rights attaching to 287,600,000 share options at an exercise price of HK\$0.111 per share and 440,000,000 share options at an exercise price of HK\$0.104 per share were exercised respectively during the period, resulting in the issue of 727,600,000 shares of HK\$0.01 each for a total cash consideration, before expenses, of approximately HK\$77,684,000.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 September 2008, 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)	7,912,852,353	44.72%
Dr. Choi Chee Ming JP	Held by controlled corporation (note)	7,912,852,353	44.72%
Dr. Fung Yiu Tong, Bennet	Beneficial owner	8,067,270	0.05%

Note: These 7,912,852,353 shares are owned by Broad Idea International Limited. Dr. Cho Kwai Chee and Dr. Choi Chee Ming JP are deemed to be interested in the 7,912,852,353 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 2008 as recorded in the register required to be kept by the Company under Section 352 of the SFO.

SUBSTANTIAL SHAREHOLDER

As at 30 September 2008, 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)	7,912,852,353	44.72%

Note: Broad Idea International Limited is interested in the 7,912,852,353 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. 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 2008.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and Chief Executive's interests" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to acquire such rights in any other body corporate.

SHARE OPTIONS

The Company's share option scheme was adopted on 24 April 2002 (the "2002 Scheme"), for the primary purpose of providing incentives to directors and eligible employees.

Pursuant to a resolution passed at an extraordinary general meeting, the Company adopted the 2002 Scheme, which will expire on 23 April 2012, the Company may grant options to the eligible persons falling within the definition prescribed in the 2002 Scheme including directors, employees and consultants etc. of the Company or its subsidiaries to subscribe for shares in the Company at a consideration of HK\$1 for each lot of share options granted.

In connection with the transfer of the listing of the shares from GEM to the Main Board, the 2002 Scheme was superseded by a new share option scheme (the "New Scheme") pursuant to a resolution passed by the shareholders of the Company at an extraordinary meeting held on 16 September 2008. The principal purposes of the 2008 Scheme are to enable the Group and its invested entities to recruit and retain high calibre eligible persons and attract human resources that are valuable to the Group or invested entities, to recognise the contributions of the eligible persons to the growth of the Group or Invested Entities by rewarding them with opportunities to obtain ownership interest in the Company and to motivate and give incentives to these eligible persons to continue to contribute to the long term success and prosperity of the Group or invested entities.

Details of the share options outstanding and movements during the period were as follows:

Grantee	Date of grant	Exercise period	Exercise price HK\$	Closing price before date of grant HK\$	Weighted average price HK\$ (note)	Number of share options			
						Outstanding at 31 March 2008	Granted during the period from 1 April 2008- 30 September 2008	Exercised during the period from 1 April 2008- 30 September 2008	Outstanding at 30 September 2008
Employees	09/10/2007	09/10/2007- 08/10/2017	0.111	0.105	0.148	134,200,000	-	(134,200,000)	-
	10/7/2008	10/7/2008- 09/7/2009	0.104	0.104	0.110	-	300,000,000	(280,000,000)	20,000,000
Other eligible persons	09/10/2007	09/10/2007- 08/10/2017	0.111	0.105	0.144	173,400,000	-	(153,400,000)	20,000,000
	10/7/2008	10/7/2008- 09/7/2009	0.104	0.104	0.112	-	200,000,000	(160,000,000)	40,000,000
						<u>307,600,000</u>	<u>500,000,000</u>	<u>(727,600,000)</u>	<u>80,000,000</u>

Note: The weighted average price represents the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2008, the Group had approximately 500 employees, over 90% of whom were located in Hong Kong. The Group remunerates its employees mainly based on industry practices and individual performance and experience. On top of the regular remuneration, discretionary bonus and share options may be granted to selected staff by reference to the Group's performance as well as the individual's performance. Other benefits, such as medical and retirement benefits and training programs, are also provided.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 September 2008.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 September 2008.

AUDIT COMMITTEE

The audit committee currently comprises three independent non-executive directors, Mr. Chan Kam Chiu, Mr. Ho Kwok Wah, George and Mr. Wai Kwok Hung JP. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited financial statements of the Group for the six months ended 30 September 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry of all directors of the Company, all directors confirmed that they had complied with the required standard set out in the Model Code adopted by the Company throughout the period under review.

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

Hong Kong, 24 December 2008

As at the date of this report, the executive Directors are Miss Choi Ka Yee, Crystal, Dr. Cho Kwai Chee and Dr. Hui Ka Wah, Ronnie JP, the non-executive Director is Dr. Choi Chee Ming JP, and the independent non-executive Directors are Mr. Chan Kam Chiu, Mr. Wai Kwok Hung JP and Mr. Ho Kwok Wah, George.