Town Health International Medical Group Limited
康健國際醫療集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code : 3886)

Annual Report
2016

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Miss Choi Ka Yee, Crystal *(Chairperson)*
Dr. Cho Kwai Chee *(Executive Deputy Chairman)*
Dr. Hui Ka Wah, Ronnie, *JP*
(Chief Executive Officer)
Dr. Ip Chun Heng, Wilson *(Note)*
Mr. Lee Chik Yuet
Mr. Wong Seung Ming, *CPA, FCCA*
(Chief Financial Officer)

Non-executive Directors

Dr. Choi Chee Ming, *GBS, JP (Deputy Chairman)*
Ms. Fang Haiyan *(Deputy Chairperson)*
Mr. Tsai Ming-hsing *(Deputy Chairman)*
Mr. Chen Jinhao

Independent Non-executive Directors

Mr. Ho Kwok Wah, George, *MH*
Mr. Wong Tat Tung, *MH, JP*
Mr. Yu Xuezhong
Ms. Li Mingqin
Mr. Wang John Hong-chiun

BOARD COMMITTEES

Audit Committee

Mr. Ho Kwok Wah, George, *MH (Chairman)*
Mr. Wong Tat Tung, *MH, JP*
Mr. Yu Xuezhong
Ms. Li Mingqin
Mr. Wang John Hong-chiun

Remuneration Committee

Mr. Ho Kwok Wah, George, *MH*
(Chairman)
Mr. Wong Tat Tung, *MH, JP*
Mr. Yu Xuezhong
Ms. Li Mingqin
Mr. Lee Chik Yuet

Nomination Committee

Mr. Wong Tat Tung, *MH, JP (Chairman)*
Mr. Ho Kwok Wah, George, *MH*
Ms. Li Mingqin
Mr. Lee Chik Yuet

Note: Resigned on 30 December 2016.

COMPANY SECRETARY

Mr. Wong Seung Ming, *CPA, FCCA*

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6th Floor, Town Health Technology Centre
10-12 Yuen Shun Circuit
Siu Lek Yuen
Shatin, New Territories
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
China Construction Bank (Asia) Corporation Limited
Dah Sing Bank, Limited
Fubon Bank (Hong Kong) Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Management (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre,
183 Queen's Road East
Hong Kong

WEBSITE

www.townhealth.com

CHAIRPERSON'S STATEMENT

Dear Shareholders,

On behalf of Town Health International Medical Group Limited ("Company", together with its subsidiaries as the "Group" or "Town Health"), I am pleased to present this annual report for the year ended 31 December 2016 (the "Year") to our shareholders.

2016 was a year of consolidation of past achievements. We continued to expand new horizons and take on challenges, laying a solid foundation for our future business growth. While having maintained our competitive edge in the medical business in Hong Kong, we successfully developed our hospital management business in the People's Republic of China (the "PRC" or "China").

The Group's medical business in Hong Kong has maintained a steady growth during the Year. Through integration of business resources and effective market expansion, the Group's managed care business under Dr. Vio & Partners Limited ("Dr. Vio") has continued to gain momentum, with revenue for the Year increased by over 20 percent as compared to the corresponding period in 2015. With the implementation of the Voluntary Health Insurance Scheme (VHIS) put forward by the Hong Kong Government in the 2017 Policy Address, the Group expects that the Hong Kong medical insurance market would enjoy good growth which in turn would drive the demand for both managed care and private healthcare services. The Group will proactively expand its market, continue to strengthen its position in the managed care business, and strive to increase its market share through investments and acquisitions to further consolidate its leading position in the Hong Kong market.

The Group will continue to focus on developing specialty medical services and will further integrate Dr. Vio's healthcare network and its specialist services.

During the Year, the Group has accelerated its strategic presence in the PRC healthcare market and the Group has completed the acquisition of 南陽祥瑞醫院管理諮詢有限公司 (Nanyang Xiangrui Hospital Management Advisory Co. Ltd.) ("Nanyang Xiangrui"), which manages 南陽南石醫院 (Nanshi Hospital of Nanyang) ("Nanshi Hospital"), a Class A Tertiary Hospital, and 南陽市官莊工區南石醫院 (Nanyang City Guanzhuang Gongqu Nanshi Hospital). During the Year, the Group has embarked on the reforms for the two hospitals which focus on four major areas, namely operation, management systems, services and infrastructure. In particular, the Group restructured the supply chain management system, launched the new remuneration and incentive program, commenced departmental renovation work, introduced Hong Kong style healthcare services and designed a new hospital building for the two hospitals. All these reforms signified the Group's commitment to enhance Nanshi Hospital's service standard and operational efficiency.

CHAIRPERSON'S STATEMENT

In line with the community healthcare reforms promoted by the Chinese government and healthcare strategies of China Life Insurance (Group) Company ("China Life Group"), the Group will proactively develop the chain health management centres with China Life Group. These centres will offer services in four categories, namely health check, medical, lifestyle management and anti-ageing services, with an aim to develop comprehensive community healthcare services in China and to introduce the kind of cooperative business model between insurance and medical sectors. In 2017, the Group will develop these chain health management centres in Beijing, Shanghai, Shenzhen, Shanxi and Hong Kong, so as to leverage the Group's competitive edge on healthcare operations and management, and to create greater synergies with China Life Group, in order to achieve a win-win situation.

The Group's dental flagship centre in Hangzhou has also commenced operation during the Year. The Group will continue to proactively develop domestic high-end dental business in the PRC and expand its market shares of Invisalign and other high-end dental services. Along with the development of Nanshi Hospital and the chain health management centre, the Group will also develop Invisalign and high-end dental services in other provinces of China.

Since its establishment in 1989, the Group has encountered challenges and opportunities in different epochs at different stages, gaining precious experience which provided a solid foundation upon which the Group has grown and prospered. In 2017, the Group will further strengthen its efforts in the PRC business to enhance the Group's core competitiveness. The Group will continue its proactive and flexible attitude in seeking and exploring development opportunities, and be dedicated to providing the best healthcare services to customers and maximising the interests of its stakeholders.

Lastly, I would like to express my sincere gratitude to all the shareholders, directors and business partners of the Company who have been supportive to the Group, and express my heartfelt thanks to the staff who have worked so hard for the development and betterment of the Group.

Choi Ka Yee, Crystal
Chairperson

Hong Kong, 29 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Company is pleased to report the results of the Group for the year ended 31 December 2016.

During the Year, revenue from continuing operations increased by approximately 22.03% to approximately HK$1,011,549,000 (2015: approximately HK$828,909,000) and the Group recorded a profit of approximately HK$78,139,000 (2015: approximately HK$260,866,000).

The decrease in profit was mainly attributable to the decrease in gain on fair value changes on held for trading investments and disposal of associates. Profit attributable to owners of the Company for the Year was approximately HK$63,497,000 (2015: approximately HK$254,803,000). The Group's gross profit margin for the Year was approximately 29.37% (2015: approximately 30.41%).

Decrease in gain on fair value changes on held for trading investments and disposal of associates

Total gain on fair value changes on the Group's held for trading investments and disposal of associates for the Year amounted to approximately HK$48,994,000 (2015: approximately HK$273,792,000).

Given that the Group has invested in various listed securities during the Year, it is considered that investments with a market value that account for more than 5% of the Group's total assets as at 31 December 2016 or bring more than 5% profit or loss effect to the profit before tax for the Year as significant investments.

As at 1 January 2016, the Group held 639,988,000 shares of Convoy Global Holdings Limited ("Convoy"), whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (Stock Code: 1019), representing approximately 4.28% of the issued share capital of Convoy as at 1 January 2016. Convoy is principally engaged in the independent financial advisory business, money lending business, proprietary investment business, asset management business, corporate finance business and securities dealing business. During the Year, the Group disposed of its entire interests in Convoy and recorded a net gain of approximately HK$6,148,000.

As at 1 January 2016, the Group held 249,600,000 shares of New Ray Medicine International Holding Limited ("New Ray"), whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 6108), representing approximately 17.26% of the total issued share capital of New Ray as at 1 January 2016. New Ray is principally engaged in pharmaceutical distribution business in the PRC. During the Year, the Group disposed of its entire interests in New Ray and recorded a net gain of approximately HK$43,465,000.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2016 was a year for the Group to consolidate its past achievements and strive for new progress. During the Year, the Group has not only strengthened the development of its core healthcare business in Hong Kong, but also further improved its cooperation with strategic partners and actively expanded its healthcare business and hospital management business in China. The Group completed the acquisition of a hospital management company which manages a Class A Tertiary Hospital with more than 1,000 beds in the PRC during the Year. In order to further improve the Group's operational efficiency, during the Year, the Group implemented stringent cost control measures, proactively consolidated businesses with weaker development potentials, and streamlined administrative processes and adopted a result-oriented management methodology, so as to build a solid foundation for the Group and maintain its industry leading position.

Healthcare service network of the Group

During the Year, the Group had around 500 healthcare services points, including 295 general practices service points, 73 specialities service points, 39 dental service points, and 74 auxiliary service points. As at 31 December 2016, a total of 715 medical doctors, dentists and auxiliary service providers, comprising 424 general practitioners, 234 specialists and 57 dentists, offer healthcare services through the network of self-operated and affiliated centres under the Group.

A breakdown of the healthcare service network of the Group is as follows:

	As at 31 December 2016
Medical services	**368**
General medical services	295
Specialist medical services	73
Dental services	**39**
Auxiliary services	**74**
Physiotherapy services	30
Medical imaging and laboratory services	25
Hearing health services	1
Occupational therapy – Child and youth mental health services	1
Chinese medicine services	17
Total:	**481**

MANAGEMENT DISCUSSION AND ANALYSIS

A breakdown of the Group's self-operated healthcare service centres is as follows:

	As at 31 December 2016
Medical services	**96**
General medical services	53
Specialist medical services	43
Dental services	**10**
Auxiliary services	**23**
Physiotherapy services	7
Medical imaging and laboratory services	14
Hearing health services	1
Occupational therapy – Child and youth mental health services	1
Total:	**129**

The Group recorded a significant business growth during the Year. The Group's revenue from continuing operations amounted to approximately HK$1,011,549,000 (2015: HK$828,909,000), representing an increase of approximately 22.03% over its revenue for the corresponding period last year.

Managed care business – Dr. Vio

The Group's managed care business achieved remarkable results and delivered double-digit revenue growth. During the Year, the Group strengthened Dr. Vio's business development team and reorganised its structure to increase its business development representatives. On one hand, the Group provided better services to its corporate clients, successfully retained all existing clients and renewed the existing managed care service contracts. On the other hand, Dr. Vio continued to enhance its marketing services by conducting proactive visits to clients, further strengthening the communication with clients in order to understand their healthcare service needs, and actively sourcing quality clients. During the Year, Dr. Vio acquired new corporate clients and new service contracts which further increased its market shares. In addition, the Group actively integrated its business resources, further expanded the healthcare service network and strengthened its specialty medical service capabilities so as to provide more specialty medical service points for Dr. Vio's clients. All these enhanced Dr. Vio's scale and competitiveness in the managed care market. At the same time, the Group has optimised Dr. Vio's information technology system, which not only enables Dr. Vio to better manage its medical service providers and control medical cost, but also allows Dr. Vio's clients to conduct electronic payment and make insurance claims which would simplify various claim procedures such as expense approval, settlement and payment in order to provide clients with a more efficient managed care platform and further enhance clients' satisfaction.

MANAGEMENT DISCUSSION AND ANALYSIS

Healthcare service business

During the Year, the Group's healthcare service business recorded a steady development. During the Year, the Group's medical and dental clinic chain business witnessed a stable growth; and with the implementation of stringent cost control, the Group's gross profit of outpatient and dental services has improved.

During the Year, the Group's specialty medical business recorded strong revenue growth and became the Group's new source of revenue growth. The Group proactively expanded the development of specialties clinics. The Group's otolaryngology specialty centre in Tsim Sha Tsui and an integrated specialty centre in Yuen Long started operation during the Year. The Group has further consolidated its medical resources by integrating its specialty centres with Dr. Vio's medical network, which increased specialist referral cases and created better synergies between its own specialty clinics and Dr. Vio's business. During the Year, the Group proactively recruited outstanding doctors to strengthen its medical team. The healthcare and dental service business of the Group contributed approximately HK$460,468,000 (2015: HK$392,416,000) to the Group's revenue during the Year, which constituted approximately 45.52% (2015: 47.34%) of the Group's total revenue from continuing operations.

Medical tourism between the PRC and Hong Kong

The PRC-HK medical tourism is a long term development strategy for the Group. During the Year, the Group proactively optimised its marketing channels, including websites, mobile apps in China and Hong Kong, Wechat account and service hotline centres, which strengthened the PRC-HK medical tourism platform. In addition, the Group strengthened its cooperation with China Life Group, including "616 Customer Festival" and the campaign "遊禮享", to provide Hong Kong medical tourism services to its customers. During the Year, a total of 216 China Life Group's customers experienced the Group's medical tourism services. At the same time, the Group started the cooperation with other business partners to promote the Group's Hong Kong medical tourism services to their users and customers.

Beauty and cosmetic medicine business

During the Year, the Group's beauty and cosmetic medicine business was adversely affected by the economic downturn. As such, a revenue decline was recorded which resulted in a loss of approximately HK$15,203,000 for the Year. Having considered that it would be more efficient and effective to collaborate with other strategic partners of substantial business scales and operational efficiency rather than developing beauty and cosmetic medicine business on its own, during the Year, the Group disposed of its entire interest in Bonjour Beauty International Limited and its subsidiaries, representing the entire beauty and cosmetic medicine business of the Group as at 31 December 2016. Further details of such disposal are set out in the circular of the Company dated 23 February 2017.

Hospital management services in the PRC

During the Year, after the completion of acquisition and capital injection, the Group holds 60% equity interest in Nanyang Xiangrui which provides hospital management services to Nanshi Hospital and 南陽市官莊工區南石醫院 (Nanyang City Guanzhuang Gongqu Nanshi Hospital).

MANAGEMENT DISCUSSION AND ANALYSIS

Nanshi Hospital is a Class A Tertiary Hospital with more than 1,000 beds in Henan Province. With a total floor areas of approximately 60,000 square metres and approximately 1,250 personnel, the hospital includes over 300 doctors, around 200 medical technicians and around 500 nurses. Nanshi Hospital has a number of specialist departments, namely burn and plastic surgery, neurosurgery and neurological medicine, cardiology, intensive care and emergency and general medicine and rehabilitation departments, among which the burn care and plastic surgery department has been hailed as the key national hospital for specialised clinical burn care and plastic surgery.

During the Year, the Group has proactively started assisting in reforming the supply chain management system, operations management system, information management system, physician remuneration scheme, financial management system and infrastructure management system at Nanshi Hospital, so as to enhance its management standardisation and transparency, and improve internal operation efficiency and management efficiency. In respect of the supply chain management, the Group reorganised its suppliers of pharmaceuticals and consumables, implemented e-procurement platform, strengthened the supervision of drug use, and optimised the procurement procedure of pharmaceuticals and consumables to increase operational effectiveness. In respect of the physician remuneration scheme, the Group provided suggestions and Nanshi Hospital adopted a comprehensive salary scheme, which substantially raised doctors' remuneration according to their clinical work and significantly improved their income. Meanwhile, Nanshi Hospital implemented a new assessment and incentive scheme with an aim to incentivise contribution and improve quality of medical services. The new program assesses the doctors' work performance based on their service quality and takes it as the basis for consideration of the doctors' performance bonuses and promotions. During the Year, the Group gained full support of the new scheme among physicians of Nanshi Hospital and strengthened workplace motivation. In respect of operational management, the Group proactively assisted in developing new services scope and introduced Hong Kong style medical services to Nanshi Hospital. During the Year, the Group commenced the renovation work of D&G clinic, cosmetic medicine centre and health check centre at Nanshi Hospital that aimed to provide a modern and comfortable clinical environment. In addition to the marketing plan formulated by the Group's Hong Kong professional team, the Group also conducted professional training for Nanshi Hospital's doctors at the Group's cosmetic medicine centre in Hong Kong and health check centre in Guangzhou in order to enhance their service standard and technical skills. In respect of infrastructure building, in pursuing international standard of medical services, the Group introduced an internationally renowned Hong Kong based architect to participate in the design and development of the new hospital building at Nanshi Hospital. The new 800-bed medical building shall have an estimated floor area of over 80,000 square meters with 20 stories tall. It would be equipped with advanced medical and surgical centre, high-end health check and medical diagnosis equipment. The new hospital would expand the scale of intensive care units and obstetrics and gynaecology services and provide the hospital with new VIP rooms for premium healthcare services. Meanwhile, Nanshi Hospital is undergoing a phase-based renovation in the existing hospital building to create a better service environment. Moreover, the Group also explored opportunities to work with the Nanyang branch of China Life Group. During the Year, the Group launched the health check campaign for the clients of China Life Group, which would enhance the Group's reputation and awareness in the domestic market.

Chain health management centre

In recent years, the Chinese Government has actively sought to develop community healthcare services. In view of this, the Group would collaborate with China Life Group to develop chain health management centres with chain clinical services that will introduce Hong Kong style clinical services in China. China Life Group's sales agents and customers in the PRC and Hong Kong will be the chain health management centre's target customers and such sales agents will introduce the Group's holistic health management services, including specialist clinical services (covering chronic and serious illnesses), health check (including annual check-up and DNA tests), anti-ageing services (including high-end dental services, cosmetic medicine, osteoporosis and heavy metal detoxification treatments) and lifestyle management services (dietary management, weight management, and sports management, etc.) to their customers. In the coming year, the Group would enter into an agreement with the Hong Kong branch of China Life Group to set up its first health management center in Wan Chai office building, which collaborates well with the medical tourism services, to provide one-stop and holistic medical services to those China Life Group's customers coming from the PRC to Hong Kong. In the future, the Group hopes to bring this Hong Kong business model into major cities in China in order to expand the collaboration work in the Mainland with China Life Group, enhance the synergistic effect between health insurance products and health management services, and strengthen the cooperation between the Group and China Life Group.

High-end dental services

To facilitate the development of high-end dental and orthodontic business in China, the Group's first training flagship centre which is located at the PRC has started operation in the second half of the Year. The flagship centre, which is led by the Group's Hong Kong dental management team, is a platform for high-end professional training of orthodontic treatments and dental surgeries, offering Invisalign orthodontic training programs to the dentists in China. During the Year, the Group had provided Invisalign orthodontic training programs to more than one hundred dentists in China and further increased its efforts in development of sales and marketing channels. It would strive to increase its market penetration and brand awareness by promoting the services to China Life Group's customers and employees in Hangzhou.

Hangzhou hospital management services

During the Year, with regard to the Group's slow progress on upgrading and expanding the hospital services at a Hangzhou hospital; and its financial performance being far from satisfactory, on 4 November 2016, the Group sold this sector so as to reallocate the Group's resources for other higher potential investments with an aim to enhance the return to the shareholders of the Company, further details of which are set out in the announcement of the Company dated 4 November 2016.

Investment in strategic partnership

During the Year, the Group acquired 20% interests in Auspicious Idea Corporate Development Limited, which is engaged in the provision of beauty and cosmetic medicine services under the brand of "The Beauty Medical" in Hong Kong and the PRC, to form a strategic partnership to develop beauty and cosmetic medicine business together, including setting up of medical cosmetic centres in Mainland China and Hong Kong, and to work closely with China Life Group to provide anti-ageing services and one-stop medical service at the new chain health management centres.

MANAGEMENT DISCUSSION AND ANALYSIS

Other investments

As at 31 December 2016, the Group had available-for-sale investments of approximately HK$342,082,000.

As at 31 December 2016, the Group invested in loan notes with a principal amount of HK$150,000,000 which are issued by GET Holdings Limited, whose shares are listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8100). The loan notes, which are denominated in HK$, carry interest at the rate of 9% per annum and will mature on the second anniversary of their issue date. During the Year, the Group received interest income from the loan notes of HK$13,500,000.

As at 31 December 2016, the Group held approximately 3.22% of Union Medical Healthcare Limited ("Union"), whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 2138), with an investment amount of approximately HK$97,789,000. As at 31 December 2016, the fair value of the Group's investment in Union was approximately HK$88,550,000. Union is principally engaged in the provision of medical, quasi-medical, health management and traditional beauty services, the sale of skincare, healthcare and beauty products in Hong Kong, Macau and the PRC. As disclosed in the annual report of Union for the year ended 31 March 2016 and the interim report of Union for the six months ended 30 September 2016, it recorded a profit of approximately HK$149,308,000 and HK$72,939,000 respectively. During the Year, the Group received a dividend income of approximately HK$2,976,000. Based on the information published by Union, Union is expected to continue to benefit from the steady increase in sales to both local residents and the PRC tourist in 2017, with a vision to uphold its position as the leader in the aesthetic medical service industry in Hong Kong.

As at 31 December 2016, the Group held approximately 17.67% of C&C International Healthcare Group Limited ("C&C") with an investment amount of approximately HK$86,585,000. C&C and its subsidiaries are principally engaged in the provision of contracted medical schemes for integrated medical and healthcare check-up services. Based on the latest unaudited combined financial information for the seven months ended 31 October 2016 of C&C, it recorded a profit of approximately HK$14,829,000. The Group is of the view that the ageing population and the increasing demand for corporate medical solutions services in Hong Kong are favourable to the continuing development of C&C's business.

The Group prudently and carefully selects promising investments which are duly assessed and analysed by the management of the Group. After taking into account the prospects of the business and the respective financial performance of the investments, as at the date of this annual report, the Group intended to continue to hold the investments in its present portfolio.

The above three investments constituted approximately 95% of the balance of the available-for-sale investments of the Group as at 31 December 2016 and further details of the Group's available-for-sale investments as at 31 December 2016 are set out in note 25 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Looking forward, the Group will continue to focus on developing its quality healthcare businesses both in China and Hong Kong. The Group will deepen the strategic partnership with domestic and industry partners. With international healthcare service standards and management system, the Group will expand its healthcare business in China and proactively introduce Hong Kong style healthcare services into the China market with a vision to become the leading healthcare services operator in China.

Hong Kong

The Group will continue with its strategies of "Vertical integration, Horizontal expansion, Optimising network coverage and Comprehensive development" to improve its Hong Kong business. The Group will focus on developing its core medical businesses, e.g. general medical service, dental services and specialty services and strengthen the interaction among different business sectors to create synergies. Meanwhile, the Group will leverage its advantages of vertically integrated medical industry chain to increase the interactions between Dr. Vio and its specialty services, further expand its specialty network and increase service points, in order to enhance Dr. Vio's market competitiveness and enlarge its market shares. With an aim to providing more convenient and comprehensive healthcare services, the Group is proactively looking for a suitable location to build an integrated medical centre for developing a one-stop medical service including general practices, specialty, health check and dental services.

With the increasing healthcare awareness and demand in specialty medical services among Hong Kong citizens, the Group expects the specialty medical business will become the new growth driver in its Hong Kong business. After years of work, the Group currently has a number of specialty centres, including orthopaedic, endocrinology, nephrology, cardiology, ophthalmology, reproductive medicine, otorhinolaryngology, general surgery and other specialty services, etc. The Group will further integrate the medical network and increase intra-group referrals within its medical network, so as to accelerate the development of specialty services and its income growth. Besides, in order to speed up the development of specialty medical services, the Group will continue to explore potential targets for acquisitions to enhance its core competitiveness and maintain its industry leading position.

As to medical tourism, the Group will continue to expand its marketing channels, explore cooperation with each provincial branch of China Life Group, introduce the medical tourism services and arrange medical tourism service for their customers. The Group will proactively participate in campaigns of product development and enhance customer's loyalty through Hong Kong medical tourism services and also create a stronger synergy with China Life Group. Meanwhile, the Group plans to develop virtual medical services. The customers in China will be able to obtain a second medical opinion from Hong Kong practitioners through telemedicine. The Group will arrange for the mainland customers medical services in Hong Kong, high-end medical laboratory diagnosis and in-patient services, and overseas treatment referral where necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

China

The future development strategy for the Group is to actively develop the PRC medical business, expedite the implementation of various hospital management measures, including optimising the operations, introducing Hong Kong healthcare management system and reforming the hospitals under management in order to deliver value-added services to the mainland citizens. The Group aimed to set Nanshi Hospital as a benchmark of its healthcare business in mainland China.

To achieve the goals, the Group has been dedicated to optimising supply chain management, reforming outpatient clinics, improving infrastructure and providing quality community medical services. Firstly, the Group will further optimise the supply chain management and review the supply chain process from time to time in order to further optimise the supply chain systems. Secondly, after the reform of beauty and cosmetic medicine and health check department of Nanshi Hospital has been completed, the Group will assist Nanshi Hospital in launching the packaged health check services and beauty and cosmetic medicine services, so as to introduce Hong Kong style medical services to promote the services to the community. The Group will assist Nanshi Hospital in setting up Hong Kong style beauty centre in order to expand the its customer base and increase the number of referrals for beauty and cosmetic medicine services. The Group will work with the Nanyang branch of China Life Group to introduce beauty and cosmetic medicine services and health check services for their clients to speed up market penetration.

The Group expects the cosmetic medicine services and health check services will effectively expand its high end customer base and increase the service volume of Nanshi Hospital, and will bring new source of income to the hospital. In addition, the Group believes that a good hospital does not only focus on professional healthcare services, but also needs to have good hospital environment and facilities. Therefore, the Group is proactively conducting the renovation work in Nanshi hospital, focusing on the lobby, outpatient clinics, ophthalmology, dental, surgery, otology departments and day care surgical centres in order to offer a more comfortable environment for the patients. Meanwhile, the Group will expedite the construction work of the new hospital building which is scheduled to commence in 2017. The Group will apply international standard management system, cost control mechanism, tender mechanism and construction monitoring scheme to ensure that the construction works would be completed smoothly and cost-effectively.

Besides, in order to expand the outpatient service volumes and its customer base, the Group will set up an integrated clinic and ten community clinics at Nanyang city of Henan Province. Those clinics will be operated with Hong Kong clinic-style with standardised interior designs, services and management to provide efficient and high standard healthcare services for the citizens in Nanyang. The integrated clinic will be the same as the health management centre which the Group is to develop both in Hong Kong and the PRC offering specialty medical, health check, high-end dental and cosmetic medicine services. The community clinics will provide healthcare services for managing long-term illness in down town and serve to refer patients to Nanshi Hospital for follow-up treatments if necessary. With support of a large-scale Tertiary Hospital, the integrated clinic and community clinics will have doctor resources and direct admission right, and therefore can provide comprehensive healthcare services to the citizens in the city, and will gradually establish a network of community health services.

MANAGEMENT DISCUSSION AND ANALYSIS

To better seize development opportunities in the China's healthcare market, the Group will proactively develop chain health management centres with China Life Group. The Group expects to set up chain health management centres in Beijing, Shanghai, Shenzhen and Shanxi. These centers will introduce holistic healthcare services for the staff, sales agent and customers of China Life Group, mainly focusing on four categories of services, including health check, medical, lifestyle management and anti-ageing services. The Group wishes to adopt the Hong Kong standard health management model in the PRC market, and share with China Life Group's customers its Hong Kong style healthcare services, to strengthen the collaboration between commercial health insurance and health management business, and further create the synergies between the Group and China Life Group to achieve a win-win situation.

In respect of the dental business in China, the Group expects the Invisalign orthodontic training and services flagship centre will increase the number of training programs for mainland dentists and target to offer training programs for 400 dentists in China. The Group will recruit outstanding dentists through the training programs for this flagship centre and the future chain health management centres. To facilitate the business development in China, the flagship centre will provide high-end orthodontic and Invisalign orthodontic training programs to the dentists of Nanshi Hospital and its integrated clinic. Since the flagship centre is at the initial development stage, the Group will continue to enhance its marketing efforts and build up its brand name. In addition to conducting seminars and marketing campaigns, the Group will strive to enlarge the customer base by providing free services and offering discounts to the staff, senior management and customers of China Life Group.

Investment strategies and treasury management

The Group has completed the acquisition of interest in Nanyang Xiangrui and the disposal of interest in Wise Lead Holdings Limited, which owns interest in Huayao Medical Group Limited, a company principally engaged in the operation of a hospital in Hangzhou, and also the disposal of interest in New Ray during the Year and will continue to adopt a prudent strategy to maintain adequate capital to meet its future business needs. The Group will maintain a prudent approach for future acquisitions of relevant projects and ensure a solid and long-term development strategy which will significantly improve its operation revenue.

From a global prospective, macroeconomic uncertainties, together with fragile market sentiment, could potentially lead to a less sustainable recovery as volatilities in the equity, commodity and currency markets are likely to persist in 2017. Despite the uncertainties, the key fundamentals of the Group as a whole remain solid and will enable the Group to increase its profitability in the long run. Strict financial discipline in managing its core businesses and prudent capital management on all investment activities will allow the Group to pursue its growth strategy while maintaining its current healthy liquidity and debt profile.

PRINCIPAL RISKS AND UNCERTAINTIES

The operations and business of the Group may be affected by major risks and uncertainties which are set out below:

- the reliance on the Group's professional team. The Group depends on its professional team to provide medical services to its customers who look for quality healthcare services and stable doctor-patient relationship. The employment contracts of the Group's professional team with the Group may be terminated after the parties giving the required notice. The business may be adversely affected if the Group is not able to recruit or retain members of its professional team to support the services of its network of medical centres. The supply of registered doctors and dentists is limited and the Group has to compete with healthcare service providers in both the public and private sectors for these registered medical and dental practitioners. The professional team is one of the Group's valuable assets and the Group attracts quality new members to join the professional team through the Group's reputation, competitive compensation package, supportive working environment and attractive career development.

- the recognition of the Group's brand and reputation. The Group's image may be adversely affected by negative publicity as doctors and dentists working in the Group may from time to time be subject to complaints, allegations or legal actions regarding the adequacy of patient care, treatment outcome and medical services provided, which may harm the business, results of operations, financial condition, brand and reputation of the Group. The Group has developed a set of standard operation procedures at each of the medical centres and conducted sharing sessions among doctors and dentists from time to time so as to minimise the chance of medical negligence.

Details about the Group's financial risk management are set out in note 50 to the consolidated financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group held bank balances and cash of approximately HK$1,447,756,000 (2015: HK$1,826,679,000). The Group had bank borrowings which represented a mortgage loan of approximately HK$20,835,000 (2015: HK$21,887,000) of which approximately HK$1,082,000 (2015: HK$1,056,000) are repayable within one year. Details of bank borrowings of the Group are set out in note 36 to the consolidated financial statements.

As at 31 December 2016, the Group's net current assets amounted to approximately HK$2,177,942,000 (2015: HK$2,054,216,000) and the Group had a current ratio (defined as total current assets divided by total current liabilities) of 4.96 (2015: 4.23). As at 31 December 2016, the Group's gearing ratio (defined as total bank borrowings divided by equity attributable to owners of the Company) was 0.48% (2015: 0.48%). The Group considers the level of liabilities of a company reflects its financial health. The Group strives to keep the level of borrowings at minimum and to maintain ample internal resources to support its business operations, not only to reduce interest burden, but also to enable the Group to respond to changes and capture business opportunities in a timely manner when they arise. As such, both current ratio and gearing ratio are useful to assess the Group's financial positions. While higher current ratio reflects sufficiency of the Group's assets and the capability of the Group to meet its debt repayment obligations, lower gearing ratio represents lesser reliance on debt financing and greater financial stability of the Group. During the Year, the Group's liquidity position was well-managed and the Group's financial resources were sufficient to support its business operations. Where necessary, the Group may also consider other fund raising activities when opportunity arises under favourable market conditions.

Major currencies used for the Group's transactions were Hong Kong Dollars, Renminbi and United States Dollars. As Hong Kong Dollars are pegged to the United States Dollars and the fiscal policy of the Central Government of the PRC in relation to Renminbi was stable throughout the Year, the Group considers that the potential foreign exchange exposure of the Group is limited.

During the Year, the Group did not use any financial instruments for hedging activities.

CAPITAL STRUCTURE

As at 31 December 2016, the Group had equity attributable to owners of the Company of approximately HK$4,371,576,000 (2015: HK$4,530,792,000).

HUMAN RESOURCES

As at 31 December 2016, the Group employed 1,567 staff (2015: 1,402 staff). Total employee costs for the Year from continuing and discontinued operations, including directors' emoluments, amounted to approximately HK$717,901,000 (2015: HK$650,177,000). The salary and benefit levels of the employees of the Group are competitive and individual performance is rewarded through the Group's salary, bonus system and share option schemes. Remuneration packages are reviewed annually.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities (2015: Nil).

PLEDGE OF ASSETS

As at 31 December 2016, certain property, plant and equipment and investment properties of the Group with carrying values of approximately HK$125,201,000 and HK$531,225,000, respectively, were pledged to secure general banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of investment properties and property, plant and equipment of approximately HK$50,921,000 (2015: HK$204,328,000) and as at 31 December 2015 the acquisition of a subsidiary at maximum consideration commitment of approximately HK$1,380,835,000 (2016: nil). The Group intends to meet those capital commitments through its internal resources.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Miss Choi Ka Yee, Crystal ("Miss Choi"), aged 36, has been an executive director of the Company ("Director") and the Chairperson of the Company since May 2006 and October 2006 respectively. Miss Choi graduated from Boston College in the United States of America with a bachelor degree of science in Accountancy and Management Information System. She also holds a master degree in Corporate Finance from The Hong Kong Polytechnic University. Miss Choi has extensive knowledge in accounting and corporate finance. Miss Choi is a member of Shenzhen Committee and a member of Jieyang Committee of the Chinese People's Political Consultative Conference, a member of the board of directors of The Hong Kong Polytechnic University Development Foundation, the vice president of Hong Kong CPPCC Youth Association, the chairperson of United We Stand Foundation Limited and a director of Health Check Charity Funds Limited. She is also a vice chairperson of Early Light International (Holdings) Limited and E. Lite Property Management Limited. Miss Choi joined the Company in April 2005 as the director of the corporate finance department. She is the daughter of Dr. Choi Chee Ming, *GBS*, *JP*, a non-executive Director and a Deputy Chairman of the Company.

Dr. Cho Kwai Chee ("Dr. Cho"), aged 53, is the founder of the Group as well as an executive Director and the Executive Deputy Chairman of the Company. Dr. Cho founded the Group in December 1989 and is now responsible for formulating, overseeing and managing the business and development strategies of the Group. He is also a director of a number of subsidiaries of the Company. Dr. Cho graduated from The University of Hong Kong and holds the qualifications of MBBS (HK), FHKCFP, FRACGP, DCH (London), DCH (RCP&SI), DCH (Glasgow) and DPD (Cardiff). He is also the member of the Standing Committee of the 13th Guangzhou Committee of the Chinese People's Political Consultative Conference, the 5th Vice Chairperson of the Board of Directors of the Yan Oi Tong for the year 2016-2017, the Director of Po Leung Kuk Board of Directors (2016-2017), the founder and Chairman of the Egive For You Charity Foundation Limited, the founder and Vice Chairman of United We Stand Foundation Limited, the founder and a Director of Health Check Charity Funds Limited, the Chairman of Sha Tin District Community Fund Limited, the District President of Scout Association of Hong Kong Yau Tsim District, the School Manager of IMC of Yan Oi Tong Tin Ka Ping Secondary School, a member of HKTDC Professional Services Advisory Committee and the Permanent President of Hong Kong Shatin Industries and Commerce Association Limited. Dr. Cho has been appointed as an executive director of Convoy, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1019), since 9 March 2017. Dr. Cho is a director of Broad Idea International Limited, a company which was interested in the shares of the Company as at the date of this annual report, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS *(Continued)*

Dr. Hui Ka Wah, Ronnie ("Dr. Hui"), *JP*, aged 53, has been an executive Director since June 2014. Dr. Hui had been the Co-Chief Executive Officer of the Company and has become the Chief Executive Officer of the Company since July 2014. Dr. Hui is responsible for execution of the development strategies of the board of Directors ("Board") and managing various business segments of the Group. Dr. Hui is also a director of a number of subsidiaries of the Company. Dr. Hui graduated from The University of Hong Kong with a bachelor of medicine degree and a bachelor of surgery degree. Dr. Hui is a specialist in Paediatrics. He is also a chartered financial analyst (CFA Charter Holder) and holds a degree in master of business administration conferred by Universitas 21 Global. Dr. Hui was a member of the Small and Medium Enterprises Committee of the Government of Hong Kong. Dr. Hui was also a member of the Energy Advisory Committee and a non-official member of the Women's Commission of the Government of Hong Kong. Dr. Hui had been an executive director of Convoy, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1019), (from 13 June 2014 to 26 March 2015.

Mr. Lee Chik Yuet ("Mr. Lee"), aged 62, has been an executive Director since October 2009. Mr. Lee graduated from The Chinese University of Hong Kong with a bachelor degree in Social Science. He also holds a bachelor degree and a master degree in Laws from The University of Hong Kong. Prior to joining the Group, Mr. Lee had been a practising solicitor for more than 13 years in Hong Kong specialised in commercial, corporate finance and investment laws and practice in Hong Kong and the PRC. Mr. Lee is currently a director and the legal representative and general manager of a subsidiary of the Company in the PRC. Mr. Lee is also a director of a number of other subsidiaries of the Company. He is also an executive director of New Ray, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 6108). Mr. Lee is also a member of the nomination committee and remuneration committee of the Board.

Mr. Wong Seung Ming ("Mr. Wong"), aged 45, has been an executive Director and the Chief Financial Officer of the Company since July 2014. He has been working as the company secretary of the Company since 2007. Mr. Wong graduated from the City University of Hong Kong with a bachelor degree in Accountancy. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Wong worked in various auditing firms and the finance department of several companies including companies listed on the Main Board of the Stock Exchange. Mr. Wong has extensive experience in accounting, auditing and financial management. Mr. Wong is also a director of a number of subsidiaries of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Dr. Choi Chee Ming ("Dr. Choi"), *GBS*, *JP*, aged 71, has been a non-executive Director and a Deputy Chairman of the Company since February 2006. Dr. Choi holds a master degree in Business Administration from Newport University in the United States of America. He also holds a PhD in Business Management from Harbin Institute of Technology, the PRC and an Honorary Degree of Doctor of Business Administration from The Hong Kong Polytechnic University. Dr. Choi is the chairman of Early Light International (Holdings) Limited and E. Lite (Choi's) Holdings Limited and has extensive business interests in the manufacturing industry and the property sector. He is the honorary president of the Toys Manufacturer's Association of Hong Kong, honorary president of the Hong Kong Young Industrialists Council and a court member of The Hong Kong Polytechnic University. He is currently a non-executive director and vice-chairman of Regal Hotels International Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 78). Dr. Choi is a director of Broad Idea International Limited, a company which was interested in the shares of the Company as at the date of this annual report, which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO. Dr. Choi is the father of Miss Choi, the Chairperson of the Company.

Ms. Fang Haiyan ("Ms. Fang"), aged 50, has been appointed as a non-executive Director and the Deputy Chairperson of the Company since June 2015. Ms. Fang obtained a master degree in economics at Renmin University of China（中國人民大學）in 1993 and a doctoral degree in economics at the same university in 1998.

Ms. Fang joined China Life Insurance Company Limited（中國人壽保險股份有限公司）, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 2628), in 1998. Since May 2013, Ms. Fang has been serving as the general manager of the Business Department of China Life Insurance (Group) Company（中國人壽保險（集團）公司）, where she is responsible for the management and development of the group's business and the development and quality control of the insurance services provided by subsidiaries of the group.

NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Tsai Ming-hsing ("Mr. Tsai"), aged 59, has been appointed as a non-executive Director and a Deputy Chairman of the Company since September 2015. Mr. Tsai obtained his Bachelor of Business Administration degree from the School of Law of National Taiwan University in 1979 and his Master of Business Administration degree from the Graduate School of Business Administration of New York University in 1981. From October 2012 to October 2014, Mr. Tsai was the chairman of the Taiwan Telecommunication Industry Development Association. Since June 2014, Mr. Tsai has been appointed as the vice chairman of the Chinese Taipei Basketball Association for a term of four years. Mr. Tsai is also a member of the China Finance 40 Forum Executive Council and a member of the China Finance 40 Forum Council.

Since July 2004, Mr. Tsai has been appointed as the vice chairman of Fubon Financial Holding Co., Ltd. ("Fubon Financial", together with its subsidiaries, the "Fubon Group"), one of the largest listed financial holding companies in Taiwan. Mr. Tsai has been appointed as a director and the chairman of Fubon Bank (Hong Kong) Limited since February 2004. Mr. Tsai was the chairman of Fubon Securities Co., Ltd. from September 1988 to May 1992 and the chairman of Fubon Life Insurance Co., Ltd. from July 1993 to June 2011.

Mr. Tsai has been with the Fubon Group since 1983. During the past 32 years, Mr. Tsai has been managing a wide range of financial and insurance businesses of the Fubon Group.

Mr. Tsai is currently the chairman of Taiwan Fixed Network Co., Ltd. and he has also been the chairman of Taiwan Mobile Co., Ltd. since June 2014. Both companies are telecommunications service providers in Taiwan.

In 2011, Mr. Tsai was awarded the "Asia Innovator of the Year Award" of the 10th CNBC Asia Business Leaders Awards to cite his achievement and he was the sole awardee from Taiwan in that year.

Mr. Chen Jinhao ("Mr. Chen"), aged 36, has been appointed as a non-executive Director since June 2015. Mr. Chen graduated from the Sun Yat-Sen University (中山大學) with a bachelor of Science degree in Mathematics in June 2001 and obtained a MBA degree from the University of Wales, Cardiff (now known as Cardiff University) in 2003.

Mr. Chen has over eight years of experience in equity investment and management. Mr. Chen worked as an executive director of the investment department of BOCGI Zheshang Investment Fund Management Co., Ltd. (中銀投資浙商產業基金管理有限公司) from 2010 to 2013. He worked as an associate director at China Life Investment Holding Company Limited (國壽投資控股有限公司) from 2014 to 2016. He has been a managing director at China Life Private Equity Investment Company Limited (國壽股權投資有限公司) since October 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Kwok Wah, George ("Mr. Ho"), *MH*, aged 58, has been an independent non-executive Director since September 2004. Mr. Ho is a Practising Certified Public Accountant in Hong Kong. He is the proprietor of George K. W. Ho & Co., Certified Public Accountants and possesses over 20 years' professional experience in accounting, auditing, tax planning and business advisory. Mr. Ho is a director of Hong Kong Shatin Industries and Commerce Association Limited and Hong Kong Commerce and Industry Associations Limited. He is also an independent non-executive director of Belle International Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1880), Rykadan Capital Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 2288) and PuraPharm Corporation Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1498). Mr. Ho is also the Chairman of the audit committee and the remuneration committee of the Board and a member of the nomination committee of the Board.

Mr. Wong Tat Tung ("Mr. Wong"), *MH, JP*, aged 47, has been an independent non-executive Director since December 2014. Mr. Wong has over 18 years' business experience in the field of asset management and investment. He has served as a Vice President of Credit Suisse Privilege Limited in Hong Kong. Currently, he is the managing director of Channel 8 Wealth Management Limited. Further, Mr. Wong is a committee member of the city of Tianjin Chinese People's Political Consultative Conference. In addition, Mr. Wong was the Chairman of Yan Oi Tong for the year 2012-2013 and at the same time offered by Wuyi University as a board member of their school. From 19 March 2012 to 20 June 2014, Mr. Wong was an independent non-executive director of Larry Jewelry International Company Limited (formerly known as Eternite International Company Limited), whose shares are listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8351). Mr. Wong is also the Chairman of the nomination committee of the Board and a member of the audit committee and the remuneration committee of the Board.

Mr. Yu Xuezhong ("Mr. Yu"), aged 59, has been appointed as an independent non-executive Director since June 2015. Mr. Yu graduated from The Fourth Military Medical University (第四軍醫大學) in 1984. He obtained a master degree in medicine from 中國協和醫科大學 (in English for identification only, China Union Medical University) (now known as Peking Union Medical College (北京協和醫學院)) in 1991.

Mr. Yu is currently an assistant to the medical superintendent, a professor in emergency medicine and a supervisor of the emergency medicine division of Peking Union Medical College Hospital (北京協和醫院). He is also the chairman of 中國醫師協會急診醫學分會 (in English for identification only, The Society of Emergency Medicine of Chinese Medical Doctor Association) and the chairman of 中華醫學會急診醫學分會 (in English for identification only, The Society of Emergency Medicine of Chinese Medical Association). Mr. Yu has profound knowledge and extensive experience in teaching, scientific research and clinical experience in emergency medicine. Mr. Yu is also a member of the audit committee and the remuneration committee of the Board.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Ms. Li Mingqin ("Ms. Li"), aged 58, has been appointed an independent non-executive Director since June 2015. Ms. Li graduated from 北京中醫學院 (in English for identification only, Beijing College of Traditional Chinese Medicine) (now known as Beijing University of Chinese Medicine (北京中醫藥大學)) with a Bachelor Degree in 1982. She obtained the lecturer qualifications from 北京中醫學院 (in English for identification only, Beijing College of Traditional Chinese Medicine) (now known as Beijing University of Chinese Medicine (北京中醫藥大學)) in 1988.

Ms. Li has worked at the China-Japan Friendship Hospital (中日友好醫院) and 北京中醫學院 (in English for identification only, Beijing College of Traditional Chinese Medicine) (now known as Beijing University of Chinese Medicine (北京中醫藥大學)), where she was engaged in the teaching of medicines, R&D of new medicines and medicines management.

Ms. Li is currently a director of Beijing Tide Pharmaceutical Co., Ltd. (北京泰德製藥股份有限公司) and 正大邵陽骨傷科醫院 (in English for identification only, Chia Tai Shaoyang Orthopedic Hospital). She has been appointed as an executive director of Sino Biopharmaceutical Limited (中國生物製藥有限公司) ("SBL"), whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1177), since 20 April 2015. She is also the vice president of SBL and has joined SBL and its subsidiaries since 1997. She is principally responsible for the investment affairs of SBL and its subsidiaries. She has over 33 years of experience in the pharmaceutical industry. She is also a member of the audit committee, the nomination committee and the remuneration committee of the Board.

Mr. Wang John Hong-chiun ("Mr. Wang"), aged 51, has been appointed as an independent non-executive Director since September 2015. Mr. Wang graduated from the University of California at Berkeley in 1988 with a Bachelor of Arts degree with a major in Economics. In 1996, Mr. Wang obtained his Master of Management degree from the J.L. Kellogg Graduate School of Management at Northwestern University.

Mr. Wang had been an executive director in the Investment Management Division of Goldman Sachs (Asia) L.L.C. in Hong Kong and was employed by such company and one of its affiliates from August 1996 to December 2010. Mr. Wang worked at Citi Private Bank of Citigroup Inc. from December 2010 to February 2012, during which he held the positions of managing director and global market manager.

Since March 2012, Mr. Wang has been a director of W.T.T. Investment Limited. Mr. Wang has been the president of 忠興開發股份有限公司 (in English for identification only, Zhongxing Kaifa Co., Ltd.), which is an affiliate of the Tsai's family of Fubon Financial from March 2015 to May 2016. He is also the president of 儒記投資股份有限公司 (in English for identification purpose only, Ru Chi Investment Corporation Limited) and a non-executive director of Convoy, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1019), since October 2016. He is a member of the audit committee of the Board.

SENIOR MANAGEMENT

Dr. Chan Wing Lok, Brian, aged 52, graduated from The University of Hong Kong and holds the qualifications of MBBS (HK), DCH (RCP&SI) and DPD (Cardiff). He is the district vice president of Yau Tsim District of Scout Association of Hong Kong. He joined the Group in 1991. He had been an executive Director from 18 July 2011 to 2 September 2015. He is currently the chairman of Town Health Medical & Dental Services Limited, a subsidiary of the Company, and is responsible for the Group's clinic operational management and business development, and the enhancement and maintenance of the Group's service quality. He is also a medical practitioner of the Group delivering medical consultation services to the patients of the Group. He is also a director of a number of subsidiaries of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Continued)*

Dr. Nelson C. K. WONG, aged 63, is the Chief Executive of Dr. Vio & Partners Limited ("Vio"), a non-wholly owned subsidiary of the Company. He received his medical education at the University of London on a British Council Scholarship. In 1981, he passed his Diploma of Membership of the Royal Colleges of Physicians of the United Kingdom (MRCP(UK)). He subsequently embarked on a self-study course in insurance operations and was awarded the Fellowship Diploma of the Life Management Institute (FLMI) with Distinction in 1987. He was formerly a part-time Consultant of several major insurers.

He co-founded Allied Medical Practices Guild, the first Independent Practice Association in Hong Kong in 1982, with an innovative structure and a disruptive business model, which he sold to a listed company in 1999. He pioneered a unique intranet Point-of-Sale system to facilitate front-line eligibility checking and back-office Electronic Data Interchange in 1998, before e-commerce became fashionable. He tried to retire in 2003, only to be lured out of retirement in 2005 to take the helm at Vio.

He was the invited author of a book chapter on Managed Care in The University of Hong Kong position book on Hong Kong's Health System in 2006. He served on the Working Group on Primary Care under the HKSAR Government's Health and Medical Development Advisory Committee from 2008 to 2016. He is an Executive Committee member of the Business and Professionals Federation of Hong Kong. His latest innovation is effective Pharmacy Benefit Management.

Dr. So Chi Kin, aged 49, graduated from The University of Hong Kong and holds the qualification of BDS (HK) and MSC (Implant Dent) (HK). He is currently responsible for the development and management of the Group's dental clinic business as well as the enhancement of professional dental service standards. He joined the Group in April 1991.

Ms. Wang Qin, aged 54, graduated from Shandong Medical University（山東醫科大學）(now known as Shandong University School of Medicine（山東大學醫學院）) with a Bachelor degree and a Master degree in Medicine. She is responsible for managing the development of the Group's medical business in Mainland China. Before joining the Group in December 2015, Ms. Wang worked for China Life Insurance Company Limited（中國人壽保險股份有限公司）, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 2628).

Dr. Yau Yi Kwong, aged 54, graduated from The University of Hong Kong and holds the qualifications of BDS (HK) and DGDP (UK). He is currently responsible for the Group's dental clinic management and is the Group's organiser of continuous dental education and is committed to enhancing the overall standard of our dental services. He joined the Group in November 2000.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE AND REPORTING PERIOD

This is the first ESG report by the Group, highlighting its Environmental, Social, and Governance (the "ESG") performance, with disclosure reference made to the ESG Reporting Guide contained in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

This ESG report covers the Group's overall performance in two subject areas, namely, Environmental and Social, of the business operations in Hong Kong, including the headquarter office and medical centres, from 1 January 2016 to 31 December 2016, unless otherwise stated. The Group's operation in the PRC is excluded from the scope as they are identified to be insignificant aspects of the Group in its engagement sessions with stakeholders.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

In order to identify the most significant aspects for the Group to report on for this ESG report, key stakeholders including investors, shareholders and employees have been involved in some engagement sessions to discuss and to review areas of attention which will help the business meets its potential growth and be prepared for future challenges.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on its environmental, social and governance approach and performance. For any suggestion or opinion, please kindly send it to the Company through its communication channels.

TOWN HEALTH'S MISSION AND VISION ON SUSTAINABILITY

The Group aims to maintain its leading position in Hong Kong medical network market. It believes that pursuit of innovation is an important factor leading to a successful business, while a steady growth of business can support its staff and community in return. To achieve this goal, the Group would maintain relationship with its stakeholders and at the same time, implement responsible corporate governance policies to pursue sustainable business growth. As a leader in the medical field, the Group will do its best to fulfill its corporate social responsibility and be responsible to individuals, the community and the environment.

The Group's value lies in its people, its attitude and its management philosophy as shown below.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

TOWN HEALTH'S CORPORATE SOCIAL RESPONSIBILITY POLICY

The Group recognises its impact on the society and environment, therefore, in addition to compliance with laws and regulations, it adheres to the highest standards of corporate social responsibility in its business. Aligned with its mission and vision on sustainability, the Group is committed to protecting the environment, caring for staff and serving the community.

Protecting the Environment

The Group understands its business operation contributes to significant consumption of natural resources and its waste releases will pose risk to the public health and the environment if not well managed. It strives to protect the environment, reduce carbon emission and establish a green office by implementing various energy saving, water saving and waste reduction initiatives.

Caring for Staff

The Group takes its responsibility seriously to promote harmonious relationships and environment at workplace. It treasures staff as its valuable assets, encourages team work and places staff's personal growth at high priority.

Serving the Community

The Group recognises the importance to serve the underprivileged community and nurture our next generation. It pledges to support local charity organisations through partnership with local charity organisations, donations and active participation in voluntary services. It also focuses on supporting organisations that enhance personal development and growth of youth to nurture young leaders for future generation.

ENVIRONMENTAL

In light of the climate change challenge that our world is facing, the Group puts significant effort on environmental protection and reduction of greenhouse gas emissions. Types of emissions and environmental issues the Group has involved during the Year were mainly gasoline, electricity, water, paper and clinical waste. The Group's business does not involve in the production-related air, water, or land pollutions which are regulated under Hong Kong laws and regulations.

The Group understands that electricity and water consumed and clinical wastes generated in its business operation contribute to significant consumption of natural resources and pose risk to the public health and the environment. Therefore, electricity and water saving initiatives were highly promoted and implemented in its workplace and clinical wastes were treated cautiously. Details of electricity and water saving initiatives and handling of clinical wastes are discussed below.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Environmental Friendly Device

The Group has installed solar cells on the rooftop of the headquarter which generate energy for the corridor's lighting.

Electricity

The Group has installed automatic lighting devices to ensure that unnecessary lighting devices are switched off after office hours. Notices and reminders on energy saving are regularly issued to staff to raise their energy saving awareness on their behaviours, including:

- Adjusting air conditioners' temperature to 25.5°C
- Switching off all electronic devices during lunch hours and when leaving office
- Using stairs instead of lifts when possible
- Setting computers on energy saving modes

Water

The Group regularly reminds its staff to conserve water resources through notices and reminders. To reduce water consumption, staff are reminded to:

- Dispose containers' waste water before washing them
- Control flow from tap and avoid turning it to the full
- Turn off tap when applying soap
- Avoid flushing unnecessarily
- Fix dripping taps and water mains promptly
- Avoid wasting water in upflow water dispenser

Non-Hazardous Waste

Non-hazardous waste from the Group's operation mainly was paper waste from office. The Group continues implementing paper saving practices among employees, such as to:

- Promote computer-based administration procedures
- Adopt electronic filing system
- Use electronic communication channels for information sharing
- Adopt double-sided printing and photocopying
- Reuse paper that are used on one side for drafting, photocopying and fax deliveries
- Utilise paper by adjusting document's margins, font size and printer settings
- Reuse envelopes when delivering internal documents
- Use pre-inked stamps instead of sticker or paper labels
- Avoid using paper cups

Apart from the above initiatives, the Group promotes green office tips through email on a monthly basis. For example, employees are encouraged to share office stationaries, bring their own reusable tableware instead of using disposable ones, bring their own handkerchief instead of using tissue paper or use electric hand dryer for drying hands, and carry out waste segregation for effective waste recycling, etc.

Expired Medication

Every medical centre has a specific collection area for expired medications. Senior nurses are assigned to check the inventory regularly (ranging from every 1-3 months depending on individual medical centres), and are responsible to identify and relocate all medications that are expired or to be expired in 3 months. The expired products are sent back to the headquarter's purchasing department for further handling (some would be returned to governmental department, and some would be returned to suppliers).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Clinical Waste

Clinical waste contributes to a large portion of the total waste generated from the Group's operation. The Group takes special caution in handling medical waste to minimise risks to public health and the environment. Employees in all clinic offices have been well trained to segregate the waste into the following groups:

- Group 1 – Used or Contaminated Sharps
- Group 2 – Laboratory Waste
- Group 3 – Human and Animal Tissues
- Group 4 – Infectious Materials
- Group 5 – Dressings
- Group 6 – Other Wastes

Employees, following standard procedures and guidelines, dispose of the above types of waste into specific containers which are carefully coded with fixed colours and sealed with ties separately. All types of clinical waste are collected by licensed clinical waste collectors. Guidelines on clinical waste management are provided to all clinical staff. During the Year, the Group complied with all applicable clinical waste related Hong Kong laws and regulations including but not limited to the Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong).

SOCIAL

Employment and Labour Practices

Employment

The Group offers competitive remuneration (including performance bonus), promotional opportunities, compensation and benefit packages to attract and retains talents. Remuneration is determined with reference to the prevailing market condition as well as the competency, qualifications and experience of individual employee. Performance bonus will be paid to the employees as recognition of and a reward for their contributions to the Group. Employees are entitled to mandatory provident fund, medical insurance and body check program. Dental specialists who are at higher risk of injury are offered with specific insurance plans to enhance their protection. Employees are also entitled to statutory holidays and different types of paid leave including annual leave, sick leave, maternity leave, paternity leave, compensation leave, compassionate leave and injury leave.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Policies on remuneration, benefits, training and occupational health and safety are regularly reviewed to maintain good relationships with employees. The Group employs the "Award and Penalty System", under which employees and clinic offices with outstanding customer services are recognised and encouraged through awards on an annual basis, while disciplinary action would be taken if an employee has committed an act of serious misconduct. The Group has zero tolerance over any sexual harassment and discrimination behaviour.

During the Year, the Group complied with all applicable employment and labour related Hong Kong laws and regulations including but not limited to the following:

- The Employment Ordinance (Cap. 57 of the Laws of Hong Kong)
- The Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong)
- The Employees' Compensation Ordinance (Cap. 282 of the Laws of Hong Kong)
- The Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong)

Employee Health and Safety

The Group implemented strict preventive and control measures to protect employees and patients from contamination, infections and accidents. Employees who engage in medical treatment and disinfection procedures are required to put on protective clothing, surgical masks, protective goggles and gloves. Sharp equipment is handled in accordance to the safety guidelines in the employees' handbooks to avoid injuries or contamination. In case of injuries or accidents, especially in the dental offices, the Group will arrange specific medical attention for concerned employees. Medical treatment machines and equipment are protected with disposable covers before use and properly sterilised after use.

The Group regularly reviews the employees' health and safety procedures to safeguard employees' well-being. Briefing, training, news, reminders and tips are regularly provided to employees to raise their awareness and to refresh their knowledge and practices in using treatment related equipment and machines.

Occupational Health and Safety Data	2016
Work related fatality	0
Work injury cases >3 days	1
Work injury cases <3 days	16
Lost days due to work injury	17.5

There was zero work related fatality and 17 work injury cases respectively during the Year. The total days lost due to work injury were 17.5 days. The management will continue their effort in strengthening the Group's occupational health and safety performance.

During the Year, the Group complied with all applicable employees' health and safety related Hong Kong laws and regulations including the Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Development and Training

Training is valued as essential to the personal growth of employees, which also ensures and improves the Group's customer services.

Apart from the strict code of conduct that all employees shall follow, employees are also provided with customised trainings and handbooks with respect to their specialities. Training courses include:

- 334 New Joiner Training (3+3+4 Weeks)
  New employees are required to join the 334 New Joiner Training to familiarise them with necessary knowledge, technical skills and procedures. The training lasts for 10 weeks. Employees will be examined after training to ensure that they have acquired necessary knowledge and have met the professional standards. Existing employees are also provided with reinforcement trainings to enhance operational efficiency.

- Basic Customer Service of Health Care Assistants
  The training enables health care assistants ("HCA") to understand reasons for delivering quality customer services, and ways to upgrade the Group's customer services in aspects of HCA's physical and oral manners, attitudes, diplomacy, and sensitivity. Apart from delivering relevant knowledge and skills, cases are also discussed, serving as ready references to HCAs when they encounter similar circumstances in the future.

- Share Customer Service Cases with Doctors and Discussion
  The Group conducts occasional sharing sessions among doctors. In the sessions, doctors share cases of complaint or cases requiring attention, allowing doctors to be aware of professional attitudes and good manners which they should maintain when facing patients.

Employment Communication

As employees are valuable assets of the company, the Group employs a "Team Work and System" management approach to raise employees' sense of belonging to the group. In daily operation, staff communicate closely through channels including emails, clinic office phone or text messages. Internal meetings are held regularly to facilitate status reporting, problem solving, and performance evaluation. Through meetings, new instructions and guidelines are also developed and delivered to all levels of employees.

Another communication channel is the appraisal system. Appraisal is conducted monthly on selected employees (from senior management to frontline staff). In the appraisal reports, appraisers assess if employees' performances are aligned with its corporate values. Employees to be appraised are also invited to comment on the appraisers' assessment results, which creates a mutual evaluation channel between them.

To show appreciation of employees' devotion to the Group, an award of Outstanding Customer Service is presented yearly to staff who provided quality services. Gathering events are also regularly organised to promote healthy lifestyle and encourage interaction among staff. Events details can be found in the section headed "Community" below.

Labour Standards

The Group's Human Resources Department strictly abides by the Group's recruitment guidelines throughout the recruitment process. During the Year, employees who practised medicine and surgery have registered with the Medical Council of Hong Kong in accordance with the provisions of the Medical Registration Ordinance, (Cap. 161 of the Laws of Hong Kong), while employees who practised dental treatment were registered with the Dental Council under the Dentists Registration Ordinance, (Cap. 156 of the Laws of Hong Kong). The Human Resources Department verified candidates' identity by checking their identity cards and relevant certificates. During the Year, no child nor forced labour presented in the Group's operations, and the Group complied with all applicable labour standards related Hong Kong laws and regulations including but not limited to the Employment Ordinance (Cap. 57 of the Laws of Hong Kong).

Equal Opportunity

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws. The Group appreciates the importance of cultural diversity in the development of Town Health, and employs employees in a wide range of ages, genders, and ethnicities. During the Year, the Group complied with the relevant Hong Kong laws and regulations including but not limited to:

- The Sex Discrimination Ordinance (Cap. 480 of the Laws of Hong Kong)
- The Disability Discrimination Ordinance (Cap. 487 of the Laws of Hong Kong)
- The Family Status Discrimination Ordinance (Cap. 527 of the Laws of Hong Kong)
- The Race Discrimination Ordinance (Cap. 602 of the Laws of Hong Kong)

Operating Practices

Supply Chain Management

The Group is highly attentive to the reputation and reliability of pharmaceutical drugs suppliers. It ensures suppliers and its business partners comply with local and international standards on pharmaceutical drugs. Quality and safety of the drugs are ensured through certifications and qualifications from its suppliers.

To accurately and efficiently manage pharmaceutical purchasing and medication inventory in both warehouse and clinic offices, the Group developed a customised real-time registration system for its operations. Purchased pharmaceuticals are registered with traceable suppliers and their distribution information are shown clearly in this registration system. Stock inventory review is also carried out by senior nurses in every medical centres regularly (ranging from every 1-3 months depending on individual medical centres) to further confirm and countercheck the data.

In addition, the Group uses an internal e-procurement platform to facilitate electronic supply chain management. This enhances greater operational efficiency and reduces adverse environmental impacts by cutting down paper usage for internal order of stationaries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product Responsibility

(i) Pharmaceuticals Handling

Pharmaceuticals are handled with special precautions. The Group has specific standards for pharmaceuticals storage, and the labelling of package and storage compartments. Topical medications and Dangerous Drugs ("DD") are stored separately from general medications. DD were handled in accordance to the Dangerous Drugs Ordinance (Cap. 134 of the Laws of Hong Kong) with clear traceable records during the Year.

In addition, labels of pharmaceuticals must show name of patients, date of dispensing, name and address of pharmacy or medical practitioner, trade name or common name of the medicine, dosage per unit, method and dosage of administration and precaution where applicable. Information on labels of pharmaceuticals and information of patients are double verified before distribution. Conspicuous reminders and instructions are also posted in pharmacies for staff's reference. Employees who violate serious pharmaceutical handling and safety procedures may be dismissed according to their employment contracts.

(ii) Medical Advertisement

During the Year, the Group complied with the Undesirable Medical Advertisements Ordinance (Cap. 231 of the Laws of Hong Kong) to protect public health without publication of advertisements for medicine, surgical appliance or treatment that may induce the seeking of improper management of certain health conditions.

(iii) Safety and Hygiene

Employees exercise strict disinfection procedures to ensure machines and equipment to be used are uncontaminated. Blood, especially blood with infectious diseases, is handled with special precautions.

The Group hired a cleaning contractor to maintain cleanliness and hygiene of all medical centres. All cleaning procedures, guidelines and quality requirements are therefore standardised across the Group. The environment is kept clean and tidy constantly to avoid unnecessary accidents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(iv) Customer Service

The Group makes every effort to maintain high standard of customer service and continuously improves its service to enhance its competitiveness. Frontline staff are provided with customer service trainings and relevant guidelines to strengthen their awareness and service skills. Quality services are monitored and evaluated through monthly inspections by management staff. The Group also has systematic channels for enquiries and complaints. The Group puts customers' opinion at a high priority. Complaints are dealt with in accordance to the Group's guidelines on proper procedures with special attention and patience.

In 2015, the Group proudly introduced a One Pass platform to look after patients' daily needs. One Pass is an online to offline (O2O) healthcare and lifestyle platform which integrates the Group's healthcare business segments. The One Pass mobile application:

- Enables patients to book online for the health services
- Serves as an information hub to keep patients updated with new events and advice from experts
- Engages patients with their friends by building kinship circle
- Tracks patients' health to boost their healthy lifestyle
- Provides exclusive offers, promotions and deals to patients

(v) Data Protection and Privacy

The Group has security measures in place to provide adequate protection and confidentiality of all corporate data and information. It protects and maintains information confidentiality in its operation. During the Year, the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong) was fully complied with to protect the rights of employees, patients, and business partners.

Anti-corruption

The Group commits to managing all business without undue influence and has regarded honesty, integrity and fairness as its core values. All directors and employees are required to strictly follow the Code of Conduct and Staff Regulations to prevent potential bribery, extortion, fraud and money laundering. The Group's Code of Conduct states clearly that:

- All directors and employees should avoid conflicts of personal interest and their professional duties.
- Employees should not exercise authority, make influenced decisions and actions or gain access to the Group's assets and information through their employment in the Group to achieve private and personal gain.
- Employees are required to declare any conflict of interest by completing the required form as instructed by the Group's Human Resource Department.

- Neither directors nor employees shall obtain or provide benefits to governmental department, patients, suppliers, or people with business relationship with the Group.

- Any acceptance of voluntary gifts must be declared and have undergone the approval process as administered by the Group's Human Resource Department.

To facilitate enforcement, the Group also has clear disciplinary procedures for employees who violate any established regulations or other applicable laws or rules. During the Year, the Group was in compliance with the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong). There was no legal case regarding corrupt practices brought against the Company or its employees during the Year.

Community

Community Investment

The Group recognises its responsibility towards its stakeholders, the community and the environment and considers corporate social responsibility as an important direction for development.

The Group has also been acknowledged by the Hong Kong Council of Social Service as a "Caring Company" for seven consecutive years since 2010.

Event Highlights in 2016

(i) Singleton Elderly Visits in the Chinese New Year

On 23 January 2016, the Group's and Egive For You Charity Foundation Limited's volunteer team visited the singleton elderly living in Sha Tin Chun Shek Estate. The Town Health Charity Foundation sponsored some gifts such as abalone noodles and healthy snacks to the elderly. The volunteer team also showed their care to the elderly by sending blessings and celebrating the Chinese New Year with them.

(ii) New Territories Walk 2015/16

The New Territories Walk 2015/16 was organised on 13 March 2016 by the Community Chest of Hong Kong. The Group sponsored the event and the fund raised was allocated to support the Family and Child Welfare Services, which is operated by 24 different charitable organisations.

Apart from sponsorship, the Town Health Charity Foundation also formed a VIP team including 20 employees from the Group and their family members to participate in the walk. The walk strengthened participants' family bonding and raised fund to support Family and Child Welfare Services.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(iii) Po Leung Kuk Dress Special Day 2016

It has been the second year in which the Group participated in Po Leung Kuk ("PLK") Dress Special Day. The event was held on 20 May 2016 and aimed to raise fund for PLK's service development. The Group cooperated with YM Balloon (a social enterprise of YMCA), providing an opportunity to hearing-impaired artists to practice their decoration skills. The event successfully attracted over 100 employees of the Group to participate and provided them with knowledge on the services provided by our local social enterprises.

(iv) Po Leung Kuk District Elderly Campaign Kick Off Ceremony 2016

The Group's internal volunteer team has been one of the corporate volunteer teams of "Po Leung Kuk District Elderly Campaign" for the past two years. On 4 June 2016, the volunteer team attended the kick-off ceremony at PLK Wan Lam May Yin Shirley Neighbourhood Elderly Centre. After the ceremony, the team visited the singleton elderly living in Kai Tsing Estate with some gift packs and rice dumplings.

(v) Mooncake-making Activity

On 10 September 2016, the Group's employees and their children participated in a voluntary mooncake-making activity, which was organised by the Association for the Rights of Industrial Accident Victims (the "Association"). The volunteers made around 300 mooncakes and had distributed them to the members in the Association. The members are mainly deceased's family and victims of Silicosis. The activity enhanced the staff's and their children's sense of belonging to their community, and encouraged them to establish a positive attitude towards life.

(vi) PLK Charity Run

The Group supported PLK Charity Run for two consecutive years in 2015 and 2016, which aimed to raising fund for medical assistant campaign, as well as child and teenage services being held by PLK. During the Year, around 50 Town Health staff joined the race and got the Champion of Caring Running Team (Top Team Fundraisers).

(vii) Supporting the Town Health Charity Foundation and launching scholarship scheme

Town Health Charity Foundation was founded by Miss Choi and Dr. Cho and supported by the Group. The foundation takes "Supporting underprivileged" and "Promoting healthy lifestyle" as main direction. The foundation hopes to provide funding for local non-profit making organisations and support them in delivering social services to the needy. Every year, this foundation also provides scholarship to students from the Faculty of Medicine of The University of Hong Kong and the Chinese University of Hong Kong.

REPORT OF THE DIRECTORS

The Directors present the annual report and the audited consolidated financial statements of the Company and the Group for the Year.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries, associates and joint ventures are set out in notes 53, 23 and 24 to the consolidated financial statements respectively.

Further discussion and analysis of these activities (including a discussion of the principal risks and uncertainties faced by the Group and an indication of likely future developments in the Group's business) and a review of the performance of the Group for the Year can be found in the section headed "Management Discussion and Analysis" of this annual report. These discussions form part of this report of the Directors.

Key relationships

Employees

Given that human resources is one of the greatest assets of the Group, the Group ensures all staff are reasonably remunerated, and continues to improve, regularly review and update its policies on remuneration and benefits, training, and occupational health and safety, so as to maintain a good relationship with its staff.

Customers

Customers comprise individual customers (including patients and customers from beauty and cosmetic medicine business) and corporate customers (including insurance companies and corporations).

The Group's extensive healthcare service network allows the Group to offer its customers quality healthcare services. During the Year, the Group continued to expand its service network to cover speciality medical services and dental services. To obtain a better understanding of the needs of its clients, so that the Group can anticipate and address their health issues much quicker and more effectively, apart from launching "One Pass", an online to offline (O2O) healthcare and lifestyle platform, in October 2015, various campaigns and seminars were also organised to promote the PRC-HK medical tourism business of the Group and its medical services during the Year.

Suppliers

The Group sustains its healthcare business operations and development through sound supply chain management. The Group sources its pharmaceutical drugs from reputable and reliable suppliers. The Group is highly attentive as to whether the standards of its suppliers and business partners comply with local and international standards in relation to pharmaceutical drugs. The Group obtains certifications and qualifications from its suppliers before it makes procurement to further ensure the quality and safety of its pharmaceutical drugs. During the Year and up to the date of this annual report, the Group maintained good relationship with its suppliers and business partners.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW *(Continued)*

Environmental policies and performance

The Group is committed to building an environmentally-friendly corporate environment that pays close attention to conserving natural resources. The Group strives to minimise its impact on the environment by reducing its electricity consumption and encouraging recycle of office supplies and other materials.

Further discussion on the environmental performance of the Group during the Year are set out in the Environmental, Social and Governance Report on pages 25 to 37 of this annual report.

Compliance with laws and regulations

The Group's operations are mainly carried out in Hong Kong and the PRC while the Company itself is listed on the Stock Exchange. The Group's establishment and operations accordingly shall comply with all PRC and Hong Kong laws and applicable laws in the jurisdictions where it has operations. During the Year and up to the date of this annual report, the Group has complied with all relevant laws and regulations in the PRC and Hong Kong in all material respects and the following legislations are particularly noteworthy:

(i) Medical Registration Ordinance and Dentists Registration Ordinance

All practicing medical practitioners and dental practitioners in Hong Kong are required to be registered with the Medical Council and Dental Council which were established under Medical Registration Ordinance (Cap. 161 of the Laws of Hong Kong) and Dentists Registration Ordinance (Cap. 156 of the Laws of Hong Kong) respectively.

Both practicing medical practitioners and dental practitioners registered with the Medical Council and Dental Council will be issued with a practicing certificate each year and they are required to renew their practicing certificates each year. The Group maintains an up-to-date record of the practicing certificates of its doctors and dentists and the Group has ensured compliance with both the Medical Registration Ordinance and Dentists Registration Ordinance during the Year and up to the date of this annual report.

(ii) Waste Disposal Ordinance

The Waste Disposal Ordinance (Cap. 354 of the Laws of Hong Kong) provides for the control and regulation of the production, storage, collection and disposal of clinical waste. Any unauthorised disposal of clinical waste is prohibited.

The medical and dental treatments provided at the medical centres of the Group may produce used or contaminated sharps such as needles, laboratory waste and infectious materials etc. During the Year, the Group had not been subject to any proceedings brought under, or received any complaints or warnings in relation to, the Waste Disposal Ordinance.

(iii) Undesirable Medical Advertisements Ordinance

The Undesirable Medical Advertisements Ordinance (Cap. 231 of the Law of Hong Kong) protects public health through prohibiting or restricting the publication of advertisements for medicine, surgical appliance or treatment that may induce the seeking of improper management of certain health conditions.

During the Year, no practice promotion and advertisement had been published by the Group in newspaper, magazines, journals or in any mass media.

Further discussion on the Group's compliance with laws and regulations during the Year are set out in the Environmental, Social and Governance Report on pages 25 to 37 of this annual report.

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 71 and 72 of this annual report.

DIVIDEND

Subsequent to the end of the reporting period, the Board recommended the payment of a final dividend ("Final Dividend") of HK0.28 cent per ordinary share for the year ended 31 December 2016 (2015: HK0.98 cent per ordinary share) to the shareholders of the Company ("Shareholders") which is subject to Shareholders' approval at the forthcoming annual general meeting of the Company to be held on Friday, 16 June 2017 ("AGM"). Subject to the approval of the Shareholders at the AGM, it is expected that the Final Dividend will be paid on or around Friday, 21 July 2017 to the Shareholders whose names appear on the register of members of the Company on Friday, 30 June 2017.

CLOSURE OF REGISTER OF MEMBERS

To ascertain the Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 12 June 2017 to Friday, 16 June 2017, both days inclusive, during which no transfer of shares of the Company will be effected. In order to qualify for the entitlement to attend and vote at the AGM, all transfers of shares of the Company accompanied by the relevant shares certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Friday, 9 June 2017.

For the purpose of determining the entitlement to the proposed Final Dividend for the year ended 31 December 2016, the register of members of the Company will be closed from Tuesday, 27 June 2017 to Friday, 30 June 2017, both dates inclusive, during which no transfer of shares of the Company will be effected. In order to qualify for entitlement to the proposed Final Dividend, all transfers of shares of the Company accompanied by the relevant shares certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Monday, 26 June 2017.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 190 of this annual report.

DONATIONS

Charitable donations made by the Group during the Year amounted to HK$133,000.

SUBSIDIARIES

Details of acquisition and disposal of subsidiaries during the Year are set out in notes 42, 43 and 44 to the consolidated financial statements respectively.

INVESTMENT PROPERTIES

The Group has revalued all of its investment properties it held as at 31 December 2016 using the fair value of the investment properties as at 31 December 2016. The net decrease in fair value of investment properties, which was debited to the consolidated statement of profit or loss and other comprehensive income, amounted to HK$20,098,000.

Details of movements in the investment properties of the Group are set out in note 17 to the consolidated financial statements. Further details of the Group's major properties are set out on page 189 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the Year in the property, plant and equipment of the Group are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL

Issue of subscription shares and convertible preference shares

Pursuant to the perpetual non-voting redeemable convertible preference shares subscription agreement and ordinary shares subscription agreement, both dated 31 October 2014 and entered into among the Company, Fubon Life Insurance Co., Ltd., Fubon Insurance Co., Ltd. and Broad Idea International Limited, on 29 December 2014, the Company allotted and issued (i) 459,183,673 ordinary shares of the Company at HK$0.98 per share ("Ordinary Shares Subscription"); and (ii) 374,999,999 perpetual non-voting redeemable convertible preference shares of HK$0.01 each in the share capital of the Company at HK$1.2 per share ("CPS Subscription"). Each of the net proceeds from the Ordinary Shares Subscription and the net proceeds from the CPS Subscription amounted to approximately HK$440 million. The aggregate net proceeds from the Ordinary Shares Subscription and the CPS Subscription of approximately HK$880 million are intended to be used as to (i) approximately HK$650 million for acquisition, investment and development of hospitals and medical institutions in the PRC, and medical or healthcare related business in Hong Kong; (ii) approximately HK$150 million for investment and development of several medical specialty centres in Hong Kong and one dental chain in the PRC; and (iii) approximately HK$80 million for developing a"one-stop, IT O2O platform" to integrate the Group's growing variety of healthcare and well-being business segments. With the funding provided by the subscribers pursuant to the Ordinary Shares Subscription and the CPS Subscription, the Group would be able to keep up with its pace of development. In addition, the subscriptions would provide prudent means to finance the Group's long term growth which will not only strengthen the Company's capital base but also enhance its financial position without increasing finance costs.

Issue of shares to China Life Group

On 5 January 2015, the Group entered into an investment agreement with China Life Group, pursuant to which China Life Group has agreed to subscribe for 1,785,098,644 ordinary shares of the Company. Upon completion of the share subscription which has taken place on 29 May 2015, 1,785,098,644 ordinary shares of the Company were allotted and issued to China Life Group at HK$0.98 per share. The net proceeds from the issue of shares to China Life Group of approximately HK$1,746 million are intended to be used (i) as to approximately HK$1,500 million for (1) developing a dental chain in the PRC and investing in or acquiring dental clinics and/or hospitals in the PRC; (2) developing or acquiring medical clinics in the PRC; (3) developing hospitals, investing in or acquiring public or private hospitals in the PRC; and (4) developing or acquiring rehabilitation hospitals and where appropriate in conjunction with nursing and/or aged care homes in the PRC; (ii) as to approximately HK$150 million for developing or acquiring business in provision of health check, laboratory testing and medical diagnostic services in the PRC; and (iii) as to approximately HK$96 million for developing managed care business in the PRC and crossborder healthcare platform for medical tourism business.

SHARE CAPITAL *(Continued)*

Issue of shares to China Life Group *(Continued)*

As at 31 December 2016, (i) approximately HK$244 million of the net proceeds from the Ordinary Shares Subscription, the CPS Subscription and the issue of shares to China Life Group mentioned above had been utilised for (1) the acquisition of 49% interest in Huayao Medical Group Limited at the consideration of approximately HK$189 million; and (2) the capital contribution to Huayao Medical Group Limited of approximately HK$55 million, details of which are set out in the announcement of the Company dated 17 March 2015 (On 4 November 2016, the Group disposed of its entire interest in its then indirectly owned subsidiary, Wise Lead Holdings Limited, which owned 49% of Huayao Medical Group Limited, details of which are set out in the announcement of the Company dated 4 November 2016); (ii) approximately HK$17 million of the net proceeds mentioned above had been utilised for developing One Pass, the "one-stop, IT O2O platform" of the Group; (iii) approximately HK$638 million of the net proceeds mentioned above had been utilised as the investment by the Group in Nanyang Xiangrui by way of acquisition of the equity interests and/or capital injection; and (iv) other working capital.

Further details of other movements in the share capital of the Company during the year ended 31 December 2016 are set out in notes 39 and 40 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the bye-laws of the Company ("Bye-laws") and the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves during the year ended 31 December 2016 and reserves available for distribution to the Company's shareholders of the Group and the Company are set out on pages 75 and 76 of this annual report and in note 52 to the consolidated financial statements.

The Company's reserves available for distribution to shareholders as at 31 December 2016, comprised share premium, capital redemption reserve, contributed surplus, distributable reserve and accumulated profits of approximately HK$4,139,759,000 (2015: HK$4,118,057,000).

SHARE OPTIONS

The Company adopted a share option scheme on 16 September 2008 for the primary purpose of providing incentives to directors and eligible employees ("2008 Scheme"). The 2008 Scheme shall remain in force for a period of 10 years commencing from the adoption date of the 2008 Scheme, i.e. 16 September 2008.

Pursuant to the 2008 Scheme, the Directors may grant share options to the eligible persons who fall within the definition prescribed in the 2008 Scheme (including directors, employees and consultants of each member of the Group and entity in which a member of the Group holds an equity interest), to subscribe for ordinary shares in the Company for a consideration of HK$1 for each lot of share options granted.

SHARE OPTIONS *(Continued)*

Share options granted should be accepted within 21 days from the date of grant. The Directors may at their absolute discretion determine the period during which a share option may be exercised, and such period should expire no later than 10 years from the date of the adoption of the 2008 Scheme. The Directors may also impose restrictions on the exercise of a share option during the period in which a share option may be exercised.

The exercise price of the share options is determined by the Directors, and shall be at least the highest of: (i) the closing price of the Company's ordinary shares on the date of grant; (ii) the average closing price of the Company's ordinary shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of an ordinary share.

The maximum number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2008 Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of ordinary shares in issue from time to time.

The maximum number of ordinary shares of the Company which may be issued upon exercise of all options that may be granted under the existing 2008 Scheme limit is 91,119,471 ordinary shares of HK$0.01 each (representing approximately 1.17% of the issued share capital of the Company as at the date this annual report). As at the date of this annual report, options carrying the rights to subscribe for 14,103,000 ordinary shares of the Company had been granted and exercised under the existing 2008 Scheme limit (excluding those options granted and lapsed in accordance with the terms of the 2008 Scheme) and options carrying the rights to subscribe for 77,016,471 ordinary shares of the Company (representing approximately 0.99% of the issued share capital of the Company as at the date this annual report) may be granted under the existing 2008 Scheme limit.

The total number of ordinary shares issued and to be issued upon exercise of the options granted to each individual under the 2008 Scheme and any other option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of ordinary shares in issue.

There were no share options outstanding under the 2008 Scheme as at 1 January 2016 and no share options were granted by the Company under the 2008 Scheme during the Year. Particulars of the Company's share option schemes are set out in note 41 to the consolidated financial statements.

DIRECTORS

The Directors who held office during the Year and up to the date of this annual report are:

Executive Directors:

Miss Choi Ka Yee, Crystal *(Chairperson)*
Dr. Cho Kwai Chee *(Executive Deputy Chairman)*
Dr. Hui Ka Wah, Ronnie, JP *(Chief Executive Officer)*
Dr. Ip Chun Heng, Wilson *(Note)*
Mr. Lee Chik Yuet
Mr. Wong Seung Ming *(Chief Financial Officer)*

DIRECTORS *(Continued)*

Non-executive Directors:

Dr. Choi Chee Ming, *GBS, JP (Deputy Chairman)*
Ms. Fang Haiyan *(Deputy Chairperson)*
Mr. Tsai Ming-hsing *(Deputy Chairman)*
Mr. Chen Jinhao

Independent non-executive Directors:

Mr. Ho Kwok Wah, George, *MH*
Mr. Wong Tat Tung, *MH, JP*
Mr. Yu Xuezhong
Ms. Li Mingqin
Mr. Wang John Hong-chiun

Note: Resigned on 30 December 2016.

With effect from 30 December 2016, Dr. Ip Chun Heng, Wilson resigned as an executive Director.

In accordance with Bye-law 99 of the Bye-Laws and pursuant to the code provision A.4.2 of Appendix 14 to the Listing Rules, Mr. Lee Chik Yuet, Ms. Fang Haiyan, Mr. Chen Jinhao, Mr. Yu Xuezhong and Ms. Li Mingqin will retire by rotation at the forthcoming annual general meeting, and they are eligible and will offer themselves for re-election.

DIRECTORS' SERVICES CONTRACTS

Each of the Directors has been re-appointed for a term of 2 years commenced from 1 January 2017. As at the date of this annual report, in respect of Directors proposed for re-election at the forthcoming annual general meeting, (i) Mr. Lee Chik Yuet has been re-appointed for a term of 2 years commenced from 1 January 2017 which can be terminated by Mr. Lee Chik Yuet or by the Company by giving the other party not less than one month's written notice in advance; and (ii) each of Ms. Fang Haiyan, Mr. Chen Jinhao, Mr. Yu Xuezhong and Ms. Li Mingqin has entered into a re-appointment letter with the Company for a term of 2 years commenced from 1 January 2017 which can be terminated by the Director by giving the Company at least one month's notice in writing or at any time by the Company for cause.

CHANGES IN DIRECTORS' INFORMATION

With effect from 1 January 2017, the monthly remuneration of Mr. Lee Chik Yuet and Mr. Wong Seung Ming was revised to approximately HK$233,000 and HK$125,000, respectively.

Updated biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

Save as disclosed above, there were no substantial changes to the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received a written confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers that each of the independent non-executive Directors is independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), were as follows:

Long positions in the shares of the Company

Name of Director	Capacity	Number of ordinary shares of the Company held	Total	Approximate % of shareholding of the Company (Note 1)
Dr. Cho Kwai Chee ("Dr. Cho")	Interest of a controlled corporation	1,418,576,764 (Note 2)	1,418,576,764	18.28%
Dr. Choi Chee Ming, *GBS, JP* ("Dr. Choi")	Interest of a controlled corporation	1,418,576,764 (Note 2)	1,418,576,764	18.28%

Notes:

1. The total number of ordinary shares of the Company ("Shares") as at 31 December 2016 (that was, 7,761,298,452 Shares) has been used for the calculation of the approximate percentage.

2. Such Shares were held by Broad Idea International Limited ("Broad Idea"). Dr. Cho and Dr. Choi were deemed to be interested in the 1,418,576,764 Shares held by Broad Idea 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 respectively. Dr. Cho and Dr. Choi are also directors of Broad Idea.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the shares of the Company

Name of Shareholder	Capacity	Number of ordinary shares of the Company held	Total	Approximate % of shareholding of the Company (Note 1)
Broad Idea (Note 2)	Beneficial owner	1,418,576,764	1,418,576,764	18.28%
China Life Group	Beneficial owner	1,785,098,644	1,785,098,644	23.00%
Fubon Financial	Interest of controlled corporations	648,809,523 (Note 3)	648,809,523	8.35%
Classictime Investments Limited ("Classictime")	Beneficial owner	543,540,000 (Note 4)	543,540,000	7.00%
Jun Yang Financial Holdings Limited ("Jun Yang")	Interest of a controlled corporation	543,540,000 (Note 4)	543,540,000	7.00%
Fubon Life Insurance Co., Ltd. ("Fubon Life")	Beneficial owner	471,861,472 (Note 3)	471,861,472	6.07%

Notes:

1. The total number of Shares as at 31 December 2016 (that was, 7,761,298,452 Shares) has been used for the calculation of the approximate percentage.

2. Broad Idea is beneficially owned by Dr. Cho as to 50.1% and Dr. Choi as to 49.9%.

3. Such 648,809,523 Shares were held as to (i) 471,861,472 Shares by Fubon Life; and (ii) 176,948,051 Shares by Fubon Insurance Co., Ltd. ("Fubon Insurance"). Each of Fubon Life and Fubon Insurance is a wholly-owned subsidiary of Fubon Financial. Accordingly, Fubon Financial was deemed to be interested in the aggregate of 648,809,523 Shares held by Fubon Life and Fubon Insurance under Part XV of the SFO.

4. Such 543,540,000 Shares were held by Classictime, a wholly-owned subsidiary of Jun Yang. Accordingly, Jun Yang is deemed to be interested in the 543,540,000 Shares held by Classictime under Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Save as disclosed above, as at 31 December 2016, the Company has not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2016, the percentages of turnover attributable to the Group's largest customer and the five largest customers were approximately 9% and 22% of the Group's total turnover respectively. The Group's largest supplier and five largest suppliers accounted for approximately 18% and 55% of the Group's total purchases respectively.

As far as the Directors are aware, none of the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital), had any interest at any time during the Year in any of the five largest customers or suppliers of the Group for the Year.

DIRECTOR'S INTEREST IN COMPETING BUSINESS

None of the Directors nor their respective close associates had an interest in a business, apart from the businesses of the Group, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules during the Year.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Related Party Transactions and Connected Transactions" below, no Director had a material interest, whether directly or indirectly, in any contract of significance subsisting during or at the end of the Year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the Year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies, a party to any arrangement to enable the Directors or chief executives of the Company or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 54 to 63 of this annual report.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

On 1 January 2015, certain subsidiaries of Bonjour Holdings Limited ("Bonjour Holdings") as licensors, and certain subsidiaries of Bonjour Beauty International Limited ("Bonjour Beauty"), a wholly-owned subsidiary of the Company during the Year, as licensees, entered into (i) a licence agreement in relation to the grant by Bonjour Cosmetic Wholesale Centre Limited as the licensor to Bonjour Beauty Limited as the licensee of the exclusive right to use, enjoy and occupy certain premises situated in Hong Kong ("Existing HK Licence Agreement"); (ii) a licence agreement in relation to the grant by Apex Frame Limited as the licensor to Bonjour Beauty Limited as the licensee of the exclusive right to use, enjoy and occupy certain premises situated in Hong Kong ("New HK Licence Agreement"); and (iii) a licence agreement in relation to the grant by Full Gain Developments Limited as the licensor to Speedwell Group Limited as the licensee of the exclusive right to use, enjoy and occupy certain premises situated in Macau ("Macau Licence Agreement"), brief details of which are set out below:

(i) Existing HK Licence Agreement

Licensor	Licensee	Premises	Term of licence	Monthly licence fee
Bonjour Cosmetic Wholesale Centre Limited	Bonjour Beauty Limited	Shop B on the Ground Floor and Offices on the First and Second Floors of Anho House, Nos. 22, 24, 26 and 28 Nullah Road, Kowloon, Hong Kong	From 1 January 2015 to 31 December 2017	(a) From 1 January 2015 to 20 March 2015: HK$519,985 (inclusive of government rent, rates and management fees); and (b) from 21 March 2015 to 31 December 2017: HK$598,385 (inclusive of government rent, rates and management fees)
		First Floor, Nos. 50 and 50A Tung Choi Street, Mongkok, Kowloon, Hong Kong	From 1 January 2015 to 31 December 2017	(a) From 1 January 2015 to 31 March 2015: HK$15,860 (inclusive of government rent, rates and management fees); and (b) from 1 April 2015 to 31 December 2017: HK$38,620 (inclusive of government rent, rates and management fees)
		Part of Ground Floors of Nos. 40, 42, 44, 46, 48 & 50, Tung Choi Street, Mongkok, Kowloon, Hong Kong	From 1 January 2015 to 31 December 2017	(a) From 1 January 2015 to 31 March 2015: HK$659,967.50 (inclusive of government rent, rates and management fees); and (b) from 1 April 2015 to 31 December 2017: HK$759,967.50 (inclusive of government rent, rates and management fees)
		Portions on Basement of Mirador Mansion, No. 58, Nathan Road, Tsimshatsui, Kowloon, Hong Kong	From 1 January 2015 to 31 July 2017	HK$558,140 (inclusive of government rent, rates and management fees)
		Fifth and Eleventh Floors, No. 3 Yuk Yak Street, Tokwawan, Kowloon, Hong Kong	From 1 January 2015 to 30 June 2015	HK$150,000 (inclusive of government rent, rates and management fees

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS *(Continued)*

(ii) New HK Licence Agreement

Licensor	Licensee	Premises	Term of licence	Monthly licence fee
Apex Frame Limited	Bonjour Beauty Limited	11th Floor, Harrington Building, Nos. 36-50 Wang Wo Tsai Street, Tsuen Wan, New Territories, Hong Kong	From 1 July 2015 to 30 June 2017	HK$193,474.40 (inclusive of government rent, rates and management fees)

(iii) Macau Licence Agreement

Licensor	Licensee	Premises	Term of licence	Monthly licence fee
Full Gain Developments Limited	Speedwell Group Limited	The First Floor, the Second Floor and part of the Fifth Floor of the building erected on 7 Domingos Road, Macau	From 1 January 2015 to 30 September 2017	HK$414,300 (inclusive of government rent, rates and management fees)

Further details of the above transactions (collectively known as the "Bonjour Licensing Arrangement") (including other terms and the reasons for the transactions) are set out in the announcement of the Company dated 1 January 2015 and the circular of the Company dated 3 February 2015 which have been posted on the websites of the Stock Exchange and the Company. During the Year, more than 30% of the issued share capital of Bonjour Holdings was owned by Dr. Ip Chun Heng, Wilson ("Dr. Ip"), a connected person of the Company by virtue of him being an executive Director (resigned on 30 December 2016) upon completion of the Group's acquisition of Bonjour Beauty, each of Bonjour Holdings and its subsidiaries was a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Bonjour Licensing Arrangement constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules for the Year.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS *(Continued)*

The respective annual caps of the above transactions for the three years ending 31 December 2017 are set out below:

	For the year ended 31 December 2015	For the year ended 31 December 2016	For the year ending 31 December 2017
Annual Cap amounts	HK$30,000,000	HK$30,800,000	HK$25,600,000

Pursuant to the Listing Rules, the independent non-executive Directors had reviewed the above continuing connected transactions, the related licence agreements and licence fee payment records, considered the review on the continuing connected transactions and the relevant internal control procedures by the audit committee of the Board, and confirmed that the transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; (iii) in accordance with each of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iv) have not exceeded the relevant maximum amount capped as mentioned above.

Deloitte Touche Tohmatsu, the auditors of the Company, were engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised)"Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and reported their findings to the Board that (i) nothing has come to their attention that causes them to believe that the continuing connected transactions have not been approved by the Board; (ii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iii) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the continuing connected transactions have exceeded the annual cap as mentioned above. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS *(Continued)*

Details of significant related party transactions undertaken by the Group during the Year in the ordinary course of business are set out in note 51 to the consolidated financial statements. Save for (i) the transactions contemplated under the Bonjour Licensing Arrangement; and (ii) the related party transactions in respect of the purchase of cosmetic medicine from Bonjour Cosmetic Wholesale Centre Limited by the Group ("Purchase Transaction"), which constituted fully exempted continuing connected transactions for the Company under Rule 14A.76(1) of the Listing Rules, none of the significant related party transactions set out in note 51 to the consolidated financial statements fall under the definition of "connected transaction" or "continuing connected transaction" under Chapter 14A of the Listing Rules during the Year. In addition, save for the Bonjour Licensing Arrangement and the Purchase Transaction, there were no other transactions which constituted connected transaction(s) or continuing connected transaction(s) for the Company under Chapter 14A of the Listing Rules during the Year. The Directors confirm that the Company has complied with the disclosure requirements (if any) in accordance with Chapter 14A of the Listing Rules.

On 30 December 2016, (i) Oasis Beauty Limited, a wholly-owned subsidiary of the Company, as vendor, (ii) Profit Castle Holdings Limited, a company owned as to 50% by Dr. Ip (who resigned as an executive Director on 30 December 2016) and 50% by his spouse as purchaser and (iii) Dr. Ip as guarantor entered into a sale and purchase agreement pursuant to which Oasis Beauty Limited has conditionally agreed to sell, and Profit Castle Holdings Limited has conditionally agreed to acquire, 100% of the issued share capital of Bonjour Beauty at the consideration of HK$430,000,000, further details of which are set out in the circular of the Company dated 23 February 2017. Such disposal was approved by the independent shareholders of the Company on 17 March 2017. Following completion, the Bonjour Licencing Arrangement between Bonjour Beauty and its subsidiaries and Bonjour Holdings and its subsidiaries shall no longer be continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

EMOLUMENT POLICIES

The emolument policy of the employees of the Group is set up by the board of Directors on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the board of Directors, having regard to the Company's operating results, individual Directors' performance and comparable market statistics.

The Company has adopted a share option scheme, of which share options may be granted to eligible persons. Details of the scheme are set out in note 41 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Year. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company maintained a sufficient public float as at the date of this annual report.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company until the conclusion of the next annual general meeting.

REVIEW BY AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the Year have been reviewed by the Audit Committee of the Board.

On behalf of the Board

Choi Ka Yee, Crystal
Chairperson

Hong Kong, 29 March 2017

CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining a good corporate governance standard. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate the business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen the accountability to the shareholders and creditors.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted its own code of corporate governance based on the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules ("CG Code").

During the year ended 31 December 2016, the Company has complied with the respective code provisions of the CG Code.

Directors' securities transactions

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all the Directors have complied with the required standard set out in the Model Code throughout the Year.

Board of Directors

As at the date of this annual report, the Board comprises fourteen members, five of which are executive Directors, namely Miss Choi Ka Yee, Crystal who is the Chairperson of the Company, Dr. Cho Kwai Chee who is the Executive Deputy Chairman of the Company, Dr. Hui Ka Wah, Ronnie, *JP* who is the Chief Executive Officer of the Company, Mr. Lee Chik Yuet and Mr. Wong Seung Ming who is the Chief Financial Officer of the Company. Four other members are non-executive Directors, namely Dr. Choi Chee Ming, *GBS, JP* who is a Deputy Chairman of the Company, Ms. Fang Haiyan who is a Deputy Chairperson of the Company, Mr. Tsai Ming-hsing who is a Deputy Chairman of the Company and Mr. Chen Jinhao. Five other members are independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH,* Mr. Wong Tat Tung, *MH, JP*, Mr. Yu Xuezhong, Ms. Li Mingqin and Mr. Wang John Hong-chiun. The biographical details of the Directors and the relationships between them (if any) are set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report.

All Directors are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Bye-laws of the Company as amended from time to time and the requirements of the Listing Rules.

CORPORATE GOVERNANCE REPORT

Board of Directors *(Continued)*

The Board held eleven meetings during the Year. The Board is responsible for the formulation of the Group's business strategies and overall policies, and monitoring the performance of the management and corporate governance functions. The executive Directors are delegated with the power to execute the business strategies, develop and implement the policies in the daily operation of the Group. The independent non-executive Directors provide their professional advices to the Group whenever necessary.

Composition of the Board, including names of the independent non-executive Directors, is disclosed in all corporate communications to the shareholders of the Company ("Shareholders").

All Directors have full and timely access to all the information and accounts of the Group. The Directors may seek independent professional advice in appropriate circumstances, at the expense of the Company. The Company will, upon request, provide separate independent professional advice to the Directors to assist them to discharge their duties to the Company. The Company has arranged appropriate insurance cover for the Directors.

Board diversity policy

During the Year, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to the gender, age, cultural and educational background, and professional experience of the board members. The appointment of Directors will be based on the Group's own business model and specific needs, having due regard to the benefits of diversity of the Board.

Directors' continuous professional development

The Directors, namely, Miss Choi Ka Yee, Crystal, Dr. Cho Kwai Chee, Dr. Hui Ka Wah, Ronnie, *JP*, Mr. Lee Chik Yuet, Mr. Wong Seung Ming, Dr. Choi Chee Ming, *GBS*, *JP*, Ms. Fang Haiyan, Mr. Tsai Ming-hsing, Mr. Chen Jinhao, Mr. Ho Kwok Wah, George, *MH*, Mr. Wong Tat Tung, *MH, JP*, Mr. Yu Xuezhong, Ms. Li Mingqin and Mr. Wang John Hong-chiun had confirmed that they had complied with the code provision A.6.5 of the CG Code during the year ended 31 December 2016 by participating in continuous professional development. The Company had arranged seminars to develop and refresh the Directors' knowledge and skills.

Chairperson and Chief Executive Officer

Throughout the year and as at the date of this annual report, Miss Choi Ka Yee, Crystal was the Chairperson of the Company and Dr. Hui Ka Wah, Ronnie, *JP* was the Chief Executive Officer of the Company. The Chairperson and the Chief Executive Officer of the Company have segregated and clearly defined roles. The Chairperson provides leadership for the Board. The Chief Executive Officer has responsibility for the Group's overall business and development strategies, and daily management generally.

CORPORATE GOVERNANCE REPORT

Independent non-executive Directors

Pursuant to Rule 3.10 of the Listing Rules, the Company has five independent non-executive Directors, one of whom has appropriate professional or accounting or related financial management expertise. The Company received a written confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers that each of the independent non-executive Directors is independent.

Term of appointment of non-executive Directors

Dr. Choi Chee Ming, *GBS, JP*, Ms. Fang Haiyan, Mr. Tsai Ming-hsing and Mr. Chen Jinhao, each a non-executive Director, have been re-appointed for a term of two years commenced from 1 January 2017. Mr. Ho Kwok Wah, George, *MH*, Mr. Wong Tat Tung, *MH, JP*, Mr. Yu Xuezhong, Ms. Li Mingqin and Mr. Wang John Hong-chiun, each an independent non-executive Director, have been re-appointed for a term of two years commenced from 1 January 2017.

Remuneration Committee

The Board has established a remuneration committee ("Remuneration Committee") with its role and function set out in its specific written terms of reference in accordance with the provisions set out in the CG Code, which have been posted on the websites of the Stock Exchange and the Company. The principal duties of the Remuneration Committee are to formulate the Company's remuneration policy and recommend remuneration packages of the Directors and senior management to the Board for approval. The Company's remuneration policy is to provide a competitive level of remuneration in accordance with current market conditions to attract and motivate the Directors and staff for their contribution.

The Remuneration Committee adopted the approach under code provision B.1.2(c)(ii) to make recommendation to the Board on the remuneration packages of the Directors and senior management of the Company.

During the Year and as at the date of this annual report, the Remuneration Committee comprised four independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Mr. Wong Tat Tung, *MH, JP*, Mr. Yu Xuezhong and Ms. Li Mingqin, and one executive Director, namely Mr. Lee Chik Yuet. As at the date of this annual report, Mr. Ho Kwok Wah, George, *MH*, was the chairman of the Remuneration Committee.

The Remuneration Committee held two meetings during the Year. The Remuneration Committee reviewed the remuneration policy of the Company, assessed the performance of the executive Directors and senior management and recommended specific remuneration packages of the Directors and senior management to the Board. The employment contract of each of Miss Choi Ka Yee, Crystal, Dr. Cho Kwai Chee, Dr. Hui Ka Wah, Ronnie, *JP*, Mr. Lee Chik Yuet and Mr. Wong Seung Ming and the letter of re-appointment of each of Miss Choi Ka Yee, Crystal, Dr. Cho Kwai Chee, Dr. Hui Ka Wah, Ronnie, *JP*, Mr. Lee Chik Yuet, Mr. Wong Seung Ming, Dr. Choi Chee Ming, *GBS, JP*, Ms. Fang Haiyan, Mr. Tsai Ming-hsing, Mr. Chen Jinhao, Mr. Ho Kwok Wah, George, *MH*, Mr. Wong Tat Tung, *MH, JP*, Mr. Yu Xuezhong, Ms. Li Mingqin and Mr. Wang John Hong-chiun and the terms thereof were also reviewed and approved by the Remuneration Committee during the Year.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The nomination committee ("Nomination Committee") with specific written terms of reference in accordance with the provisions set out in the CG Code, which have been posted on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2016 and as at the date of this annual report, the Nomination Committee comprised three independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Mr. Wong Tat Tung, *MH, JP* and Ms. Li Mingqin and one executive Director, namely Mr. Lee Chik Yuet. As at the date of this annual report, Mr. Wong Tat Tung, *MH, JP* was the chairman of the Nomination Committee.

The Group adopted a board diversity policy, a summary of which is set out in the paragraph headed "Board diversity policy" in this report.

Major responsibilities of the Nomination Committee are to formulate and implement the policy for nominating candidates for election by shareholders at the general meeting (either to fill a casual vacancy or as an addition to the Board); review the structure, size and composition of the Board (including the skills, knowledge and experience) and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorship; assess the independence of non-executive Directors and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors based on merit of the Directors, having due regard to the benefits of diversity on the Board. The process for the nomination of Directors is led by the Nomination Committee, which has been made on a merit basis.

According to the Bye-Laws, any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and who shall then be eligible for re-election at such meeting, and Directors are all subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years.

The circular to the shareholders of the Company with notice of the forthcoming annual general meeting contains biographical details of all Directors proposed to be re-elected at the annual general meeting to enable shareholders of the Company to make an informed decision on re-election of Directors.

The Nomination Committee held two meetings during the Year and reviewed the structure, size and composition of the Board for the year in light of the board diversity policy, in terms of factors including the skills, knowledge and experience possessed by the members of the Board.

Audit Committee

The Board has established an audit committee ("Audit Committee") with written terms of reference in accordance with the provisions set out in the CG Code, which have been posted on the websites of the Stock Exchange and the Company. The principal duties of the Audit Committee are to review the Company's annual results and accounts and interim results and to provide advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Group's financial reporting, risk management and internal control procedures.

During the Year and as at the date of this annual report, the Audit Committee comprised five independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Mr. Wong Tat Tung*, MH, JP*, Mr. Yu Xuezhong, Ms. Li Mingqin and Mr. Wang John Hong-chiun. As at the date of this annual report, Mr. Ho Kwok Wah, George, *MH* was the chairman of the Audit Committee.

The Audit Committee held three meetings during the Year and the two meetings were attended by the Company's external auditors so that the members of the Audit Committee could exchange their views and concerns with the auditors. The Audit Committee reviewed the annual and interim results of the Group and made recommendations to the Board and the management in respect of the Group's financial reporting, risk management and internal control procedures.

Corporate governance functions

The Board is responsible for performing corporate governance and has reviewed the Company's policies and practices on corporate governance and compliance with the CG Code, reviewed and monitored the training and continuous professional development of the Directors and senior management and reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements during the Year as well as the disclosures in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

Attendance of Directors at meetings

The attendance of the Directors at the general meetings of the Company, meetings of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee during the Year are set out below:

	Number of meetings attended/held				
Director	General meetings	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
Executive Directors					
Miss Choi Ka Yee, Crystal	1/1	10/11	N/A	N/A	N/A
Dr. Cho Kwai Chee	1/1	11/11	N/A	N/A	N/A
Dr. Hui Ka Wah, Ronnie, *JP*	1/1	11/11	N/A	N/A	N/A
Dr. Ip Chun Heng, Wilson (Note)	1/1	11/11	N/A	N/A	N/A
Mr. Lee Chik Yuet	1/1	11/11	N/A	2/2	2/2
Mr. Wong Seung Ming	1/1	11/11	N/A	N/A	N/A
Non-executive Directors					
Dr. Choi Chee Ming, *GBS, JP*	1/1	10/11	N/A	N/A	N/A
Ms. Fang Haiyan	1/1	10/11	N/A	N/A	N/A
Mr. Tsai Ming-hsing	0	0	N/A	N/A	N/A
Mr. Chen Jinhao	1/1	11/11	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Ho Kwok Wah, George, *MH*	1/1	11/11	3/3	2/2	2/2
Mr. Wong Tat Tung, *MH, JP*	1/1	9/11	3/3	2/2	2/2
Mr. Yu Xuezhong	1/1	10/11	2/3	2/2	N/A
Ms. Li Mingqin	1/1	10/11	3/3	2/2	2/2
Mr. Wang John Hong-chiun	1/1	10/11	3/3	N/A	N/A

Note: Resigned on 30 December 2016.

Accountability and audit

The Directors acknowledge their responsibility of preparing the financial statements of the Group which give a true and fair view of the state of affairs of the Group and of the profit and cash flows for the Year. The Directors prepared the financial statements of the Group on a going concern basis, and selected appropriate accounting policies and applied them consistently, with applicable disclosures required under the Listing Rules and pursuant to the relevant statutory requirements.

The statement issued by the auditors of the Company, Deloitte Touche Tohmatsu, regarding their reporting responsibilities is set out in the section headed "Independent Auditor's Report" on pages 64 to 70 of this annual report.

Risk management and internal controls

The Board has the overall responsibility of internal control of the Group, including reviewing its effectiveness, risk management, and setting appropriate policies having regard to the objectives of the Group. The risk management and internal control systems are designed to meet the particular needs of the Group, to mitigate the risks which it is exposed to and to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group's internal control and risk management systems have been developed by the Board with the following features and processes:

(1) the management, with the assistance of the front-line personnel, identifies risks that may potentially affect the Group's business and operations;

(2) the management assesses on the risks identified by considering the impacts of the risks on the business caused by the adverse events associated with the risks and the likelihood of occurrence of these adverse events;

(3) the management prioritises the risks based on their probability and the severity of impact on the business;

(4) the management reports regularly to the Board on the risks identified and their impact on the Group for the Board's formulation of the risk management strategies and internal control processes to prevent, avoid and mitigate the risks;

(5) the management performs ongoing and periodic monitoring of the risks to ensure that appropriate internal control processes are in place and material internal control defects can be resolved and reports its findings and results to the Board regularly; and

(6) the Board, with the assistance of the Audit Committee and the management, reviews the risk management strategies and internal control processes on a regularly basis.

CORPORATE GOVERNANCE REPORT

In relation to the management of inside information, the Company has formulated a policy on disclosure of inside information to ensure that inside information is handled and disseminated properly and in accordance with the applicable laws and regulations. The finance team and the department heads within the Group are responsible for monitoring the changes and developments in their respective areas of operation and report any potential or suspected inside information events to the Board. Based on these information obtained through internal reporting, the Board assesses whether any of the information constitutes inside information which needs to be released to the public with the advice of internal legal team. Should public disclosure be required, the Board will determine the scope of information to be disclosed and the timing of disclosure. If and when appropriate, the Board may seek independent professional advice to ensure that the Company complies with the disclosure requirements. The Company discloses information to the public generally and non-exclusively through channels including websites of its own and the Stock Exchange, with an aim to achieve fair and timely disclosure of information.

The Board, through the Audit Committee, conducted a review on the effectiveness of the Group's systems of risk management, financial and non-financial controls (including operational and compliance controls) and considered the risk management and internal control systems as effective and adequate.

The Board and the Audit Committee have conducted an annual review on the need of setting up an internal audit function and having taken into account the scale of the Company, the Board and the Audit Committee considered that the setting up of an internal audit function was not necessary for the time being but taking into account the continuing expansion of the Group over different geographical locations, the Board should consider engaging external service provider to perform the internal audit function in the foreseeable future.

Directors', senior management's and employees' emoluments

The Group's remuneration policy aims to provide a fair market remuneration to attract, retain and motivate high quality talent, having regard to the Group's and individual's performance and comparable market trends. At the same time, such awards must be aligned with the Shareholders' interests.

Particulars of Directors' remuneration, five highest paid individuals' emoluments and staff costs are set out in notes 10 and 11 to the consolidated financial statements.

The amount or value of fees (including bonus) of the senior management of the Group by bands for the Year is set out below:

Fees by bands	Number of individuals
Nil to HK$1,000,000	1
HK$1,000,001 to HK$2,000,000	1
HK$2,000,001 to HK$3,000,000	–
HK$3,000,001 to HK$4,000,000	2
HK$4,000,001 to HK$5,000,000	1

No Director waived any emolument during the Year.

Auditor's remuneration

The auditors, Deloitte Touche Tohmatsu, provided both statutory audit and non-audit services to the Group. For the Year, fee for statutory audit for the Group amounts to approximately HK$3,743,000. Non-audit services include tax compliance and planning, agreed upon procedures on review of financial statements and transactions, etc. Total fee paid by the Group for non-audit services during the Year was approximately HK$939,000.

COMMUNICATION WITH SHAREHOLDERS

The Company provides information in relation to the Group to the Shareholders in a timely manner through a number of formal channels, including interim and annual reports, announcements and circulars. Such published documents together with the corporate information of the Group are also available on the Company's website (www.townhealth.com).

According to the Bye-Laws, the Board may, whenever it thinks fit, convene a special general meeting, and special general meetings shall also be convened on requisition and, in default, may be convened by the requisitionists.

Procedures for Shareholders to convene a general meeting/put forward proposals

1. The Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's head office at 6th Floor, Town Health Technology Centre, 10-12 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong, for the attention to the board of directors or the company secretary ("Company Secretary") of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be convened within twenty-one days from the date of the deposit of such requisition.

2. The written requisition must state the purposes of the meeting, and must be signed by the Shareholders concerned and may consist of several documents in like form, each signed by one or more of those Shareholders.

3. The requisition will be verified with the Company's branch share registrar and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to convene a special general meeting by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition has been verified as not in order, the Shareholders concerned will be advised of this outcome and accordingly, a special general meeting will not be convened as requested.

4. The Shareholders holding not less than one-twentieth of the total voting rights of those Shareholders having the right to vote at such meeting or not less than one hundred Shareholders, at the expenses of the Shareholders concerned, can submit a written requisition to move a resolution at a general meeting.

5. The written requisition must state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution, signed by all the Shareholders concerned and may consist of several documents in like form (which between them contain the signatures of all the Shareholders concerned).

6. The written requisition must be deposited at 6th Floor, Town Health Technology Centre, 10-12 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong, the head office of the Company, for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution and not less than one week in the case of any other requisition.

7. The requisition will be verified with the Company's branch share registrar and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to (i) include the resolution in the agenda for the annual general meeting; or (ii) convene a special general meeting by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition has been verified as not in order, the Shareholders concerned will be advised of this outcome and accordingly, (i) the proposed resolution will not be include in the agenda for the annual general meeting; or (ii) a special general meeting will not be convened as requested.

Procedures for Shareholders sending enquiries to the Board

1. *Enquiries about shareholdings*
   Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar, Tricor Tengis Limited, via its online holding enquiry service at www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or call its hotline at (852) 2980 1333, or go in person to its public counter at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

2. *Enquiries about corporate governance or other matters to be put to the Board and the Company*
   The Company will not normally deal with verbal or anonymous enquiries. Shareholders may send written enquiries to the Company, for the attention of the Board of Directors or Company Secretary, by email: info@townhealth.com, fax: (852) 2210 2722, or mail to 6th Floor, Town Health Technology Centre, 10-12 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong. Shareholders may call the Company at (852) 2699 8266 for any assistance.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF
TOWN HEALTH INTERNATIONAL MEDICAL GROUP LIMITED
康健國際醫療集團有限公司
(Registered in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of Town Health International Medical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 188, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
TOWN HEALTH INTERNATIONAL MEDICAL GROUP LIMITED *(Continued)*
康健國際醫療集團有限公司
(Registered in Bermuda with limited liability)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and intangible assets arising on acquisition of subsidiaries and medical practices	
We identified the impairment assessment of goodwill and intangible assets as a key audit matter due to that significant judgement exercised by the Group's management on the estimation of the recoverable amount of the cash-generating units to which goodwill and intangible assets have been allocated. As disclosed in notes 21 and 22 to the consolidated financial statements, the Group's goodwill and intangible assets arising on acquisition of subsidiaries and medical practices as at 31 December 2016 amounted to HK$505,635,000 and HK$300,440,000 respectively. Goodwill and intangible assets have been allocated to the respective cash generating units. Impairment of goodwill and intangible assets are assessed by the management through comparing the recoverable amount of the cash generating units with the carrying amount of the goodwill and intangible assets. The recoverable amount is the higher of value in use or fair value less costs of disposal. In determining the value in use, the management estimates based on discounted cash flows taking into account key assumptions including discount rate, future growth rate and expected gross margin. During the year ended 31 December 2016, the management concluded that impairment of HK$500,000 is provided on the goodwill allocated to the medical and dental services.	Our procedures in relation to the impairment assessment of goodwill and intangible assets included: • understanding the key control in relation to the impairment assessment of goodwill and intangible assets, including the process of allocating goodwill and intangible assets to appropriate cash generating units, and, determining the recoverable amounts of the cash generating units; • evaluating the appropriateness of the valuation model adopted by the management; • evaluating the reasonableness of key assumptions used in the value in use calculation against historical performance and future business plan of the Group in respect of each cash generating unit and checked its arithmetical accuracy; • testing the key inputs used in the discounted cash flows against the relevant supporting evidences and approved budgets; and • evaluating the sufficiency of the relevant disclosure of impairment assessment in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
TOWN HEALTH INTERNATIONAL MEDICAL GROUP LIMITED *(Continued)*
康健國際醫療集團有限公司
(Registered in Bermuda with limited liability)

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the degree of significant judgements, associated with determining the fair value. Management has estimated the fair value of the Group's investment properties to be HK$652,123,000 at 31 December 2016, with a fair value loss for the year ended 31 December 2016 recorded in profit or loss of HK$20,098,000. In determining the fair value of investment properties, the management and independent professional valuer take into account key inputs including price per square feet, reversionary rate and monthly rent with certain unobservable inputs that require significant management judgement, including the adjustment of the building age, location, fair market rents and people flows to reflect different locations or conditions.	Our procedures in relation to the valuation of investment properties included: • obtaining an understanding of the Group's valuation process in selecting valuation techniques, adopting key inputs as well as appointing independent valuer regarding the determination of fair value of the investment properties; • assessing the qualification and experiences of the independent professional valuer; • evaluating the appropriateness of valuation techniques and testing the reasonableness of the key inputs adopted by the management of the Group and the independent valuer to entity-specific information and market data; and • evaluating the sufficiency of the relevant disclosures of the investment properties in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
TOWN HEALTH INTERNATIONAL MEDICAL GROUP LIMITED *(Continued)*
康健國際醫療集團有限公司
(Registered in Bermuda with limited liability)

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of interests in associates	
We identified the impairment assessment of interests in associates as disclosed in note 23 to the consolidated financial statements as a key audit matter due to significant judgement is required by the Group's management in assessing the impairment. As disclosed in note 23 to the consolidated financial statements, the Group's interests in associates as at 31 December 2016 amounted to HK$175,756,000 which are subject to impairment assessment. In determining the impairment of interests in associates, their recoverable amounts are assessed by the management, which was based on value in use calculations. Assumptions are adopted in value in use calculation including discount rate and the expected revenue growth rate, gross margin and future growth rate.	Our procedures in relation to the impairment assessment of interests in associates included: • understanding the Group's valuation process for each associate; • evaluating the reasonableness of the key assumptions used in the value in use calculation against historical performance and future business plan of the associates and checking its arithmetical accuracy; and • testing the key inputs used in the discounted cash flow against the relevant supporting evidences and approved budgets.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
TOWN HEALTH INTERNATIONAL MEDICAL GROUP LIMITED *(Continued)*
康健國際醫療集團有限公司
(Registered in Bermuda with limited liability)

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
TOWN HEALTH INTERNATIONAL MEDICAL GROUP LIMITED *(Continued)*
康健國際醫療集團有限公司
(Registered in Bermuda with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF
TOWN HEALTH INTERNATIONAL MEDICAL GROUP LIMITED *(Continued)*
康健國際醫療集團有限公司
(Registered in Bermuda with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lau Ngai Kee, Ricky.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTES	**2016** **HK$'000**	2015 HK$'000
Continuing operations			
Revenue	5	**1,011,549**	828,909
Cost of sales		**(714,438)**	(576,855)
Gross profit		**297,111**	252,054
Other income	7	**52,772**	97,626
Administrative expenses		**(297,704)**	(308,361)
Other gains and losses	8	**49,894**	226,392
Finance costs	9	**(4,732)**	(10,555)
Share of results of associates		**21,174**	20,683
Share of results of joint ventures		**(6,396)**	16,462
Profit before tax		**112,119**	294,301
Income tax expenses	12	**(18,777)**	(10,673)
Profit for the year from continuing operations	13	**93,342**	283,628
Discontinued operation			
Loss for the year from discontinued operation	14	**(15,203)**	(22,762)
Profit for the year		**78,139**	260,866
Other comprehensive expense for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on the translation of foreign operations		**(33,149)**	(6,703)
Share of other comprehensive income (expense) of associates and joint ventures		**1,357**	(4,570)
Reclassification of translation reserve and investment revaluation reserve to profit or loss upon dilution and disposal of interest in an associate		**(2,680)**	(1,636)
Reclassification of translation reserve to profit or loss upon disposal of subsidiaries		**5,483**	–
Fair value loss on available-for-sale investments		**(8,239)**	–
		(37,228)	(12,909)
Total comprehensive income for the year		**40,911**	247,957

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	NOTE	**2016** HK$'000	2015 HK$'000
Profit for the year attributable to:			
Owners of the Company			
– from continuing operations		**78,700**	277,565
– from discontinued operation		**(15,203)**	(22,762)
Non-controlling interests		**14,642**	6,063
		78,139	260,866
Total comprehensive income attributable to:			
Owners of the Company		**31,347**	243,094
Non-controlling interests		**9,564**	4,863
		40,911	247,957
Earnings per share (HK cents)	16		
For continuing operations and discontinued operation			
– Basic		**0.81**	3.46
– Diluted		**0.81**	3.30
For continuing operations			
– Basic		**1.00**	3.80
– Diluted		**1.00**	3.62

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Investment properties	17	**652,123**	457,760
Property, plant and equipment	18	**246,724**	233,317
Loans receivable	19	**6,913**	9,902
Loan to a related party	20	**–**	138,000
Goodwill	21	**505,635**	375,891
Intangible assets	22	**300,440**	492,428
Interests in associates	23	**175,756**	140,487
Interests in joint ventures	24	**37,614**	257,110
Available-for-sale investments	25	**192,082**	318,861
Promissory notes	26	**298,705**	–
Deposits made on acquisition of investment properties and property, plant and equipment		**18,429**	68,820
Deposit made on acquisition of a subsidiary		**–**	59,666
Deferred tax assets	38	**–**	724
		2,434,421	2,552,966
CURRENT ASSETS			
Inventories	27	**22,969**	20,600
Trade and other receivables	28	**230,563**	210,642
Available-for-sale investments	25	**150,000**	30,000
Held for trading investments	29	**69,969**	522,459
Loans receivable	19	**92,597**	7,989
Amounts due from associates	30	**9,286**	38,060
Amount due from a related party	31	**–**	20
Amount(s) due from an investee/investees	32	**14,556**	13,300
Amounts due from non-controlling interests	33	**–**	1,107
Tax recoverable		**2,732**	6,216
Restricted bank deposit		**–**	13,460
Bank balances and cash	34	**1,447,756**	1,826,679
		2,040,428	2,690,532
Assets classified as held for sale	14	**687,970**	–
		2,728,398	2,690,532
CURRENT LIABILITIES			
Trade and other payables	35	**193,130**	437,444
Amounts due to associates	30	**12**	28
Amount due to an investee	32	**311**	313
Amounts due to non-controlling interests	33	**31,182**	30,514
Bank borrowings	36	**20,835**	21,887
Loan notes	37	**–**	121,919
Tax payable		**24,752**	24,211
		270,222	636,316
Liabilities associated with assets classified as held for sale	14	**280,234**	–
		550,456	636,316
NET CURRENT ASSETS		**2,177,942**	2,054,216
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,612,363**	4,607,182

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	38	**30,404**	14,300
		4,581,959	4,592,882
CAPITAL AND RESERVES			
Share capital – ordinary shares	39	**77,613**	74,696
Share capital – convertible preference shares	40	**–**	2,917
Reserves		**4,293,963**	4,453,179
Equity attributable to owners of the Company		**4,371,576**	4,530,792
Non-controlling interests		**210,383**	62,090
Total equity		**4,581,959**	4,592,882

The consolidated financial statements on pages 71 to 188 were approved and authorised for issue by the board of directors of the Company on 29 March 2017 and are signed on its behalf by:

Dr. Hui Ka Wah, Ronnie
DIRECTOR

Mr. Lee Chik Yuet
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company														
	Share capital – ordinary shares HK$'000	Share capital – convertible preference shares HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000 (Note i)	Capital reserve HK$'000 (Note ii)	Distributable reserve HK$'000 (Note iii)	Other reserves HK$'000 (Note iv)	Property revaluation reserve HK$'000	Investment revaluation reserves HK$'000	Translation reserve HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	51,104	3,750	1,425,623	9,020	10,033	62,677	(22,547)	33,609	–	2,768	209,162	330,267	2,115,466	344,652	2,460,118
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	254,803	254,803	6,063	260,866
Other comprehensive income (expense) for the year	–	–	–	–	–	–	–	–	3,720	(15,429)	–	–	(11,709)	(1,200)	(12,909)
Total comprehensive income (expense) for the year	–	–	–	–	–	–	–	–	3,720	(15,429)	–	254,803	243,094	4,863	247,957
Exercise of share options	1,255	–	30,310	–	–	–	–	–	–	–	(209,162)	204,269	26,672	–	26,672
Issue of ordinary shares upon share subscription	17,851	–	1,731,546	–	–	–	–	–	–	–	–	–	1,749,397	–	1,749,397
Transaction costs attributable to issue of ordinary shares	–	–	(1,347)	–	–	–	–	–	–	–	–	–	(1,347)	–	(1,347)
Conversion of convertible preference shares	833	(833)	–	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiaries (note 43)	3,653	–	442,047	–	–	–	–	–	–	–	–	–	445,700	2,612	448,312
Disposal of subsidiaries (note 44)	–	–	–	–	–	–	22,547	–	–	–	–	(22,547)	–	(288,112)	(288,112)
Dividend paid	–	–	–	–	–	–	–	–	–	–	–	(48,190)	(48,190)	(1,925)	(50,115)
At 31 December 2015	74,696	2,917	3,628,179	9,020	10,033	62,677	–	33,609	3,720	(12,661)	–	718,602	4,530,792	62,090	4,592,882
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	63,497	63,497	14,642	78,139
Other comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	(11,959)	(20,191)	–	–	(32,150)	(5,078)	(37,228)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	(11,959)	(20,191)	–	63,497	31,347	9,564	40,911
Conversion of convertible preference shares	2,917	(2,917)	–	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of subsidiary (note 43)	–	–	–	–	–	–	–	–	–	–	–	–	–	33,477	33,477
Acquisition of additional interest in a subsidiary (note 43)	–	–	–	–	–	–	(113,527)	–	–	–	–	–	(113,527)	113,527	–
Transfer of reserve	–	–	–	–	–	–	1,869	–	–	–	–	(1,869)	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	–	–	–	(77,036)	(77,036)	(8,275)	(85,311)
At 31 December 2016	77,613	–	3,628,179	9,020	10,033	62,677	(111,658)	33,609	(8,239)	(32,852)	–	703,194	4,371,576	210,383	4,581,959

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Notes:

(i) Capital redemption reserve arises from the reduction of the nominal value of the issued share capital of the Company upon the cancellation of the repurchased shares.

(ii) Capital reserve of the Group represents the difference between the nominal value of HK$350,000 of the ordinary shares issued by the Company and the nominal value of the share capital of approximately HK$10,383,000 of Town Health (BVI) Limited ("Town Health (BVI)"), a subsidiary acquired through an exchange of shares pursuant to the group reorganisation in April 2000.

(iii) Distributable reserve of the Group represents the amount arising from the reduction of share capital net of dividend paid.

(iv) The other reserves of the Group at 1 January 2015 mainly represented:

(a) the difference (credit balance) between fair value of assets and liabilities of Million Worldwide Investment Limited and its subsidiaries (collectively referred to as "Million Worldwide Group") acquired by the Group and the fair value of consideration paid by the Group through the issue of enlarged interest in a subsidiary to the vendor of Million Worldwide Group to satisfy the settlement of the consideration, which formed the value of the non-controlling interests amounting to HK$14,814,000.

(b) the difference (debit balance) between fair value of 17 shares of Asset Management International Limited ("Asset Management"), a non-wholly owned subsidiary of the Group, allotted to non-controlling interests and the consideration received amounting to HK$431,000 in 2013; and

(c) the difference (debit balance) between fair value of 208 shares of Asset Management allotted to non-controlling interests and the consideration received amounting to HK$36,930,000 in 2014.

The other reserves of the Group at 31 December 2016 mainly represented:

(a) the Group's further increase in its interests in Nanyang Xiangrui Hospital Management Advisory Co. Ltd. ("Nanyang Xiangrui") from 43.71% to 60% by capital injection during the year ended 31 December 2016. The increase in equity interest in Nanyang Xiangrui was an equity transaction without losing control over Nanyang Xiangrui. Difference of HK$113,527,000 for the proportion of ownership interests held by the non-controlling interests before and after the capital injection was debited to other reserves; and

(b) according to the relevant requirements in the articles of association of the Group's subsidiary in the People's Republic of China (the "PRC"), a portion of its profits after taxation shall be transferred to the PRC statutory reserve. The transfer must be made before the distribution of dividend to equity owners. The statutory reserve fund can be used to make up the prior year losses, if any. The statutory reserve fund is non-distributable other than upon liquidation. During the year ended 31 December 2016, HK$1,869,000 was transferred.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
Profit for the year	**78,139**	260,866
Adjustments for:		
Income tax	**19,599**	13,401
Interest income	**(37,958)**	(70,764)
Dividend income from investments classified as available-for-sale investments	**(7,723)**	(7,699)
Loss (gain) on dilution of interest in an associate	**10,459**	(51)
Translation reserve and investment revaluation reserve reclassified to profit or loss upon dilution of interest in an associate	**(2,680)**	(1,636)
Amortisation of intangible assets	**13,301**	8,322
Depreciation of property, plant and equipment	**52,490**	45,499
Unrealised loss (gain) on fair value changes on held for trading investments	**40,339**	(98,455)
Impairment loss on goodwill	**500**	40,000
(Reversal of impairment loss) impairment loss recognised on loans receivable, net	**(30,000)**	27,000
Impairment loss recognised on trade receivables	**3,950**	3,174
(Reversal of impairment loss) impairment loss recognised on other receivables, net	**(998)**	5,109
Impairment loss recognised on available-for-sale investments	**704**	9,239
Impairment loss recognised on amounts due from investees	**–**	1,664
Impairment loss recognised on amounts due from associates	**6,121**	–
Impairment loss on interests in associates	**2,900**	–
Loss on disposal of property, plant and equipment	**10**	183
Decrease (increase) in fair value of investment properties	**20,098**	(4,669)
Share of results of associates	**(21,174)**	(20,683)
Share of results of joint ventures	**6,396**	(16,462)
Finance costs	**4,732**	10,555
Loss on early redemption of loan notes	**12,335**	–
Gain on disposal of available-for-sale investments	**(5,952)**	(1,741)
Net (gain) loss on disposal of subsidiaries	**(634)**	5,588
Gain on disposal of associates	**(40,294)**	(180,132)
(Decrease) increase in fair value of derivative component of loan notes	**(17,703)**	3,723
Operating cash inflow before movements in working capital	**106,957**	32,031
Increase in inventories	**(10,446)**	(4,237)
Increase in trade and other receivables	**(60,625)**	(267,582)
Decrease (increase) in amount due from a related party	**20**	(20)
Decrease in amount due to a related party	**–**	(6)
Decrease (increase) in held for trading investments	**412,151**	(145,977)
Decrease in trade and other payables	**(5,395)**	(1,092)
Cash generated from (used in) operations	**442,662**	(386,883)
Income tax paid	**(21,903)**	(19,895)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**420,759**	(406,778)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
INVESTING ACTIVITIES			
Repayment of loans receivable		**481,551**	1,498,353
Placement of restricted bank deposit		**–**	(13,460)
Proceeds from disposal of available-for-sale investments		**109,221**	5,360
Interest received		**37,958**	70,764
Dividend received from associates		**7,238**	6,932
Dividend received from joint ventures		**28,910**	–
Proceeds from disposal of property, plant and equipment		**190**	503
Disposal of subsidiaries	44	**(2,667)**	(2,236)
Disposal of associates		**20,255**	330,440
Partial repayment of promissory note		**26,295**	–
Dividend received from available-for-sale investments		**7,723**	7,699
Repayment from (advance to) associates		**22,637**	(29,201)
Advance to investees		**(1,258)**	(13,303)
Acquisition of assets through acquisition of subsidiaries	42	**–**	(40,457)
Acquisition of subsidiaries	43	**(325,753)**	79,231
Investments in joint ventures		**(41,212)**	(244,470)
Investments in associates		**(101,399)**	(3,000)
Advances of loans receivable		**(527,300)**	(1,491,467)
Purchase of property, plant and equipment		**(70,045)**	(57,584)
Purchase of available-for-sale investments		**(105,433)**	(322,580)
Purchase of investment properties		**(173,727)**	(191,026)
Deposits made on acquisition of property, plant and equipment		**(18,429)**	(55,710)
Deposit made on acquisition of a subsidiary		**(83,580)**	(59,666)
Refund of deposit upon completion of acquisition of a subsidiary		**143,246**	–
Acquisition of medical practices		**–**	(4,044)
Repayment from non-controlling interests		**1,775**	7,046
NET CASH USED IN INVESTING ACTIVITIES		**(563,804)**	(521,876)
FINANCING ACTIVITIES			
New bank borrowings raised		**–**	410,000
Proceeds from issue of ordinary shares		**–**	1,749,397
Proceeds from exercise of share options		**–**	26,672
Repayment of bank borrowings		**(1,052)**	(451,026)
Repayment of loan notes		**(112,135)**	–
Dividend paid		**(85,311)**	(50,115)
Payment for transaction costs attributable to issue of new shares		**–**	(1,347)
Interest paid		**(9,148)**	(8,892)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(207,646)**	1,674,689
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(350,691)**	746,035
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**1,826,679**	1,083,516
EFFECT OF FOREIGN EXCHANGE RATES CHANGES		**(6,151)**	(2,872)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing bank balances and cash	34	**1,469,837**	1,826,679

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

1. GENERAL

The Company was formerly an exempted company with limited liability incorporated in the Cayman Islands. On 5 May 2009, the Company de-registered from the Cayman Islands and registered in Bermuda as an exempted company under the laws of Bermuda.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and the principal place of business of the Company are disclosed in the section headed "Corporate Information" of the annual report.

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

The Company is an investment holding company. The principal activities of its principal subsidiaries, associates and joint ventures are set out in notes 53, 23 and 24 respectively.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2017.

5 Effective for annual periods beginning on or after 1 January 2017 and 1 January 2018, as appropriate.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 that are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial instruments: Recognition and measurement". The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

Except for the above, the directors of the Company do not anticipate that the application of HKFRS 9 in the future may have other material impact on amounts reported in respect of the Group's financial assets and financial liabilities.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Based on the Group existing business model as at 31 December 2016, the directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 Leases *(Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group as lessee had non-cancellable operating lease commitments of HK$50,824,000 (31 December 2015: HK$227,073,000) as disclosed in note 46. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 7 Disclosure initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

The directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and joint ventures *(Continued)*

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or a joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or a joint venture that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Medical and dental consultation income is recognised when the related services are rendered.

Beauty and cosmetic medicine services income is recognised on a systematic basis in accordance with service usage period. Beauty treatment packages are recorded as liabilities when sold. Packages surrendered in exchange for services during the year are recognised as service income in profit or loss. The remaining value of packages is classified as deferred income under current liabilities at the end of the reporting period. Upon expiry of prepaid packages, the corresponding deferred revenue is fully recognised.

Service income including management and administrative income service in healthcare services and hospital management service income is recognised when the related services are rendered and when it is probable that the economic benefits from the service rendered will flow to the Group and such benefit could be reliably measured.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income is recognised on a straight-line basis over the period of the respective leases.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

If an item of investment properties is transferred to owner-occupied property, the deemed cost of a property is its fair value at the date of change in use.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint control over the joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with HKAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method (see the accounting policy regarding investments in associates or joint ventures above).

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair values at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible and intangible assets other than goodwill *(Continued)*

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income is recognised in profit or loss on a straight-line basis over the term of the respective lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Retirement benefit costs

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations in other parts of the PRC are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

In relation to dilution of interest in an associate and deemed disposal of an associate that do not result in the Group losing significant influence, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, joint ventures, and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in note 50c.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

AFS financial assets *(Continued)*

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including promissory notes, loans receivable, loan to a related party, trade and other receivables, amount(s) due from associates/a related party/investees/non-controlling interests, restricted bank deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged declined in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and amounts due from associates/investees, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable, or amounts due from associates/investees is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables, amount(s) due to associates/an investee/non-controlling interests, bank borrowings and debt component of the loan notes) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Loan notes issued and the redemption option

Loan notes issued by the Company that contain both liability and redemption option (which is not closely related to the host contracts) are separated into host contract and embedded derivate on initial recognition. At the date of issue, the loan notes and the redemption option are recognised at fair value.

In subsequent periods, the liability component of the loan notes are carried at amortised cost using the effective interest method. The redemption option of loan notes is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that related to the issue of the loan notes are included in the carrying amount of the loan notes and amortised over the period of the loan notes using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share-based payment transactions of the Company

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 41.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policy

The followings are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value, taking into account of other key assumptions including discount rate, future growth rate and expected gross margin. When the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/further impairment loss may arise.

As at 31 December 2016, the carrying amount of goodwill and intangible assets are HK$505,635,000 and HK$300,440,000 (net of accumulated impairment loss of goodwill and intangible assets amounting to HK$207,608,000 and nil) (2015: carrying amount of goodwill and intangible assets are HK$375,891,000 and HK$492,428,000, net of accumulated impairment loss of goodwill and intangible assets amounting to HK$247,108,000 and nil).

During the year ended 31 December 2016, impairment of HK$500,000 (2015: HK$40,000,000) was provided on goodwill allocated to the medical and dental services (2015: beauty and cosmetic medicine business). No impairment was provided on intangible assets for both years ended 31 December 2016 and 2015.

Valuation of investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market conditions and assumptions made on the investment properties, including price per square feet, reversionary rate and monthly rent with certain unobservable inputs such as adjustment of the building age, location, fair market rents and people flows to reflect different locations or conditions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Valuation of investment properties (Continued)

In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation is reflective of the current market conditions and current development of the investment properties. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss. As at 31 December 2016, the carrying amount of investment properties is HK$652,123,000 (2015: HK$457,760,000).

Impairment of associates and joint ventures

Management regularly reviews the recoverable amount of the associates and joint ventures (including their goodwill). Determining whether impairment is required involves the estimation of the value in use and fair value of the associates and joint ventures to which exceed the carrying amount of the associates and joint ventures. The value in use calculation requires the Group to estimate cash flows in the coming five years and cash flows beyond 5 years are extrapolated by expected revenue growth rate and a suitable discount rate in order to calculate the present value, taking into account of other key assumptions including expected revenue growth rate, gross margin and future growth rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2016, the carrying amount of associates net of accumulated impairment loss of HK$29,900,000, amounted to HK$175,756,000 (2015: carrying amount of associates net of accumulated impairment loss of HK$27,000,000, amounted to HK$140,487,000). As at 31 December 2016, the carrying amount of interest in joint ventures amounted to HK$37,614,000 (2015: HK$257,110,000).

During the year ended 31 December 2016, impairment of HK$2,900,000 (2015: nil) was recognised on interests in associates and no impairment loss recognised on interests in joint ventures as at 31 December 2016 and 2015.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Impairment loss on loans receivable

Management regularly reviews the recoverability of the loans receivable. Appropriate impairment for estimated irrecoverable amount is recognised in profit and loss when there is objective evidence that the amount is not recoverable.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for the loans receivable that are unlikely to be collected and is recognised on the difference between the carrying amount of loans receivable and the present value of estimated future cash flow discounted using the original effective interest rate. Where the actual future cash flows are less than expected, an additional impairment loss may arise. As at 31 December 2016, the carrying amount of loans receivable net of accumulated impairment loss of HK$3,559,000, amounted to HK$99,510,000 (2015: carrying amount of loans receivable net of accumulated impairment loss of HK$33,559,000, amounted to HK$17,891,000).

Impairment loss on trade receivables

The policy for allowance for bad or doubtful debts of the Group is based on the evaluation of collectability of amounts based on management's estimate. In determining whether impairment is required, the Group takes into consideration the likelihood of collection of debts on an individual basis as well as on a collective basis, including the Group's past experience of collecting payments. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original interest rate and the carrying value. As at 31 December 2016, the carrying amount of trade receivables net of allowance for doubtful debts HK$4,889,000, amounted to HK$141,865,000 (2015: carrying amount of trade receivables net of allowance for doubtful debts HK$2,708,000, amounted to HK$133,865,000).

Impairment loss on available-for-sale investments

Determining whether the unlisted securities classified as available-for-sale investments are impaired requires an estimation of the carrying amount of the unlisted securities. The impairment of unlisted securities classified as available-for-sale investments as at 31 December 2016 was approximately HK$704,000 (2015: HK$9,239,000) in relation to unlisted securities during the year. The carrying amount of the available-for-sale investments may be adjusted to reflect the revised estimated cash flows when the Group reviews recoverable amount of the available-for-sale investments.

5. REVENUE

Revenue represents the aggregate of the net amounts received and receivable from third parties for the year. An analysis of the Group's revenue from continuing operations for the year is as follows:

Continuing operations

	2016 HK$'000	2015 HK$'000
Provision of healthcare and dental services	**460,468**	392,416
Managed care business	**444,703**	363,702
Property rental income	**17,845**	17,339
Hospital management service income	**22,916**	–
Miscellaneous services income	**65,617**	55,452
	1,011,549	828,909

6. SEGMENT INFORMATION

Information reported to the chief operating decision maker, the Chief Executive Officer ("CEO"), for the purposes of resources allocation and assessment of segment performance focuses on different types of major businesses. This is also the basis upon which the Group is organised and managed. As identified by the CEO, certain subsidiaries of the Company engaged in provision of other miscellaneous services have been aggregated as 'Others' segment in arriving at the reportable segments of the Group. During the year, a new segment of 'Hospital management business' is presented after the acquisition of Nanyang Xiangrui as defined and set out in note 43. Accordingly, the Group's operating and reportable segments under HKFRS 8 are as follows:

- Provision of healthcare and dental services – Operations of the medical and dental practices and trading of healthcare products
- Managed care business – Operations of managed care centres and networks
- Investments in securities and properties and treasury management – Trading of listed securities and leasing of properties
- Hospital management business – Provision of hospital management services
- Others – Provision of miscellaneous services

6. SEGMENT INFORMATION *(Continued)*

No segment information of assets and liabilities is provided to the CEO for the assessment of performance of different segments. Accordingly, no segment information of assets and liabilities is presented.

An operating and reporting segment under HKFRS 8 regarding the beauty and cosmetic medicine business was discontinued in the current year. The segment information reported in this note does not include any amounts for the discontinued operations, which are described in more detail in note 14. Prior year corresponding segment information that is presented for comparative purposes has been re-presented to conform to the changes adopted in the current year.

Segment revenues and results

For the year ended 31 December 2016

Continuing operations

	Provision of healthcare and dental services HK$'000	Managed care business HK$'000	Investments in securities and properties and treasury management HK$'000	Hospital management business HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Revenue							
External sales	460,468	444,703	17,845	22,916	65,617	–	1,011,549
Inter-segment sales	21,209	–	5,846	–	–	(27,055)	–
	481,677	444,703	23,691	22,916	65,617	(27,055)	1,011,549
Segment results	22,269	41,553	43,648	710	9,378	–	117,558
Other income							7,712
Finance costs							(4,732)
Share of results of associates							4,435
Share of results of joint ventures							(3,598)
Other gains and losses							37,591
Unallocated corporate expenses							(46,847)
Profit before tax (continuing operations)							112,119

6. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended 31 December 2015

Continuing operations

	Provision of healthcare and dental services HK$'000	Managed care business HK$'000	Investments in securities and properties and treasury management HK$'000	Hospital management business HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Revenue							
External sales	392,416	363,702	17,339	–	55,452	–	828,909
Inter-segment sales	12,318	–	5,659	–	–	(17,977)	–
	404,734	363,702	22,998	–	55,452	(17,977)	828,909
Segment results	6,527	33,290	292,038	–	24,603	–	356,458
Other income							18,485
Finance costs							(10,555)
Share of results of associates							10,609
Other gains and losses							(8,809)
Unallocated corporate expenses							(71,887)
Profit before tax (continuing operations)							294,301

The accounting policies of the reporting segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned or generated by each segment without allocation of central administration costs, directors' salaries, certain share of results of associates and joint ventures, other income, certain items of other gains and losses and finance costs. This is the measure reported to the CEO for the purposes of resources allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

6. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2016

	Provision of healthcare and dental services HK$'000	Managed care business HK$'000	Investments in securities and properties and treasury management HK$'000	Hospital management business HK$'000	Others HK$'000	Total for segments HK$'000	Unallocated HK$'000	Total HK$'000
Continuing operations								
Amounts included in the measure of segment profit:								
Depreciation of property, plant and equipment	**14,185**	**1,764**	**11,274**	**31**	**11,773**	**39,027**	**100**	**39,127**
Amortisation of intangible assets	**–**	**7,251**	**–**	**4,979**	**–**	**12,230**	**–**	**12,230**
Impairment loss recognised on trade receivables	**3,895**	**55**	**–**	**–**	**–**	**3,950**	**–**	**3,950**
Decrease in fair value of investment properties	**–**	**–**	**20,098**	**–**	**–**	**20,098**	**–**	**20,098**
Loss on disposal of property, plant and equipment	**10**	**–**	**–**	**–**	**–**	**10**	**–**	**10**
Amounts included in the information regularly provided to the CEO:								
Additions to property, plant and equipment	**14,162**	**1,558**	**61,714**	**789**	**26**	**78,249**	**140**	**78,389**

For the year ended 31 December 2015

	Provision of healthcare and dental services HK$'000	Managed care business HK$'000	Investments in securities and properties and treasury management HK$'000	Hospital management business HK$'000	Other HK$'000	Total for segments HK$'000	Unallocated HK$'000	Total HK$'000
Continuing operations								
Amounts included in the measure of segment profit:								
Depreciation of property, plant and equipment	4,690	1,427	10,685	–	17,031	33,833	1,215	35,048
Amortisation of intangible assets	–	7,251	–	–	–	7,251	–	7,251
Impairment loss recognised on trade receivables	3,137	37	–	–	–	3,174	–	3,174
Increase in fair value of investment properties	–	–	4,669	–	–	4,669	–	4,669
Loss on disposal of property, plant and equipment	7	5	–	–	–	12	171	183
Amounts included in the information regularly provided to the CEO:								
Additions to property, plant and equipment	29,793	2,717	530	–	9,670	42,710	1,280	43,990

6. SEGMENT INFORMATION *(Continued)*

Geographical information

Majority of the Group's operations are located in Hong Kong. All provision of healthcare and dental services and managed care business are carried out in Hong Kong. The provision of hospital management services and certain miscellaneous services are carried out in other regions of the PRC.

(i) The Group's revenue from external customers are detailed below:

	2016 HK$'000	2015 HK$'000
Other regions of the PRC	**86,635**	55,219
Hong Kong	**924,914**	773,690
	1,011,549	828,909

(ii) Information about the Group's non-current assets by geographical location of the assets are detailed below:

	Carrying amount of non-current assets	
	2016 HK$'000	2015 HK$'000
Other regions of the PRC	**433,028**	373,827
Hong Kong	**1,485,264**	1,583,166
Non-current assets (Note)	**1,918,292**	1,956,993

Note: Non-current assets exclude loans receivable, loan to a related party, available-for-sale investments, promissory notes, deposits made on acquisition of investment properties, and property, plant and equipment, deposit made on acquisition of a subsidiary, and deferred tax assets.

There is no single customer contributing over 10% of the total sales of the Group during both years.

7. OTHER INCOME

	2016	2015
	HK$'000	HK$'000
Continuing operations		
Interest income	**33,816**	66,617
Dividend income from listed investments classified as held for trading investments	**–**	4,825
Dividend income from investments classified as available-for-sale investments	**7,723**	7,699
Rental income	**3,171**	3,235
Sundry income	**8,062**	15,250
	52,772	97,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. OTHER GAINS AND LOSSES

	2016 HK$'000	2015 HK$'000
Continuing operations		
Gain on fair value changes on held for trading investments and disposal of associates	**48,994**	273,792
Net gain (loss) on disposal of subsidiaries (note 44)	**634**	(5,588)
(Loss) gain on dilution of interest in an associate (note 23)	**(10,459)**	51
Gain on disposal of available-for-sale investments (Note)	**5,952**	1,741
Fair value changes on investment properties (note 17)	**(20,098)**	4,669
Fair value changes on loan notes (note 37)	**17,703**	(3,723)
Loss on early redemption of loan notes (note 37)	**(12,335)**	–
Translation reserve and investment revaluation reserve reclassified to profit or loss upon dilution of and disposal of interest in an associate	**2,680**	1,636
(Impairment loss) reversal of impairment loss recognised in respect of:		
– goodwill	**(500)**	–
– interests in associates	**(2,900)**	–
– trade receivables	**(3,950)**	(3,174)
– other receivables	**998**	(5,109)
– loans receivable	**30,000**	(27,000)
– available-for-sale investments (note 25)	**(704)**	(9,239)
– amounts due from investees	**–**	(1,664)
– amounts due from associates	**(6,121)**	–
	49,894	226,392

Note: During the year ended 31 December 2016, the Group disposed of available-for-sale investments with an aggregate carrying amount of HK$103,269,000 (2015: HK$3,619,000) which measured at cost less impairment. Gain of HK$5,952,000 (2015: HK$1,741,000) on disposal was recognised in profit or loss.

9. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Continuing operations		
Interest on bank borrowings	**639**	842
Effective interest expense on loan notes	**4,093**	9,713
	4,732	10,555

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

During both years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

Details of emoluments of individual executive, including the chief executive officer, non-executive and independent non-executive directors of the Company are set out as below:

For the year ended 31 December 2016

	Fees HK$'000	Salaries and other benefits HK$'000	Performance bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors					
Miss Choi Ka Yee, Crystal	–	783	–	18	801
Dr. Cho Kwai Chee	–	1,200	–	18	1,218
Dr. Hui Ka Wah, Ronnie, *JP* (Chief Executive Officer)	–	4,765	–	18	4,783
Mr. Lee Chik Yuet	–	2,709	–	18	2,727
Dr. Ip Chun Heng, Wilson (resigned on 30 December 2016)	120	–	–	–	120
Mr. Wong Seung Ming	–	1,400	–	18	1,418
	120	10,857	–	90	11,067
Non-executive directors					
Dr. Choi Chee Ming, *GBS, JP*	–	–	–	–	–
Ms. Fang Haiyan	–	–	–	–	–
Mr. Tsai Minghsing	–	–	–	–	–
Mr. Chen Jinhao	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors					
Mr. Ho Kwok Wah, George, *MH*	120	–	–	–	120
Mr. Wong Tat Tung, *MH, JP*	120	–	–	–	120
Mr. Yu Xuezhong	120	–	–	–	120
Ms. Li Mingqin	120	–	–	–	120
Mr. Wang John Hong-chiun	120	–	–	–	120
	600	–	–	–	600
Total	720	10,857	–	90	11,667

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

For the year ended 31 December 2015

	Fees HK$'000	Salaries and other benefits HK$'000	Performance bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive directors					
Miss Choi Ka Yee, Crystal	–	754	63	18	835
Dr. Cho Kwai Chee	–	15,600	1,300	18	16,918
Dr. Hui Ka Wah, Ronnie, *JP* (Chief Executive Officer)	–	4,517	367	18	4,902
Mr. Lee Chik Yuet	–	2,580	151	18	2,749
Dr. Ip Chun Heng, Wilson (appointed on 1 January 2015)	120	–	–	–	120
Mr. Wong Seung Ming	–	1,369	114	18	1,501
Dr. Chan Wing Lok, Brian (resigned on 2 September 2015)	–	416	138	12	566
	120	25,236	2,133	102	27,591
Non-executive directors					
Dr. Choi Chee Ming, *GBS, JP*	–	–	–	–	–
Ms. Fang Haiyan (appointed on 1 June 2015)	–	–	–	–	–
Mr. Tsai Minghsing (appointed on 2 September 2015)	–	–	–	–	–
Mr. Chen Jinhao (appointed on 1 June 2015)	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors					
Mr. Ho Kwok Wah, George, *MH*	120	–	–	–	120
Mr. Wong Tat Tung, *MH, JP*	120	–	–	–	120
Mr. Yu Xuezhong (appointed on 1 June 2015)	70	–	–	–	70
Ms. Li Minggin (appointed on 1 June 2015)	70	–	–	–	70
Mr. Wang John Hong-chiun (appointed on 2 September 2015)	40	–	–	–	40
Mr. Chan Kam Chiu (retired resigned on 1 June 2015)	40	–	–	–	40
Mr. Wai Kwok Hung, *SBS, JP* (resigned on 2 September 2015)	81	–	–	–	81
	541	–	–	–	541
Total	661	25,236	2,133	102	28,132

The performance related incentive payment is determined with reference to the Group's performance for the relevant year.

Neither the chief executive officers nor any of the directors of the Company waived any emoluments in the years ended 31 December 2016 and 2015.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2015: two) of them is an executive director of the Company whose emolument is included in note 10 above. The emoluments of the remaining four (2015: three) individuals were as follows:

	2016 HK$'000	2015 HK$'000
Salaries and other allowances	11,730	5,188
Performance bonus (Note)	5,360	6,825
Retirement benefits scheme contributions	72	54
	17,162	12,067

Their emoluments were within the following bands:

	2016 Number of employees	2015 Number of employees
HK$3,000,001 – HK$3,500,000	1	1
HK$3,500,001 – HK$4,000,000	1	–
HK$4,000,001 – HK$4,500,000	–	1
HK$4,500,001 – HK$5,000,000	1	1
HK$5,000,001 – HK$5,500,000	–	–
HK$5,500,001 – HK$6,000,000	1	–
	4	3

During the year, no emoluments were paid by the Group to the five highest paid individuals, including one (2015: two) executive director of the Company, as an inducement to join or upon joining the Group or as compensation for loss of office.

Note: Pursuant to the service agreement entered into between each of the medical/dental practitioners and the Group, the practitioners are entitled to a fixed salary and a cash performance bonus of such amount representing a certain percentage of the monthly net profit (or, as the case may be, the monthly turnover) generated by the medical or dental practices at which he/she provides his/her services. The percentage is determined with reference to the qualification and experience of the practitioners, as well as the profitability of the medical centres at which the practitioners are practicing.

12. INCOME TAX EXPENSES

	2016 HK$'000	2015 HK$'000
Continuing operations		
Tax charge comprises:		
Current tax		
– Hong Kong Profits Tax	**15,660**	13,240
– PRC Enterprise Income Tax	**5,184**	–
– Under(over)provision of Hong Kong Profits Tax in prior years	**374**	(1,613)
	21,218	11,627
Deferred tax		
– Current year	**(2,441)**	(954)
	18,777	10,673

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

12. INCOME TAX EXPENSES *(Continued)*

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 HK$'000	2015 HK$'000
Continuing operations		
Profit before tax	**112,119**	294,301
Tax at the domestic income tax rate of 16.5% (2015: 16.5%)	**18,500**	48,560
Tax effect of expenses not deductible for tax purpose	**24,854**	16,831
Tax effect of income not taxable for tax purpose	**(23,598)**	(51,440)
Tax effect of tax losses not recognised	**3,377**	10,281
Tax effect of share of results of associates	**(3,494)**	(3,413)
Tax effect of share of results of joint ventures	**1,055**	(2,716)
Utilisation of tax losses previously not recognised	**(5,613)**	(5,817)
Under(over)provision in prior years	**374**	(1,613)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**3,322**	–
Income tax expenses for the year	**18,777**	10,673

13. PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

	2016 HK$'000	2015 HK$'000
Profit for the year from continuing operations has been arrived at after charging:		
Staff costs		
– Directors' remuneration (note 10)	**11,667**	28,132
– Other staff's salaries, bonus and other benefits	**589,677**	504,779
– Other staff's retirement benefits scheme contributions	**5,679**	6,801
	607,023	539,712
Auditor's remuneration	**3,743**	2,863
Cost of inventories recognised as expenses	**123,800**	109,398
Depreciation of property, plant and equipment	**39,127**	35,048
Loss on disposal of property, plant and equipment	**10**	183
Amortisation of intangible assets	**12,230**	7,251
and after crediting:		
Gross rental income from investment properties	**17,845**	17,339
Less: Direct operating expenses that generated rental income	**(3,694)**	(2,092)
Net rental income from investment properties	**14,151**	15,247

14. DISCONTINUED OPERATION/DISPOSAL GROUP HELD FOR SALE

On 30 December 2016, the Group entered into a sale and purchase agreement with a related party who is controlled by the Company's a then executive director to dispose of the entire issued share capital of Bonjour Beauty International Limited and its subsidiaries (the "Bonjour Beauty Group") (the "Bonjour Disposal"), representing the entire beauty and cosmetic medicine business of the Group, at a consideration of HK$430,000,000.

In the opinion of the directors of the Company, taking into consideration of the shareholders and voting rights held by the shareholders who appointed directors to the Company, the shareholders' approval for the completion of the Bonjour Disposal is certainly to be obtained and therefore the Bonjour Disposal is highly probable. The shareholders' approval was obtained subsequent to the reporting period as detailed in note 54. As at 31 December 2016, the assets and liabilities of the Bonjour Beauty Group, which were expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

The net proceeds of the disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

The loss for the year from the Bonjour Beauty Group is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the Bonjour Beauty Group as a discontinued operation.

	2016 **HK$'000**	2015 HK$'000
Revenue	**236,648**	294,024
Cost of sales	**(59,738)**	(66,263)
Gross profit	**176,910**	227,761
Other income	**4,197**	4,257
Administrative expenses	**(195,606)**	(212,052)
Other gains and losses	**118**	(40,000)
Loss before tax	**(14,381)**	(20,034)
Income tax expenses	**(822)**	(2,728)
Loss for the year from discontinued operation	**(15,203)**	(22,762)

14. DISCONTINUED OPERATION/DISPOSAL GROUP HELD FOR SALE *(Continued)*

Loss for the year from discontinued operation include the following:

	2016	2015
	HK$'000	HK$'000
Auditor's remuneration	**572**	550
Amortisation of intangible assets (included in administrative expenses)	**1,071**	1,071
Cost of inventories recognised as expense	**19,000**	22,518
Depreciation of property, plant and equipment	**13,363**	10,451
Interest income	**4,142**	4,147
Impairment loss recognised in respect of goodwill	**–**	40,000

The major classes of assets and liabilities of the Bonjour Beauty Group as at 31 December 2016, which have been presented separately in the consolidated statement of financial position, are as follows:

	2016
	HK$'000
Property, plant and equipment	**25,677**
Loan to a related party	**138,000**
Intangible assets	**262,509**
Goodwill	**171,645**
Deferred tax assets	**724**
Inventories	**7,832**
Trade and other receivables	**42,641**
Tax recoverable	**3,401**
Restricted bank deposit	**13,460**
Bank balances and cash	**22,081**
Total assets classified as held for sale	**687,970**
Trade and other payables	**276,429**
Tax payable	**1,572**
Deferred tax liabilities	**2,233**
Total liabilities associated with assets classified as held for sale	**280,234**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

14. DISCONTINUED OPERATION/DISPOSAL GROUP HELD FOR SALE *(Continued)*

Cash flows for the years ended 31 December 2016 and 2015 were as follows:

	2016 **HK$'000**	2015 HK$'000
Net cash used in operating activities	**(11,813)**	(9,306)
Net cash used in investing activities	**(14,758)**	(18,698)
Net cash outflows	**(26,571)**	(28,004)

Cumulative amount of HK$584,000,000 (debit balance) (2015: HK$393,000 (credit balance)) relating to the disposal group classified as held for sale has been recognised in other comprehensive income and included in equity.

15. DIVIDENDS

	2016 **HK$'000**	2015 HK$'000
Dividends recognised as distribution during the year		
– Final dividend of HK0.98 cent per ordinary share in respect of year ended 31 December 2015 (2015: 2014 final dividend – HK0.33 cent)	**76,061**	24,650
– Preference shares dividend of HK0.33 cent per preference share in respect of year ended 31 December 2016 (2015: 2015 preference shares dividend – HK0.72 cent)	**975**	23,540
	77,036	48,190

On 29 March 2017, the directors of the Company recommended to declare a final dividend of HK0.28 cent per ordinary share for the year ended 31 December 2016.

16. EARNINGS PER SHARE

For continuing operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to ordinary shareholders of the Company is based on the following data:

Earnings for the purpose of basic and diluted earnings per share

	2016 HK$'000	2015 HK$'000
Profit for the year from continuing operations attributable to owners of the Company	**78,700**	277,565
Less: Preference share dividend distributed during the year (note 15)	**(975)**	(23,540)
Profit for the year from continuing operations attributable to ordinary shareholders of the Company	**77,725**	254,025

Number of shares

	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,747,751,093**	6,684,669,870
Effect of dilutive potential ordinary shares:		
Share options	**–**	5,853,883
Convertible preference shares	**13,547,359**	323,858,447
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**7,761,298,452**	7,014,382,200

16. EARNINGS PER SHARE *(Continued)*

For continuing and discontinued operations

The calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to ordinary shareholders of the Company is based on the following data:

Earnings for the purpose of basic and diluted earnings per share

	2016 **HK$'000**	2015 HK$'000
Profit for the year attributable to owners of the Company	**63,497**	254,803
Less: Preference share dividend distributed during the year (note 15)	**(975)**	(23,540)
Profit for the year attributable to ordinary shareholders of the Company	**62,522**	231,263

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

For discontinued operation

Basic loss per share for the discontinued operation is HK0.19 cent per share (2015: basic loss per share of HK0.34 cent per share) and diluted loss per share for the discontinued operation is HK0.19 cent per share (2015: diluted loss per share of HK0.32 cent per share), based on the loss for the year from the discontinued operation of HK$15,203,000 (2015: loss for the year of HK$22,762,000) and the denominators detailed above for both basic and diluted earnings per share.

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2015	285,085
Disposal of subsidiaries (note 44)	(50,900)
Increase in fair value recognised in profit or loss	4,669
Addition	191,026
Acquisition of assets through acquisition of subsidiaries (note 42)	41,400
Transfer to property, plant and equipment	(13,520)
At 31 December 2015	457,760
Decrease in fair value recognised in profit or loss	(20,098)
Addition	214,461
At 31 December 2016	652,123

The investment properties were under medium-term leases and situated in Hong Kong. All of the Group's property interests in land held to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31 December 2016 and 31 December 2015 has been arrived at on the basis of a valuation carried out on the respective dates by Ascent Partners Valuation Services Limited, an independent qualified professional valuer not connected with the Group.

17. INVESTMENT PROPERTIES *(Continued)*

Ascent Partners Valuation Services Limited has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on direct comparison method that reflects recent transaction prices for similar properties, adjusted for differences in nature, location and condition of the properties under review. For those investment properties without recent transaction, the fair value was determined based on the income approach by dividing the existing rental income of the property by the appropriate reversionary rate, and also considered direct comparison method assuming sales of each of the property interests in their existing state and making references to comparable sales transactions as available in the relevant markets.

There has been no change to the valuation technique in 2016 and 2015. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2015 and 31 December 2016 are as follows:

	Level 2 HK$'000	**Level 3 HK$'000**	**Fair value as at 31.12.2016 HK$'000**
Property units located in Hong Kong	**–**	**652,123**	**652,123**

	Level 2 HK$'000	Level 3 HK$'000	Fair value as at 31.12.2015 HK$'000
Property units located in Hong Kong	240	457,520	457,760

17. INVESTMENT PROPERTIES *(Continued)*

For most of the properties located in Hong Kong the fair value was derived using the market comparable approach based on recent market prices with certain unobservable inputs including the adjustment of the building age, location, fair market rent and people flows to reflect different locations and conditions.

For investment properties categorised into Level 3 of the fair value hierarchy, the following information is relevant:

	Fair value hierarchy	Valuation technique(s) & key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Property 1 – Industrial Property in Shatin	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$5,135 (2015: HK$4,806) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 2 – Commercial Property in Tsuen Wan	Level 3	Income approach The key inputs are: (a) Reversionary rate; and (b) Monthly rent	Reversionary rate, taking into account of the capitalisation of rental income potential, nature of property, prevailing market condition of 3.2% (2015: 3.2%)	A slight increase in the reversionary rate will decrease significantly the fair value.
			Monthly rent is based on the base annual rental as agreed by both parties of the lease agreement	A slight increase in the monthly rent will increase significantly the fair value.
Property 3 – Commercial Property in Mongkok	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$235,537 (2015: HK$244,628) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 4 – Commercial Property in Shatin	Level 3	Income approach The key inputs are: (a) Reversionary rate; and (b) Monthly rent	Reversionary rate, taking into account of the capitalisation of rental income potential, nature of property, prevailing market condition of 4.8% (2015: 5.0%)	A slight increase in the reversionary rate will decrease significantly the fair value.
			Monthly rent is based on the base annual rental as agreed by both parties of the lease agreement	A slight increase in the monthly rent will increase significantly the fair value.
Property 5 – Commercial Property in Yau Ma Tei	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$16,487 (2015: HK$15,914) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 6 – Commercial Property in Yau Ma Tei	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$16,641 (2015: HK$16,045) per square feet	A slight increase in the price per square feet will increase significantly the fair value.

17. INVESTMENT PROPERTIES *(Continued)*

	Fair value hierarchy	Valuation technique(s) & key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Property 7 – Commercial Property in Jordan	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as shape of the property, of HK$33,333 (2015: HK$33,333) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 8 – Commercial Property in Tsim Sha Tsui	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$17,557 (2015: HK$17,615) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 9 – Commercial Property in Shatin	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as shape of the property, of HK$11,822 per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 10 – Commercial Property in Shatin	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$43,243 per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 11 – Commercial Property in Shatin	Level 3	Direct comparison method The key input is price per unit	Price per unit, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$1,900,000 per unit	A slight increase in the price per unit will increase significantly the fair value.
Property 12 – Commercial Property in Kwun Tong	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$12,716 per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 13 – Commercial Property in Tin Shui Wei	Level 3	Direct comparison method The key input is price per square feet	Price per square feet, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$35,903 per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 14 – Residential Property in Shatin	Level 3	Direct comparison method The key input is price per unit	Price per unit, using market direct comparable and taking into account of location and other individual factors such as age and location of the property, of HK$750,000 per unit	A slight increase in the price per unit will increase significantly the fair value.

As at 31 December 2014, a property situated in Mongkok was measured at Level 2 with fair value of HK$29,000,000. The property was transferred to Level 3 during the year ended 31 December 2015. The fair value of the property measured at Level 3 as at 31 December 2015 was HK$29,600,000. There was no other transfer into or out of Level 3 during the year ended 31 December 2015.

As at 31 December 2015, a property situated in Shatin was measured at Level 2 with fair value of HK$240,000. The property was transferred to Level 3 during the year ended 31 December 2015. The fair value of the property measured at Level 3 as at 31 December 2016 was HK$375,000. There was no other transfer into or out of Level 3 during the year ended 31 December 2016.

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Tools and equipment HK$'000	Total HK$'000
COST						
At 1 January 2015	148,449	117,372	6,115	4,737	62,911	339,584
Additions	–	20,373	926	940	28,790	51,029
Acquisition of assets through acquisition of subsidiaries (note 42)	–	6	–	–	–	6
Acquisition of subsidiaries (note 43)	–	4,529	65	–	19,076	23,670
Exchange realignment	–	(639)	(142)	(38)	(2,693)	(3,512)
Transfer from investment properties	13,520	–	–	–	–	13,520
Disposals/written off	–	(735)	(125)	(1,164)	(4,640)	(6,664)
Disposal of a subsidiary (note 44)	–	(10)	–	–	–	(10)
At 31 December 2015	161,969	140,896	6,839	4,475	103,444	417,623
Additions	49,156	34,194	343	–	14,438	98,131
Exchange realignment	–	(746)	(156)	(50)	(3,257)	(4,209)
Disposals/written off	–	(1,657)	(22)	–	(2,469)	(4,148)
Disposal of subsidiaries (note 44)	–	(3,832)	(147)	–	(2,452)	(6,431)
Reclassified as assets held for sale (note 14)	–	(18,473)	–	–	(27,032)	(45,505)
At 31 December 2016	**211,125**	**150,382**	**6,857**	**4,425**	**82,672**	**455,461**
ACCUMULATED DEPRECIATION						
At 1 January 2015	21,477	105,948	4,315	2,390	11,921	146,051
Charge for the year	7,095	12,191	1,313	943	23,957	45,499
Exchange realignment	–	(364)	(111)	(23)	(766)	(1,264)
Eliminated on disposals/written off	–	(718)	(121)	(640)	(4,499)	(5,978)
Eliminated on disposal of a subsidiary (note 44)	–	(2)	–	–	–	(2)
At 31 December 2015	28,572	117,055	5,396	2,670	30,613	184,306
Charge for the year	9,963	16,292	503	578	25,154	52,490
Exchange realignment	–	(577)	(137)	(32)	(1,589)	(2,335)
Eliminated on disposals/written off	–	(1,657)	(18)	–	(2,273)	(3,948)
Eliminated on disposal of subsidiaries (note 44)	–	(1,225)	(113)	–	(610)	(1,948)
Reclassified as assets held for sale (note 14)	–	(6,857)	–	–	(12,971)	(19,828)
At 31 December 2016	**38,535**	**123,031**	**5,631**	**3,216**	**38,324**	**208,737**
CARRYING VALUES						
At 31 December 2016	**172,590**	**27,351**	**1,226**	**1,209**	**44,348**	**246,724**
At 31 December 2015	133,397	23,841	1,443	1,805	72,831	233,317

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	5%
Leasehold improvements	25% or over the term of the lease, if shorter
Furniture and fixtures	20%
Motor vehicles	20%
Tools and equipment	10 – $33^{1}/_{3}$%

The carrying value of leasehold land represents land in Hong Kong held under medium-term lease.

19. LOANS RECEIVABLE

	2016	2015
	HK$'000	HK$'000
Fixed-rate loans receivable (unsecured)	**99,510**	17,891
Analysed for reporting purposes as:		
Non-current portion	**6,913**	9,902
Current portion	**92,597**	7,989
	99,510	17,891

The range of effective interest rate (which are fixed rates, also equal to contractual interest rates) on the Group's loans receivable are 1% to 12% (2015: 1% to 24%) per annum. As at 31 December 2016, the Group had loans receivable of HK$6,913,000 (2015: HK$9,902,000) which will be fully repaid from 6 to 28 years (2015: 7 to 29 years). The amount is included in the non-current assets.

No collateral agreements have been entered into in respect of the loans receivable.

Before granting loans to outsiders, the Group uses an internal credit assessment process to assess the potential borrower's credit quality and defines credit limits granted to borrowers. Limits attributed to borrowers are reviewed by the management regularly.

19. LOANS RECEIVABLE *(Continued)*

The loans receivable at the end of the reporting date have good credit quality, except loans receivable amounting to HK$3,559,000 (2015: HK$33,559,000) which was past due and considered not recoverable. During the year ended 31 December 2016, loans receivable amounting to HK$30,000,000 (2015: HK$3,000,000) was recovered. Accordingly, reversal of impairment loss of HK$30,000,000 (2015: net impairment loss of HK$27,000,000) was recognised. Management believes that no further impairment allowance is necessary in respect of the remaining loans receivable as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The borrowers have good repayment history.

No loans receivable is past due but not impaired.

20. LOAN TO A RELATED PARTY

	2016	2015
	HK$'000	HK$'000
Bonjour Group Limited (Note)	**–**	138,000

Note: The entity is a direct wholly-owned subsidiary of Bonjour Holdings Limited, of which Dr. Ip Chun Heng, Wilson ("Dr. Ip") is the chairman and shareholder. Dr. Ip was also an executive director of the Company during the year ended 31 December 2015 and from 1 January 2016 until Dr. Ip resigned as an executive director of the Company on 30 December 2016.

The balance is unsecured, bearing interest at 3% per annum, and repayable after 1 year from 31 December 2016. The amount is included in assets classified as held for sale as at 31 December 2016. Please refer to note 14 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

21. GOODWILL

	HK$'000
COST	
At 1 January 2015	407,310
Acquisition of medical practices	4,044
Acquisition of a subsidiary (note 43)	211,645
At 31 December 2015	622,999
Acquisition of subsidiaries (note 43)	313,893
Reclassified as assets held for sale (note 14)	(211,645)
Exchange realignment	(12,004)
At 31 December 2016	**713,243**
IMPAIRMENT	
At 1 January 2015	207,108
Impairment	40,000
At 31 December 2015	247,108
Impairment	500
Reclassified as assets held for sale (note 14)	(40,000)
At 31 December 2016	**207,608**
CARRYING VALUES	
At 31 December 2016	**505,635**
At 31 December 2015	375,891

21. GOODWILL *(Continued)*

For the purposes of impairment testing, goodwill have been allocated to groups of individual cash generating units ("CGUs") in 4 (2015: 3) divisions of the Group, namely, healthcare and dental services, trading and retailing of healthcare and pharmaceutical products in Hong Kong, managed care business, beauty and cosmetic medicine business and hospital management business. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2016 and 31 December 2015 allocated to these units are as follows:

	2016 **HK$'000**	2015 HK$'000
Healthcare and dental services ("Division A"):		
Town Health Medical & Dental Services Limited ("Town Health M&D")	**4,666**	5,166
Hong Kong Traumatology and Orthopaedics Institute Limited ("Hong Kong T&O")	**3,544**	3,544
	8,210	8,710
Managed care business ("Division B"):		
Dr. Vio & Partners Limited ("Dr. Vio")	**195,536**	195,536
Version System International Limited ("Version System")	**9,399**	–
	204,935	195,536
Beauty and cosmetic medicine business ("Division C"):		
Bonjour Beauty International Limited ("Bonjour Beauty")	**–**	171,645
Hospital management business ("Division D")		
Nanyang Xiangrui Hospital Management Advisory Co. Ltd. ("Nanyang Xiangrui")	**292,490**	–
	505,635	375,891

21. GOODWILL *(Continued)*

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Division A

The recoverable amounts of CGUs of medical and dental services were determined based on value in use calculations. Those calculations used cash flow projections based on financial budgets approved by management covering a period of 5 years, and cash flows beyond 5 years were extrapolated by assuming growth rates and discount rates as below:

	2016		2015	
	HK	**PRC**	HK	PRC
Growth rate	**0% to 3.16%**	**up to 25%**	0% – 8%	up to 25%
Pre-tax discount rate	**14.45%**	**14.82%**	14.85%	14.82%

Another key assumption for the value in use calculations was the budgeted gross margin, which was determined based on the CGUs' past performance and management's expectations for the market development.

Division B

For the impairment testing, goodwill and trade name are allocated to the Group's CGU B.

The recoverable amount of the CGU of managed care business was based on its value in use and was determined with the assistance of Ascent Partners Valuation Services Limited, an independent professional qualified valuer not connected with the Group. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period, and at a pre-tax discount rate of 15.84% (2015: 17.08%). Cash flows after the five-year period were extrapolated using 8% (2015: 8%) growth rate in considering the economic condition of the market.

Division C

For the impairment testing, goodwill and trade name are allocated to the Group's CGU C. During the year ended 31 December 2015, the Group recognised an impairment loss of HK$40,000,000 on the goodwill due to severe market competition and unstable economic condition, which led to the previous expectation on expected revenue growth and market development of the beauty and cosmetic medicine business could not be met. As at 31 December 2016, the relevant CGU was reclassified as disposal held for sale, please refer to note 14 for details.

Division D

For the impairment testing, goodwill is allocated to the Group's CGU D.

The recoverable amount of the CGU of hospital management business was based on its value in use calculations. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period, and at a pre-tax discount rate of 15.29%. Cash flows after the five-year period were extrapolated using 2.05% growth rate in considering the economic condition of the market based on the management's strategic plans and expectations for the market development with the management past experience. The management considered the growth rate and discount rate are the key assumptions, and a reasonably possible change in other assumptions would not have significant effect on the recoverable amount of the CGU.

22. INTANGIBLE ASSETS

	Customer relationship HK$'000	Trade name HK$'000	Management service right HK$'000	Total HK$'000
COST				
At 1 January 2015	72,512	167,087	–	239,599
Acquired on acquisition of a subsidiary (note 43)	10,708	253,943	–	264,651
At 31 December 2015	83,220	421,030	–	504,250
Acquired on acquisition of a subsidiary (note 43)	–	–	87,046	87,046
Reclassified as assets held for sale (note 14)	(10,708)	(253,943)	–	(264,651)
Exchange realignment	–	–	(3,352)	(3,352)
At 31 December 2016	72,512	167,087	83,694	323,293
AMORTISATION				
At 1 January 2015	3,500	–	–	3,500
Charge for the year	8,322	–	–	8,322
At 31 December 2015	11,822	–	–	11,822
Charge for the year	8,322	–	4,979	13,301
Reclassified as assets held for sale (note 14)	(2,142)	–	–	(2,142)
Exchange realignment	–	–	(128)	(128)
At 31 December 2016	18,002	–	4,851	22,853
CARRYING VALUES				
At 31 December 2016	54,510	167,087	78,843	300,440
At 31 December 2015	71,398	421,030	–	492,428

22. INTANGIBLE ASSETS *(Continued)*

Customer relationship and trade name were purchased as part of the acquisition of the Bonjour Beauty Group and Dr. Vio and were recognised at their fair value at the date of acquisition. Intangible assets purchased as part of the acquisition of the Bonjour Beauty Group were reclassified as assets held for sales as at 31 December 2016, please refer to note 14 for details.

Management service right was purchased as part of the acquisition of Nanyang Xiangrui during the year ended 31 December 2016 and are recognised at their fair value at the date of acquisition, please refer to note 43 for details of acquisition of Nanyang Xiangrui.

The management service right has finite useful lives and are amortised on a straight-line basis over 50 years based on the services terms of the management agreements entered into between Nanyang Xiangrui and the PRC medical institutions.

The customer relationship has finite useful lives and is amortised on a straight-line basis over 10 years.

The trade name has no legal life. The directors of the Company are of the opinion that the Group has the ability to use the trade name continuously. Various studies including product life cycle studies, market, competitive and environmental trends, and brand extension opportunities have been performed by management of the Group, which support that the trade name has no foreseeable limit to the period over which the services provided are expected to generate net cash flows for the Group.

As a result, the trade name is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trade name will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

23. INTERESTS IN ASSOCIATES

	2016	2015
	HK$'000	HK$'000
Cost of investments in associates	**185,636**	141,246
Share of post-acquisition loss and other comprehensive expenses, net of dividend received	**(9,880)**	(759)
	175,756	140,487
Market value of listed investment in an associate	**–**	17,971

During the year ended 31 December 2014, the Group entered into a sale and purchase agreement with Luck Key Investment Limited ("Luck Key") to dispose of its entire investment in Ever Full Harvest Limited ("Ever Full") at a consideration of HK$11,882,000 which will be settled by the allotment and issue of shares in Luck Key to the Group. Such shares to be issued to the Group represents 28% interest in Luck Key. The disposal was completed during the year ended 31 December 2015. The Group has significant influence over Luck Key upon the completion. The Group's previously held interest of 7% in Luck Key, classified as available-for-sale investment, was transferred to interests in associates.

During the year ended 31 December 2015, the Group previously held interests in Convoy Global Holdings Limited ("Convoy") was disposed of at a cash consideration of HK$315,726,000 and gain on disposal of HK$177,259,000 was recognised in the profit or loss.

23. INTERESTS IN ASSOCIATES *(Continued)*

During the year ended 31 December 2015, placements of new shares of New Ray Medicine International Holding Limited ("New Ray") took place. Equity interests of New Ray held by the Group were diluted from 26% to 17.26%. The differences in share of net assets in New Ray after the dilution and reclassification of translation reserve and investment revaluation reserve, amounted to HK$51,000 and HK$1,636,000 respectively, have been recognised accordingly.

During the year ended 31 December 2016, additional shares had been issued and allotted by Luck Key to the Group and other shareholders of Luck Key. The cash considerations paid by the Group on the additional shares issued was HK$7,399,000.

During the year ended 31 December 2016, placement of new shares of New Ray took place. Equity interests of New Ray held by the Group were diluted from 17.26% to 14.38%. The differences in share of net assets in New Ray after the dilution and reclassification of translation reserve and investment revaluation reserve, amounted to HK$10,459,000 and HK$35,000 respectively, have been recognised accordingly. Subsequent to the placement having taken place, the Group disposed of its entire 14.38% equity interests in New Ray to independent third parties at a total consideration of HK$115,000,000, which was settled by cash consideration of HK$20,000,000 and two promissory notes issued by the purchasers, with a face value of aggregate amount of HK$95,000,000. Please refer to note 26 for the details of the promissory notes. Net gain on the disposal of New Ray of HK$43,465,000 was recognised in profit or loss.

During the year ended 31 December 2016, the Group entered into a sale and purchase agreement with an independent third party, to acquire 20% equity interest in Auspicious Idea Corporate Development Limited ("Auspicious Idea"), at a total consideration of HK$28,000,000, settled by the cash of HK$22,000,000 and the entire issued share capital of Global Excel Limited ("Global Excel"), a then indirect wholly-owned subsidiary of the Group. Provisional goodwill of HK$10,236,000 was recognised based on provisional net assets of Auspicious Idea as at the date of the acquisition.

During the year ended 31 December 2016, Eyecare International Holdings Limited, an indirect wholly-owned subsidiary of the Company, acquired 480 shares in Western Aurora Limited ("Western Aurora"), which represented 48% issued and fully paid shares of Western Aurora, from an independent third party at a total consideration of HK$72,000,000. Provisional goodwill of HK$45,168,000 was recognised based on Western Aurora's provisional net assets as at the date of acquisition. Western Aurora is regarded as an associate of the Group.

23. INTERESTS IN ASSOCIATES *(Continued)*

Details of the Group's principal associates at the end of the reporting period are as follows:

Name of company	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Attributable proportion of nominal value of issued/ registered capital held by the Group		Proportion of voting power held by the Company		Principal activities
					2016	2015	**2016**	2015	
Auspicious Idea	Incorporated	British Virgin Islands	Hong Kong	Ordinary	**20%**	–	**25%**	–	Investment holding and its subsidiaries engaged in provision of beauty and cosmetic medical services in Hong Kong and the PRC
Extrad Assets Limited ("Extrad Assets")	Incorporated	British Virgin Islands	Hong Kong	Ordinary	**50%**	50%	**50%**	50%	Investment holding and its associate engaged in manufacturing and sales of toys
Luck Key	Incorporated	British Virgin Islands	Hong Kong	Ordinary	**35%**	35%	**20%**	20%	Investment holding and its subsidiaries engaged in provision of medical diagnostic and health care services in Hong Kong
New Ray	Incorporated	Bermuda	PRC	Ordinary	**–**	17.26%	**–**	25%	Investment holding and its subsidiaries engaged in trading of healthcare products in the PRC
Western Aurora	Incorporated	British Virgin Islands	Hong Kong	Ordinary	**48%**	–	**33%**	–	Investment holding and its subsidiaries engaged in provision of ophthalmic medical services in Hong Kong

In the opinion of the directors of the Company, the above associates have a significant effect on the results or assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

23. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associates' financial statements prepared in accordance with HKFRSs.

All of these associates are accounted for using the equity method in the consolidated financial statements.

(a) Auspicious Idea

	2016 HK$'000
Current assets	143,885
Non-current assets	101,394
Current liabilities	(142,658)
Non-current liabilities	(2,803)

	15.8.2016 to 31.12.2016 HK$'000
Revenue	88,758
Profit for the period	13,271
Other comprehensive expense for the period	(2,271)
Profit and other comprehensive income for the period	11,000

23. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates *(Continued)*

(a) Auspicious Idea (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 **HK$'000**
Net assets of Auspicious Idea	**99,818**
Proportion of the Group's ownership interest in Auspicious Idea	**20%**
Net assets of the Group's interest in Auspicious Idea	**19,964**
Provisional goodwill	**10,236**
Carrying amount of the Group's interest in Auspicious Idea	**30,200**

(b) Extrad Assets

	2016 **HK$'000**	2015 HK$'000
Current assets	**104**	104
Non-current assets	**16,316**	17,664
Current liabilities	**(12)**	(12)
Revenue	**–**	–
Profit and other comprehensive income for the year	**4,681**	8,289
Dividend received from the associate during the year	**3,000**	3,000

23. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates *(Continued)*

(b) Extrad Assets (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 **HK$'000**	2015 HK$'000
Net assets of Extrad Assets	**16,408**	17,756
Proportion of the Group's ownership interest in Extrad Assets	**50%**	50%
Net assets of the Group's interest in Extrad Assets	**8,204**	8,878
Goodwill	**32,932**	32,932
Impairment loss	**(15,000)**	(15,000)
Carrying amount of the Group's interest in Extrad Assets	**26,136**	26,810

(c) Luck Key

	2016 **HK$'000**	2015 HK$'000
Current assets	**108,167**	61,239
Non-current assets	**22,324**	31,386
Current liabilities	**(15,250)**	(31,971)
Non-controlling interests	**4,661**	(243)

	1.1.2016 to 31.12.2016 **HK$'000**	28.2.2015 to 31.12.2015 HK$'000
Revenue	**225,885**	175,099
Profit and other comprehensive income for the year/period	**29,054**	15,391

23. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates *(Continued)*

(c) Luck Key (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 **HK$'000**	2015 HK$'000
Net assets of Luck Key attributable to owners	**110,580**	60,897
Proportion of the Group's ownership interest in Luck Key	**35%**	35%
Carrying amount of the Group's interest in Luck Key	**38,703**	21,314

(d) Western Aurora

	2016 **HK$'000**
Current assets	**19,009**
Non-current assets	**51,865**
Current liabilities	**(12,054)**
Non-current liabilities	**(2,005)**

23. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates *(Continued)*

(d) Western Aurora (Continued)

	1.8.2016 to 31.12.2016 HK$'000
Revenue	**58,785**
Profit and other comprehensive income for the period	**915**

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 HK$'000
Net assets of Western Aurora	**56,815**
Proportion of the Group's ownership interest in Western Aurora	**48%**
Net assets of the Group's interest in Western Aurora	**11,725**
Provisional goodwill	**45,168**
Carrying amount of the Group's interest in Western Aurora	**72,439**

23. INTERESTS IN ASSOCIATES *(Continued)*

Aggregate information of associates that are not individually material

	2016	2015
	HK$'000	HK$'000
The Group's share of profit and other comprehensive income for the year	**6,974**	2,517
Aggregate carrying amount of the Group's interests in these associates	**8,278**	9,918

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, extracted from the relevant audited financial statements or management accounts of associates, both for the year and cumulatively, are as follows:

	2016	2015
	HK$'000	HK$'000
Unrecognised share of losses of associates for the year	**–**	–
Accumulated unrecognised share of losses of associates	**(13,257)**	(13,257)

24. INTERESTS IN JOINT VENTURES

On 20 March 2015, the Group's indirect wholly owned subsidiary, Wise Lead Holdings Limited ("Wise Lead") acquired 49% equity interests in Huayao Medical Group Limited ("Huayao Medical"), at a consideration of RMB151,280,000, or equivalent to HK$189,100,000. Goodwill of HK$163,175,000 was recognised. Directors of the Company are of the opinion that the Group and the other two shareholders have joint control over Huayao Medical because decisions on relevant activities of Huayao Medical cannot be made without three parties agreeing. Subsequent to the initial investment in Huayao, the Group further injected HK$24,500,000 and HK$30,870,000 in Huayao Medical during the year ended 31 December 2015.

On 4 November 2016, the Group disposed of its entire equity interest in Wise Lead to an independent third party. The interest in Huayao Medical was derecognised together with other assets and liabilities of Wise Lead. For disposal of Wise Lead, please refer to note 44 for details.

24. INTERESTS IN JOINT VENTURES *(Continued)*

During the year ended 31 December 2016, 510 shares in Sky View Investment Limited ("Sky View") were allotted and issued to Amber Rose Holdings Limited ("Amber Rose"), an indirect wholly-owned subsidiary of the Group, at a consideration of US$5,151,000 (or equivalent to HK$40,178,000). The Group holds 51% equity interests in Sky View and the other shareholder of Sky View (the "Sky View partner") holds the remaining 49% equity interests. Subsequent to the share allotment, the Group has the power to appoint one director and the Sky View partner has the power to appoint another one director to form the board of directors of Sky View. The Group is able to exercise joint control with the Sky View partner over Sky View because the decisions on relevant activities of Sky View require both directors' approval. Accordingly, Sky View is regarded as a joint venture of the Group. 51 shares were further allotted and issued to Amber Rose during the year ended 31 December 2016 at a consideration of US$132,600 (or equivalent to HK$1,034,000).

Details of the Group's investment in joint ventures as follows:

	2016	2015
	HK$'000	HK$'000
Cost of unlisted investments in joint ventures	**41,212**	244,470
Share of post-acquisition (loss) profit and other comprehensive (expenses) income, net of dividend received	**(3,598)**	12,640
	37,614	257,110

Details of joint ventures at the end of the reporting period as follows:

Name of company	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Attributable proportion of nominal value of issued/registered capital held by the Group 2016	2015	Proportion of voting power held by the Company 2016	2015	Principal activities
Huayao Medical	Incorporated	British Virgin Islands	PRC	Ordinary	–	49%	–	40%	Investment holding and its subsidiaries engaged in provision of medical service in the PRC
Sky View	Incorporated	British Virgin Islands	PRC	Ordinary	**51%**	–	**50%**	–	Investment holding and its subsidiaries engaged in operation of beauty mobile application in the PRC

24. INTERESTS IN JOINT VENTURES *(Continued)*

The joint venture is accounted for using the equity method in financial statements:

Sky View

	2016 HK$'000
Current assets	**485**
Non-current assets	**73,268**

	20.2.2016 to 31.12.2016 HK$'000
Revenue	**143**
Loss and other comprehensive expense for the period	**(7,054)**

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint venture recognised in the consolidated financial statements:

	2016 HK$'000
Net assets of Sky View	**73,753**
Proportion of Group's ownership interest in Sky View	**51%**
Carrying amount of Group's interest in Sky View	**37,614**

25. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2016 HK$'000	2015 HK$'000
At fair value:		
– Unlisted equity fund	**8,501**	8,489
– Listed equity securities (Note i)	**88,550**	–
At cost:		
– Unlisted equity securities (Note ii)	**95,031**	160,372
– Loan notes (Note iii)	**150,000**	180,000
	342,082	348,861
Less: Loan note shown under current assets	**(150,000)**	(30,000)
Total	**192,082**	318,861

Notes:

(i) All listed investments are stated at fair value which is determined based on the quoted market bid prices available on the Stock Exchange. During the year ended 31 December 2016, fair value loss on listed securities amounting to HK$8,239,000 was recognised in other comprehensive expense.

(ii) The above unlisted equity securities are measured at cost less impairment at the end of reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably. As at 31 December 2016, the two major unlisted investees accounted for 97% (2015: 70%) of total unlisted equity securities, which are engaged in the provision of finance lease and investment holding, respectively. During the year ended 31 December 2016, impairment loss of HK$704,000 (2015: HK$9,239,000) was recognised in profit or loss (note 8).

(iii) Loan notes are issued by listed companies on the Stock Exchange, which are measured at amortised cost. The loan notes bear interest at 9% per annum and will be matured within one year (2015: in one to two years).

26. PROMISSORY NOTES

Two promissory notes with a principal amount of HK$30,000,000 and HK$65,000,000 respectively, which are unsecured, carry interest of 5% per annum and will mature in June 2018, were issued by two independent third parties as part of the consideration of their acquisition of the Group's interests in New Ray as set out in note 23. The issuer of the promissory note has the option to early repay the principal amount of the note in full or in part before the maturity date.

A promissory note with a principal amount of HK$230,000,000, which carries interest of 5% per annum and will mature in November 2019, was issued by an independent third party as consideration of his acquisition of the Group's interests in Wise Lead as set out in note 44. The promissory note is secured by the entire issued share capital of Wise Lead. The promissory note issuer of the promissory note has the option to early repay the principal amount of the note in full or in part before the maturity date. During the year ended 31 December 2016, the issuer made an early partial repayment of HK$26,295,000.

The promissory notes are initially recognised at fair value and subsequently measured at amortised cost. The early redemption option is considered as closely related to the host promissory note. The directors of the Company assessed that the promissory notes have been issued within the range of the market rate and considered the interest rates as fair and reasonable. The principal amount of the promissory notes are considered as the fair value at the date of issuance.

27. INVENTORIES

	2016 **HK$'000**	2015 HK$'000
Pharmaceutical supplies	**20,638**	18,161
Healthcare equipment	**1,310**	1,253
Dental materials and supplies	**1,021**	1,186
	22,969	20,600

28. TRADE AND OTHER RECEIVABLES

	2016 **HK$'000**	2015 HK$'000
Trade receivables	**146,754**	136,573
Less: Allowance for doubtful debts	**(4,889)**	(2,708)
Total trade receivables, net of allowance	**141,865**	133,865
Deposits	**39,588**	54,952
Other receivables	**44,075**	18,382
Prepayments	**5,035**	3,443
	230,563	210,642

28. TRADE AND OTHER RECEIVABLES *(Continued)*

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 whilst settlement by corporate customers for the Group's managed care operation is from 60 to 180 days. Most of the customers from beauty and cosmetic medicine business settle via credit cards. Trade receivables under credit card sales are due within 150 days from the date of billings. The Group allows an average credit period of 60 to 240 days to its trade customers under other business activities.

The following is an aged analysis of trade receivables, net of allowance, presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2016	2015
	HK$'000	HK$'000
0 – 60 days	**130,220**	116,877
61 – 120 days	**8,017**	6,330
121 – 180 days	**3,467**	10,612
181 – 240 days	**161**	46
	141,865	133,865

These receivables relate to a number of independent customers that have good repayment history with the Group. The Group does not hold any collateral over these balances.

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

Movement in the allowance for doubtful debts:

	2016	2015
	HK$'000	HK$'000
Balance at the beginning of the year	**2,708**	2,197
Impairment losses recognised	**3,950**	3,174
Amounts written off as uncollectible	**(1,769)**	(2,663)
Balance at the end of the year	**4,889**	2,708

The impairment recognised represents the difference between the carrying amount of the specific trade receivables and the present value of the expected recoverable amount. The trade receivables are impaired because of significant financial difficulty of the counterparties.

The amounts included in other receivables are unsecured, interest-free and repayable on demand.

29. HELD FOR TRADING INVESTMENTS

	2016 HK$'000	2015 HK$'000
Listed equity securities in Hong Kong	**69,969**	522,459

The fair values of the equity securities held for trading were determined based on the quoted market bid prices available on the Stock Exchange.

30. AMOUNTS DUE FROM (TO) ASSOCIATES

The amounts are of non-trade nature, unsecured, interest-free and repayable on demand.

The directors of the Company reviews the recoverability of the amounts due from associates and impairment is recognised when there is objective evidence that the amount is not recoverable. At 31 December 2016, the balance of amounts due from associates is net of accumulated allowance of HK$10,678,000 (2015: HK$4,557,000). The directors of the Company considered the carrying amounts of remaining amounts due from/to associates approximate their fair values as at 31 December 2016 and 2015.

31. AMOUNT DUE FROM A RELATED PARTY

	2016 HK$'000	2015 HK$'000
Kowloon Hearing Services Limited (Note)	**–**	20

Note: Mr. Lai Kwok Fai ("Mr. Lai") is a director and shareholder of this entity. Mr. Lai is also a director of Audio Health Hearing Care (Shatin) Limited, a non-wholly owned subsidiary of the Company. The maximum balance outstanding during the year is HK$20,000 (2015: HK$20,000).

The amount was unsecured, interest-free and repayable on demand.

32. AMOUNTS DUE FROM (TO) INVESTEES

The amounts are advances to investee of available-for-sale investments of non-trade nature, unsecured and repayable on demand. Included in the amounts due from investee is HK$13,300,000 (2015: HK$13,300,000) which bears interest at 8% (2015: 8%) per annum. The remaining amounts due from/to investee are interest-free.

At 31 December 2016, the balance of amounts due from investees is net of accumulated allowance of HK$1,664,000 (2015: HK$1,664,000). The directors of the Company considered the carrying amounts of remaining amounts due from/to investees approximate their fair values as at 31 December 2016 and 2015.

33. AMOUNTS DUE FROM (TO) NON-CONTROLLING INTERESTS

The amounts are of non-trade nature, unsecured, interest-free and repayable on demand. The directors of the Company anticipated the carrying amounts approximate their fair values and no impairment was provided on the balances as at 31 December 2016 and 2015.

34. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and bank balances that carry interest at market rates ranging from 0.01% to 0.35% (2015: 0.01% to 0.25%) per annum and have original maturity of three months or less.

Included in the cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows was HK$22,081,000 cash and cash equivalents included in a disposal group classified as held for sales. Please refer to note 14 for details.

35. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	HK$'000
Trade payables	**53,166**	47,712
Other payables	**60,812**	53,403
Deposits received	**5,115**	6,827
Deferred income	**5,747**	250,969
Accruals	**68,290**	78,533
	193,130	437,444

The following is an aged analysis of trade payables presented based on invoice dates at the end of the reporting period:

	2016	2015
	HK$'000	HK$'000
0 – 60 days	**40,826**	41,290
61 – 120 days	**5,252**	2,784
Over 121 days	**7,088**	3,638
	53,166	47,712

The average credit period on purchase of goods is 60 to 120 days.

36. BANK BORROWINGS

	2016 HK$'000	2015 HK$'000
Secured:		
Mortgage loan	**20,835**	21,887
The bank borrowings are repayable as follows:		
On demand and within one year	**1,082**	1,056
In more than one year but not more than two years	**1,109**	1,082
In more than two years but not more than three years	**1,137**	1,109
In more than three years but not more than four years	**1,165**	1,137
In more than four years but not more than five years	**1,194**	1,165
Over five years	**15,148**	16,338
	20,835	21,887
Less: Amounts due within one year shown under current liabilities	**(1,082)**	(1,056)
Carrying amount of bank borrowings that are not repayable within one year from the end of reporting period but contain a repayment on demand clause (shown under current liabilities)	**(19,753)**	(20,831)
	–	–

As at 31 December 2016, the bank borrowings of the Group carry variable interest rate at HIBOR+2.25% per annum (2015: variable interest rate from HIBOR+2% to HIBOR+2.25% per annum).

The Group's mortgage loan is secured by the Group's leasehold land and building and supported by personal guarantee provided by non-controlling interests of the Company's non-wholly owned subsidiary which will be released upon repayment of the mortgage.

37. LOAN NOTES

During the year ended 31 December 2014, the Company issued loan notes carrying coupon interest rate of 7% with aggregate face value amounted to HK$115,000,000. On initial recognition, the aggregate principal amount of the loan notes amounted to HK$99,800,000 and the fair value of the redemption option amounted to HK$15,200,000. The loan notes are unsecured.

The redemption option entitled the Company, at its sole discretion, to redeem any amount of the outstanding loan notes before their maturity by giving a fourteen-business-day prior notice to the holders at their principal amount with interest accrued. The redemption option also entitled the holders to redeem any amount of the loan notes held before maturity date by giving a six-month prior notice to the Company between 1 June 2016 and 1 June 2020 at certain percentage of their principal amount with interest accrued. The effective interest rate of the loan notes is 10%.

The Company had early redeemed the issued loan notes during the year ended 31 December 2016. The movement of the loan notes for both years ended 31 December 2015 and 2016 are set out as below:

	Debt component HK$'000	Derivative component HK$'000	Total HK$'000
At 1 January 2015	102,553	13,980	116,533
Interest charged	9,713	–	9,713
Interest payment	(8,050)	–	(8,050)
Changes in fair value	–	3,723	3,723
At 31 December 2015	104,216	17,703	121,919
Interest charged	4,093	–	4,093
Early redemption and interest payment	(120,644)	–	(120,644)
Loss on early redemption	12,335	–	12,335
Changes in fair value	–	(17,703)	(17,703)
At 31 December 2016	**–**	**–**	**–**

The valuations of the redemption option were performed by independent valuer, Ascent Partners Valuation Service Limited using the Hull-White One-Factor Model. As at 31 December 2015, the redemption option was measured at level 3 fair value hierarchy and credit yield spread of 13.65% was the key inputs to the valuation, with the increase in credit yield spread would decrease the fair value of the redemption option.

38. DEFERRED TAX (ASSETS) LIABILITIES

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation	Fair value adjustment on business adjustment	Tax losses	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2015	1,453	11,387	(33)	(265)	12,542
Credit to profit or loss	–	(1,164)	–	–	(1,164)
Acquisition of assets through acquisition of subsidiaries (note 42)	438	–	–	–	438
Acquisition of a subsidiary (note 43)	853	1,767	(724)	–	1,896
Disposal of a subsidiary (note 44)	(136)	–	–	–	(136)
At 31 December 2015	2,608	11,990	(757)	(265)	13,576
Credit to profit or loss	–	(2,617)	–	–	(2,617)
Acquisition of subsidiaries (note 43)	–	21,762	–	–	21,762
Reclassified as assets and liabilities held for sale (note 14)	(853)	(1,380)	724	–	(1,509)
Exchange realignment	–	(808)	–	–	(808)
At 31 December 2016	1,755	28,947	(33)	(265)	30,404

At 31 December 2016, the Group has unused tax losses of HK$1,057,075,000 (2015: HK$1,094,831,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$200,000 (2015: HK$4,588,000) of such losses.

No deferred tax asset has been recognised in respect of the remaining tax losses of HK$1,056,875,000 (2015: HK$1,090,243,000) due to the unpredictability of future profit streams. Such losses may be carried forward indefinitely.

At 31 December 2016, the Group has deductible temporary differences associated with specific provision on trade receivables of HK$1,606,000 (2015: HK$1,606,000). A deferred tax asset of HK$265,000 (2015: HK$265,000) has been recognised in respect of such deductible temporary differences.

39. SHARE CAPITAL – ORDINARY SHARES

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 2016	30,000,000,000	300,000
Issued and fully paid:		
At 1 January 2015	5,110,372,223	51,104
Issue of consideration shares (Note i)	365,327,586	3,653
Issue of shares upon share subscription (Note ii)	1,785,098,644	17,851
Exercise of share options (Note iii)	125,500,000	1,255
Conversion of convertible preference shares	83,333,333	833
At 31 December 2015	7,469,631,786	74,696
Conversion of convertible preference shares	291,666,666	2,917
At 31 December 2016	7,761,298,452	77,613

Notes:

(i) On 1 January 2015, the Company issued 365,327,586 ordinary shares to Bonjour Group Limited for acquisition of 100% equity interest in Bonjour Beauty. Details of the transaction are disclosed in the announcements of the Company dated 20 August 2014 and 1 January 2015 and the circular of the Company dated 19 November 2014.

(ii) Pursuant to the investment agreement dated 5 January 2015, 1,785,098,644 ordinary shares were allotted and issued at HK$0.98 per share to China Life Insurance (Group) Company on 29 May 2015. The gross proceeds from the investment agreement were approximately HK$1,749,397,000 which are intended to be used for expanding business in the PRC. Details of the transaction are disclosed in the announcement of the Company dated 5 January 2015 and the circular of the Company dated 3 February 2015.

(iii) During the year ended 31 December 2015, 120,500,000 and 5,000,000 share options were exercised at a subscription price of HK$0.2128 and HK$0.206 per share respectively, resulting in the issue of 125,500,000 ordinary shares and receipt of a total cash consideration of approximately HK$26,672,000.

40. SHARE CAPITAL – CONVERTIBLE PREFERENCE SHARES ("PREFERENCE SHARES")

	Numbers of shares	Amount
		HK$'000
Preference Shares of HK$0.01 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 2016	375,000,000	3,750
Issued and fully paid:		
At 1 January 2015	374,999,999	3,750
Converted during the year (Note i)	(83,333,333)	(833)
At 31 December 2015	291,666,666	2,917
Converted during the year (Note ii)	(291,666,666)	(2,917)
At 31 December 2016	–	–

The Preference Shares were redeemable, carried no voting right and each of the Preference Shares was convertible into one ordinary share any time after issue.

Pursuant to the convertible preference shares subscription ("CPS Subscription") agreement dated 31 October 2014, 374,999,999 Preference Shares were allotted and issued at HK$1.2 per share to Fubon Life Insurance Co., Ltd., Fubon Insurance Co., Ltd. and Broad Idea International Limited on 29 December 2014. The proceeds from the CPS Subscription are intended to be used for expanding business in the PRC and Hong Kong. Details of the CPS subscription are disclosed in to the Company's announcement dated 31 October 2014 and the circular of the Company dated 28 November 2014.

Notes:

(i) On 22 May 2015, 83,333,333 Preference Shares were converted into ordinary shares.

(ii) On 18 January 2016, 291,666,666 Preference Shares were converted into ordinary shares.

41. SHARE-BASED PAYMENT TRANSACTIONS

Details of share option scheme adopted by the Company are as follows:

2008 Scheme

The Company has, in accordance with Chapter 17 of the Listing Rules, terminated the share option scheme adopted on 24 April 2002 ("2002 Scheme") and adopted a new share option scheme ("2008 Scheme"), as approved by the shareholders of the Company at the extraordinary general meeting held on 16 September 2008.

According to the 2008 Scheme, the directors of the Company may grant options to the eligible persons fall within the definition prescribed in the 2008 Scheme including directors, employees and consultants etc. of each member of the Group and entity in which member of the Company holds an equity interest, to subscribe for ordinary shares in the Company for a consideration of HK$1 for each lot of share options granted.

Share options granted should be accepted within 21 days from the date of grant. The directors of the Company may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of the adoption of the 2008 Scheme. The directors of the Company may also provide restrictions on the exercise of a share option during the period a share option may be exercised.

The exercise price is determined by the directors of the Company, and shall be at least the highest of: (i) the closing price of the Company's ordinary shares on the date of grant; (ii) the average closing price of the Company's ordinary shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the ordinary share.

The maximum number of ordinary shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2008 Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of ordinary shares in issue from time to time.

The total number of ordinary shares issued and to be issued upon exercise of the options granted to each individual under the 2008 Scheme and any other option schemes (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of ordinary shares in issue.

41. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

2008 Scheme *(Continued)*

Details of the share options granted under the 2008 Scheme to directors, employees and consultants of the Company during the year and movement in such holding during the year are as follows:

	Date of grant	Exercisable period	Original exercise price per share HK$	Adjusted exercise price per share HK$	Number of share options: Outstanding at 1 January 2015	Adjustment on issue of bonus shares	Exercised during the year	Outstanding at 31 December 2015	Exercised during the year	Outstanding at 31 December 2016
Directors	18.6.2010	18.6.2010 to 17.6.2015	1.03	0.2060	5,000,000	(5,000,000)	–	–	–	–
Employees	28.6.2010	28.6.2010 to 27.6.2015	1.064	0.2128	120,500,000	(120,500,000)	–	–	–	–
Employees	14.01.2012	14.01.2012 to 13.01.2013	1.51	0.5020	–	–	–	–	–	–
Consultants	27.12.2012	27.12.2012 to 26.12.2013	0.49	0.0980	–	–	–	–	–	–
Consultant	22.11.2013	22.11.2013 to 21.11.2014	3.06	0.6180	–	–	–	–	–	–
					125,500,000	(125,500,000)	–	–	–	–
Exercisable at the end of the year					125,500,000			–		–
Weighted average exercise price (HK$)					0.2125			–		–

No share options have been granted during both years ended 31 December 2015 and 2016.

Options granted are fully vested at the date of grant.

The fair values were calculated using the Trinomial Model. The inputs into the Trinomial Model were as follows:

Date of grant	22 November 2013
Closing share price at the date of grant	HK$3.06
Exercise price	HK$3.06
Expected volatility	97.35%
Expected exercise multiple	2.3469X
Expected dividend yield	0.00%
Contractual life	1 year
Risk-free rate	0.2%
Fair value per share option	HK$1.0973

41. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

2008 Scheme *(Continued)*

Expected volatility was determined by using the annualised historical volatility of the Company's share price over the previous one year.

The fair values were calculated by RHL Appraisal Limited, an independent firm of professional valuer not connected with the Group. The Trinomial Model is one of the commonly used models to estimate the fair value of the options. The value of an option varies with different variables of certain subjective assumptions. Any changes in the variables so adopted may materially affect the estimation of the fair value of an option.

42. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 10 July 2015, the Group acquired entire equity interest in and shareholder loan of Achieved Success Company Limited ("Achieved Success") and its subsidiary ("Achieved Success Group"), from independent third parties at a consideration of HK$42,000,000. Achieved Success Group is engaged in properties investments in Hong Kong.

	Total HK$'000
Net assets of Achieved Success acquired:	
Property, plant and equipment	6
Investment properties	41,400
Trade and other receivables	39
Bank balances and cash	1,543
Trade and other payables	(473)
Shareholder loan	(38,091)
Tax payables	(77)
Deferred tax liabilities	(438)
Net assets	3,909
Analysis of net outflow of cash and cash equivalents in connection with acquisition of subsidiaries:	
Cash consideration paid	3,909
Assignment of shareholder loan	38,091
Bank balances and cash acquired	(1,543)
Net cash outflow in respect of the acquisition of subsidiaries	40,457

43. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2016

(a) The Group completed the acquisition of 43.71% of equity interest in Nanyang Xiangrui, from independent third parties at a consideration of HK$330,248,000 during current year in which control can be obtained. The directors of the Company having considered all facts and circumstances, concluded that the Group has control over Nanyang Xiangrui of which the Group has the power to appoint three directors out of five to sit in Nanyang Xiangrui's board of directors. The voting rights attributable to the directors of Nanyang Xiangrui appointed by the Group are sufficient to give the Group the power to direct the relevant activities of Nanyang Xiangrui unilaterally and therefore, Nanyang Xiangrui is regarded as a subsidiary of the Company. The acquisition has been accounted for using the purchase method. Non-controlling interests are recognised at their proportionate share of the provisional net assets recognised at the date of acquisition. Nanyang Xiangrui is engaged in provision of hospital management services in the PRC.

The acquisition provides a platforms for the Group to further develop its healthcare services in the PRC. Subsequent to the completion of the acquisition, the Group had further injected HK$307,798,000 into Nanyang Xiangrui and increased the equity interests from 43.71% to 60%. The increase in equity interests in Nanyang Xiangrui was treated as an equity transaction without any impact on the Group's control over Nanyang Xiangrui. Difference of HK$113,527,000 between the 56.29% and 40% interests held by the non-controlling interests was debited to other reserves.

	Total HK$'000
Assets acquired and liabilities recognised at the date of acquisition are as follows (determined on a provisional basis):	
Provisional intangible assets	87,046
Trade and other receivables (Note)	13,508
Bank balances and cash	10,937
Trade and other payables	(29,093)
Tax payables	(1,715)
Deferred tax liabilities	(21,762)
Provisional net assets	58,921
Consideration paid	330,248
Plus: non-controlling interests (56.29% in Nanyang Xiangrui)	33,167
Less: provisional net assets recognised	(58,921)
Provisional goodwill arising on acquisition	304,494

Note: The fair value of trade and other receivables at the date of acquisition amounted to HK$13,508,000, which also represented the gross contractual amounts.

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2016 *(Continued)*

(a) *(Continued)*

Goodwill arose in the acquisition of Nanyang Xiangrui because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Nanyang Xiangrui. These benefits are not recognised separately from goodwill because they do not meet the criteria for identifiable intangible assets.

The provisional goodwill and intangible assets arising from the acquisition is determined on a provisional basis as the Group is in the process of completing the identification of separable intangible assets and the independent valuation to assess the provisional fair value of the identifiable assets acquired. They may be adjusted upon the completion of initial accounting year which shall not exceed one year from the acquisition date.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

The acquisition-related costs are insignificant and have been excluded from the consideration transferred and recognised in profit or loss.

	HK$'000
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of a subsidiary:	
Cash consideration paid	(330,248)
Less: Bank balances and cash acquired	10,937
Net cash outflow in respect of the acquisition of a subsidiary	(319,311)

Included in the profit for the year from continuing operations is HK$3,369,000 attributable to the additional business generated by Nanyang Xiangrui. Revenue from continuing operations for the year included HK$22,916,000 generated from Nanyang Xiangrui.

Had the acquisition been completed on 1 January 2016, total group revenue from continuing operations for the year would have been approximately HK$1,024,236,000 and profit for the year from continuing operations would have been approximately HK$98,506,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2016 *(Continued)*

(b) On 29 February 2016, a non-wholly owned subsidiary of the Group acquired 70% equity interests in Version System from an independent third party at a consideration of HK$10,000,000 of which HK$7,400,000 was settled by cash during current year while the remaining consideration of HK$2,600,000 was not yet settled. The Group effectively holds 66% equity interests in Version System and the acquisition has been accounted for using the purchase method. Version System is engaged in provision of information technology support services to managed care business.

	Total HK$'000
Assets acquired and liabilities recognised at the date of acquisition are as follows (determined on a provisional basis):	
Inventories	6
Trade and other receivables (Note)	1,150
Bank balances and cash	958
Trade and other payables	(1,035)
Tax payables	(168)
Provisional net assets	911
Consideration paid and payable	10,000
Plus: non-controlling interests (34% in Version System)	310
Less: net assets recognised	(911)
Provisional goodwill arising on acquisition	9,399

Note: The fair value of trade and other receivables at the date of acquisition amounted to HK$1,150,000, which also represented the gross contractual amounts.

Goodwill arose in the acquisition of Version System because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies and assembled workforce of Version System. These benefits are not recognised separately from goodwill because they do not meet the criteria for identifiable intangible assets.

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2016 *(Continued)*

(b) *(Continued)*

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

The acquisition-related costs are insignificant and have been excluded from the consideration transferred and recognised in profit or loss.

	HK$'000
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of a subsidiary:	
Consideration paid	(7,400)
Bank balances and cash acquired	958
Net cash outflow in respect of the acquisition of a subsidiary	(6,442)

For the expansion of the Group's business, the Group acquired Version System which is engaged in provision of information technology support services to managed care business.

Version System contributed approximately HK$4,670,000 to the Group's revenue and contributed profit approximately HK$1,289,000 to the Group's profit for the year.

Had the acquisition been completed on 1 January 2016, total group revenue from continuing operations for the year would have been approximately HK$1,012,092,000 and profit for the year from continuing operations would have been approximately HK$93,273,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2015

(a) On 1 January 2015, the Group acquired entire equity interest in the Bonjour Beauty Group, from independent third parties at a consideration of HK$445,700,000, settled by the allotment and issue of 365,327,586 shares in the Company. The consideration represented the market price of the Company's shares quoted in the active market as at the date of acquisition. This acquisition has been accounted for using the purchase method. Bonjour Beauty Group is engaged in provision of beauty and cosmetic medicine services.

	Total HK$'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	21,201
Intangible assets	264,651
Deferred tax assets	724
Trade and other receivables (Note)	44,949
Amounts due from former shareholder of Bonjour Beauty	138,000
Bank balances and cash	76,656
Trade and other payables	(303,003)
Tax payables	(6,503)
Deferred tax liabilities	(2,620)
Net assets	234,055
Consideration transferred	445,700
Less: net assets recognised	(234,055)
Goodwill arising on acquisition	211,645

Note: The fair value of trade and other receivables at the date of acquisition amounted to HK$44,949,000, which also represented the gross contractual amounts.

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2015 *(Continued)*

(a) *(Continued)*

Goodwill arose in the acquisition of the Bonjour Beauty Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Bonjour Beauty Group. These benefits are not recognised separately from goodwill because they do not meet the criteria for identifiable intangible assets.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

The acquisition-related costs are insignificant and have been excluded from the consideration transferred and recognised in profit or loss.

	HK$'000
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:	
Bank balances and cash acquired	76,656

For the expansion of the Group's business, the Group acquired the Bonjour Beauty Group which is engaged in beauty and cosmetic medicine business.

The subsidiaries acquired during the year ended 31 December 2015 contributed approximately HK$294,024,000 to the Group's revenue and contributed loss of approximately HK$22,762,000 to the Group's profit for the year.

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2015 *(Continued)*

(b) On 2 July 2015, the Group acquired additional 1% equity interest in Best Tree International Limited ("Best Tree") and its subsidiary (the "Best Tree Group"), from independent third parties at a consideration of HK$188,000. This acquisition has been accounted for using the purchase method. The Best Tree Group is engaged in provision of healthcare services.

	Total HK$'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	2,469
Inventories	74
Trade and other receivables	4,332
Bank balances and cash	2,763
Trade and other payables	(3,769)
Tax payables	(537)
Net assets	5,332
Consideration paid	188
Plus: non-controlling interests (49% in Best Tree Group)	2,612
fair value of previously held interest in associates (Note)	2,532
Less: net assets acquired	(5,332)
Goodwill arising on acquisition	–

Note: The fair value of the previously held interest of 50% in Best Tree was determined by reference to the Best Tree Group's net assets value as at the acquisition date.

No goodwill arose in the acquisition of the Best Tree Group.

The acquisition-related costs are insignificant and have been excluded from the consideration transferred and recognised in profit or loss.

43. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2015 *(Continued)*

(b) *(Continued)*

	HK$'000
Analysis of net inflow of cash and cash equivalents in connection with the acquisition of subsidiaries:	
Cash consideration paid	(188)
Bank balances and cash acquired	2,763
Net cash inflow in respect of the acquisition of subsidiaries	2,575

For the expansion of the Group's business, the Group acquired the Best Tree Group which is engaged in provision of healthcare services.

The subsidiaries acquired during the year ended 31 December 2015 contributed approximately HK$20,494,000 to the Group's revenue and contributed profit approximately HK$2,841,000 to the Group's profit for the year.

Had the acquisition been completed on 1 January 2015, total group revenue for the year would have been approximately HK$1,136,413,000 and profit for the year would have been approximately HK$262,089,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

44. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2016

On 30 June 2016, the Group disposed of its entire equity interest in Superior Control Limited ("Superior Control") to an independent third party at a total consideration of HK$4,000,000 settled by cash.

On 15 August 2016, the Group disposed of its entire equity interest in Global Excel to an independent third party at a total consideration of HK$8,500,000. Part of the consideration of HK$6,000,000 was settled by setting off against the total consideration paid for acquisition of Auspicious Idea. The remaining consideration of HK$2,500,000 will be settled by cash and the amount was receivable from the purchaser as at 31 December 2016.

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2016 *(Continued)*

On 4 November 2016, the Group disposed of its entire interest in Wise Lead to an independent third party at a total consideration of HK$230,000,000. The consideration was settled by issuance of a promissory note by the purchaser. Please refer to note 26 for the details of the promissory note.

The aggregate amounts of the assets and liabilities attributable to the subsidiaries on the dates of disposal were as follows:

	2016			
	Superior Control at 30.6.2016	Global Excel at 15.8.2016	Wise Lead at 4.11.2016	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment	91	4,392	–	4,483
Interest in a joint venture	–	–	224,473	224,473
Inventories	–	251	–	251
Trade and other receivables	753	1,386	588	2,727
Bank balances and cash	3,926	2,741	–	6,667
Trade and other payables	(1,458)	(760)	–	(2,218)
Net assets disposed of	3,312	8,010	225,061	236,383
Consideration	4,000	8,500	230,000	242,500
Net assets disposed of	(3,312)	(8,010)	(225,061)	(236,383)
Cumulate exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of the subsidiaries	(731)	–	(4,752)	(5,483)
(Loss) gain on disposal	(43)	490	187	634

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2016 *(Continued)*

	2016			
	Superior Control at 30.6.2016 HK$'000	Global Excel at 15.8.2016 HK$'000	Wise Lead at 4.11.2016 HK$'000	Total HK$'000
Satisfied by:				
Equity interest in an associate	–	6,000	–	6,000
Receivable from purchaser	–	2,500	–	2,500
Promissory note issued by purchaser	–	–	230,000	230,000
Cash	4,000	–	–	4,000
	4,000	8,500	230,000	242,500
Net cash inflow (outflow) arising on disposal:				
Cash consideration received	4,000	–	–	4,000
Bank balances and cash disposed of	(3,926)	(2,741)	–	(6,667)
	74	(2,741)	–	(2,667)

For the year ended 31 December 2015

On 27 February 2015, the Group completed the disposal of its entire equity interest in Ever Full to Luck Key at a consideration of HK$11,882,000, settled by allotment and issue of 4,720 shares by Luck Key. Please refer to note 23 for details.

On 20 March 2015, the Group disposed of its entire equity interest in Asset Management to an independent third party at a total consideration of HK$432,726,000, settled by cash consideration of HK$3,600,000 and assignment of the Vendor Debt (representing the debt in sum of HK$429,126,000 owing by Town Health (BVI), the immediate holding company of Asset Management, to Asset Management).

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2015 *(Continued)*

The aggregate amounts of the assets and liabilities attributable to the subsidiaries on the dates of disposal were as follows:

	2015		
	Ever Full at 27.02.2015	Asset Management at 20.03.2015	Total
	HK$'000	HK$'000	HK$'000
Investment properties	–	50,900	50,900
Property, plant and equipment	7,427	8	7,435
Goodwill	7,944	–	7,944
Inventories	988	–	988
Trade and other receivables	3,457	241,004	244,461
Vendor Debt	–	429,126	429,126
Bank balances and cash	4,784	1,052	5,836
Trade and other payables	(7,502)	(744)	(8,246)
Deferred tax liabilities	–	(136)	(136)
Non-controlling interests	372	(288,484)	(288,112)
Net assets disposed of	17,470	432,726	450,196
Consideration	11,882	432,726	444,608
Net assets disposed of	(17,470)	(432,726)	(450,196)
Loss on disposal	(5,588)	–	(5,588)
Satisfied by:			
Equity interest in an associate	11,882	–	11,882
Assignment of Vendor Debt	–	429,126	429,126
Cash	–	3,600	3,600
	11,882	432,726	444,608
Net cash (outflow) inflow arising on disposal:			
Cash consideration received	–	3,600	3,600
Bank balances and cash disposed of	(4,784)	(1,052)	(5,836)
	(4,784)	2,548	(2,236)

44. DISPOSAL OF SUBSIDIARIES *(Continued)*

The subsidiaries disposed of during the year did not contribute significantly to the results and cash flows of the Group during the years ended 31 December 2016 and 31 December 2015 prior to the disposal.

45. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme subjecting to a maximum of HK$1,250 per month prior to 1 June 2014 and HK$1,500 per month from 1 June 2014, the contribution of which is matched by employees.

The employees in the PRC are members of respective state-managed defined contribution retirement benefits schemes operated by the local government. The employer and the employees are obliged to make contributions at a certain percentage of the basic payroll under rules of the schemes. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

The total cost charged to the consolidated statement of comprehensive income for continuing and discontinued operations approximately HK$9,493,000 (2015: HK$11,001,000) represents contributions payable to the above schemes by the Group during the year.

46. OPERATING LEASES

The Group as lessee

	2016 **HK$'000**	2015 HK$'000
Minimum lease payments paid under operating leases in respect of properties during the year	**69,836**	128,961

During the year ended 31 December 2016, the total rental expenses incurred by the Group amounted to HK$147,313,000 (2015: HK$123,920,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

46. OPERATING LEASES *(Continued)*

The Group as lessee *(Continued)*

	2016 HK$'000	2015 HK$'000
Within one year	**37,090**	116,793
In the second to fifth year inclusive	**13,734**	110,280
	50,824	227,073

Operating lease payments represent rentals payable by the Group for certain of its clinics, beauty and cosmetic centres and office premises. Leases are negotiated and rentals are fixed for a term ranging from two to five years.

The Group as lessor

During the year ended 31 December 2016, the Group had property rental income of approximately HK$21,016,000 (2015: HK$20,604,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases with fixed rents in respect of premises which would fall due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**13,126**	14,432
In the second to fifth year inclusive	**6,426**	5,455
	19,552	19,887

All of the properties held have committed tenants for the coming one to two years.

47. CAPITAL COMMITMENT

	2016 **HK$'000**	2015 HK$'000
Capital expenditure in respect of the acquisition of		
– investment properties and property, plant and equipment	**50,921**	204,328
– a subsidiary (Note)	**–**	1,380,835
	50,921	1,585,163

Note: On 4 December 2015, the Company entered into an Investment and Cooperation Agreement on the acquisition of Nanyang Xiangrui. Pursuant to the agreement, the maximum and minimum consideration on the acquisition amounted to approximately RMB1,207,143,000 and RMB331,500,000, or equivalent to HK$1,440,501,000 and HK$395,584,000 respectively. The Group's capital commitment was the maximum consideration on the acquisition, deducting any deposits paid in advance. The acquisition was completed during the year ended 31 December 2016, details of acquisition set out in note 43.

48. PLEDGE OF ASSETS

As at 31 December 2016, certain property, plant and equipment and investment properties of the Group with carrying value of approximately HK$125,201,000 (2015: HK$114,093,000) and HK$531,225,000 (2015: HK$146,000,000), respectively, were pledged to secure general banking facilities granted to the Group.

49. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of borrowings and equity attributable to owners of the Company (comprising issued share capital, share premium, reserves and accumulated profits).

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts or the redemption of existing debts.

50. FINANCIAL INSTRUMENTS

50a. Categories of financial instruments

	2016 **HK$'000**	2015 HK$'000
Financial assets		
Held for trading investments	**69,969**	522,459
Available-for-sale investments	**342,082**	348,861
Loans and receivables (including cash and cash equivalents)	**2,055,753**	2,200,764
Financial liabilities		
Amortised cost	**171,433**	282,603

50b. Financial risk management objectives and policies

The Group's Corporate Treasury function provides services to the business units, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk and other price risk), credit risk and liquidity risk.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

(i) Interest rate risk management

The Group's fair value interest rate risk relates primarily to the promissory notes, loans receivable, amounts due from investees and loan notes which carry at fixed rates. The Group currently does not have any interest rate hedging policy. The Group monitors the interest rate risk exposure closely and may consider to enter any hedging activities if the need arises.

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances, and bank borrowings (see note 36 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from the Group's Hong Kong dollars denominated borrowings.

50. FINANCIAL INSTRUMENTS

50b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Interest rate risk management *(Continued)*

Interest rates sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2015: 50 basis points) increase or decrease in HIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2015: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2016 would decrease/increase by HK$87,000 (2015: decrease/increase by HK$91,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

(ii) Other price risks

The Group is exposed to equity price risk through its investments in listed equity securities classified as either available-for-sale investments or held for trading investments. The Group's equity price risk is mainly concentrated on listed equity instruments quoted in the Stock Exchange. The management manages this exposure by delegating a team to monitor the market price of each investment closely and report to management on any material fluctuation regularly.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks on quoted equity instruments at the end of reporting period.

If the prices of the respective equity instruments had been 10% (2015: 10%) higher/lower:

– post-tax profit for the year ended 31 December 2016 would increase/decrease by HK$5,842,000 (2015: HK$43,625,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

– investment revaluation reserve would increase/decrease by HK$8,855,000 (2015: nil) for the Group as a result of the changes in fair value of available-for-sale investments.

The percentage applied in the sensitivity analysis is 10% in both year 2016 and 2015 of which management considers that is reasonable in current financial market.

50. FINANCIAL INSTRUMENTS

50b. Financial risk management objectives and policies *(Continued)*

Credit risk management

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and loans receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk related to trade receivables by geographical locations is mainly in Hong Kong as at 31 December 2016 and 2015.

The Group has concentration of credit risk by customer as 48% (2015: 46%) and 18% (2015: 15%) of the total trade receivables were due from the Group's five largest customers and the largest customer respectively. The Group's five largest customers are medical service companies with good reputation.

As at 31 December 2016, the Group also has concentration of credit risk on aggregate promissory notes due from three individuals amounting to HK$298,705,000, and aggregate loans receivable due from two individuals amounting to HK$80,000,000 (2015: aggregate loans receivable due from three individuals amounting to HK$12,024,000 and one employee amounting to HK$2,787,000, and a loan to a related party amounting to HK$138,000,000). The Group's promissory notes received from three individuals and two largest loans receivable due from the individuals (2015: a loan to a related party and four largest loans receivable due from the individuals and employees) mentioned above have good credit and/or repayment history. An internal credit assessment process assesses the potential borrower's credit quality and defines credit limits by borrower.

50. FINANCIAL INSTRUMENTS

50b. Financial risk management objectives and policies *(Continued)*

Credit risk management (Continued)

The Group has concentration risk on its held for trading investments which mainly represent investment in an equity security listed on the Stock Exchange. As at 31 December 2016, the Group has concentration risk by investment in China Parenting Network Holdings Limited (2015: Convoy), as it represents 100% (2015: 53%) of the total held for trading investments.

The credit risk on bank deposits is limited because the counterparties are banks with high credit ratings.

The management manages and monitors these exposures by monitoring the share price quoted in the Stock Exchange to ensure appropriate measures are implemented on a timely and effective manner.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

50. FINANCIAL INSTRUMENTS *(Continued)*

50b. Financial risk management objectives and policies *(Continued)*

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand or less than 1 month HK$'000	1 –3 months HK$'000	3 months to 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2016 HK$'000
31 December 2016						
Non-derivative financial liabilities						
Trade and other payables	–	–	119,093	–	119,093	119,093
Amounts due to non-controlling interests	–	31,182	–	–	31,182	31,182
Amounts due to associates	–	12	–	–	12	12
Amounts due to investees	–	311	–	–	311	311
Variable rate bank borrowings	2.48%	20,835	–	–	20,835	20,835
		52,340	119,093	–	171,433	171,433

	Weighted average effective interest rate	On demand or less than 1 month HK$'000	1 –3 months HK$'000	3 months to 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2015 HK$'000
31 December 2015						
Non-derivative financial liabilities						
Trade and other payables	–	–	107,942	–	107,942	107,942
Amounts due to non-controlling interests	–	30,514	–	–	30,514	30,514
Amounts due to associates	–	28	–	–	28	28
Amounts due to investees	–	313	–	–	313	313
Variable rate bank borrowings	2.45%	21,887	–	–	21,887	21,887
Loan notes	10%	–	–	112,074	112,074	121,919
		52,742	107,942	112,074	272,758	282,603

Bank borrowings with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2016, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$20,835,000 (2015: HK$21,887,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid within 3 months to 16 years (2015: within 3 months to 17 years) after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$25,220,000 (2015: HK$26,798,000).

50. FINANCIAL INSTRUMENTS

50c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair value of various financial assets and financial liabilities.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique and inputs used).

Financial assets		Fair value as at 31 December 2016	Fair value as at 31 December 2015	Fair value hierarchy	Valuation technique and key input
1.	Held for trading investments	Listed equity securities in Hong Kong – HK$69,969,000	Listed equity securities in Hong Kong – HK$522,459,000	Level 1	Quoted bid prices in an active market.
2.	Unlisted fund classified as available-for-sale investments	Unlisted equity fund in Hong Kong – HK$8,501,000	Unlisted equity fund in Hong Kong – HK$8,489,000	Level 2	Derived from quoted bid prices in an active market.
3.	Listed available-for-sale investments	Listed equity securities in Hong Kong – HK$88,550,000	Listed equity securities in Hong Kong – nil	Level 1	Quoted bid prices in an active market

There were no transfers between Levels 1 and 2 during the year.

The directors of the Company consider that except from financial assets as disclosed in above table, the carrying amounts of remaining financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

51. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group entered into the following significant transactions with related parties:

Name of related party	Nature of transactions	2016 HK$'000	2015 HK$'000
Advance Bond Limited*	Rental income	**904**	945
Apex Frame Limited#	Licence fee expenses##	**2,322**	1,161
Bonjour Cosmetic Wholesale Centre Limited#	Licence fee expenses##	**23,461**	23,786
	Purchase of cosmetic medicine	**1,050**	2,100
Bonjour Group Limited#	Interest income	**4,140**	4,140
Full Gain Developments Limited#	Licence fee expenses##	**4,972**	4,972
Hong Kong Bariatric and Metabolic Institute Limited*	Management services fee income	**296**	394
	Rental income	**90**	155
Hong Kong T&O (Note)	Management services fee income	**–**	2,111
	Management services fee expense	**–**	11
	Rental income	**–**	286

Note: Hong Kong T&O was an associate of the Company in 2014. During the year ended 31 December 2015, the Group further increased its interest in Hong Kong T&O from 50% to 51% and has control over Hong Kong T&O. Hong Kong T&O is accounted for as subsidiary of the Company subsequent to the increase in the Group interest in Hong Kong T&O.

* The related parties are the associates of the Company during the year ended 31 December 2016 and 2015.

\# The related parties are companies in which a director of the Company has substantial equity interest in and power to exercise control over those companies during the year ended 31 December 2015. The director had resigned as an executive director of the Company on 30 December 2016 and these companies are not related party to the Group since then.

\## The licence agreements were entered into for the licensing of properties situated in Hong Kong and Macau by the related parties to the Group. Such transactions constitute continuing connected transactions for the Company under the Listing Rules, details of which are set out in the Company's announcement dated 1 January 2015 and the Company's circular dated 3 February 2015.

51. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

During the year ended 31 December 2016, the Group entered into a sale and purchase agreement with a related party on the Bonjour Disposal. Details are set out in note 14 and 54.

Details of balances with related parties as at the end of the reporting period are set out in the consolidated statement of financial position and in notes 20, 30, 31, 32 and 33.

Compensation of key management personnel

The remuneration of key management personnel which represent the directors of the Company during the year was as follows:

	2016	2015
	HK$'000	HK$'000
Short-term benefits	**11,577**	28,030
Post-employment benefits	**90**	102
	11,667	28,132

The remuneration of key management personnel is determined by the remuneration committee of the board of directors of the Company having regard to the performance of individuals and market trends.

52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Unlisted investments in subsidiaries	**28,529**	28,529
Amounts due from subsidiaries	**4,108,589**	4,189,056
	4,137,118	4,217,585
CURRENT ASSETS		
Amount due from an associate	**500**	500
Other receivables	**2,658**	7,824
Bank balances and cash	**77,578**	92,055
	80,736	100,379
CURRENT LIABILITIES		
Other payables	**482**	375
Loan notes	**–**	121,919
	482	122,294
NET CURRENT ASSETS (LIABILITIES)	**80,254**	(21,915)
	4,217,372	4,195,670
CAPITAL AND RESERVES		
Share capital – ordinary shares	**77,613**	74,696
Share capital – convertible preference shares	**–**	2,917
Reserves (Note)	**4,139,759**	4,118,057
Total equity	**4,217,372**	4,195,670

The Company's statement of financial position was approved and authorised for issue by the board of directors of the Company on 29 March 2017 and are signed on its behalf by:

Dr. Hui Ka Wah, Ronnie
DIRECTOR

Mr. Lee Chik Yuet
DIRECTOR

52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(Continued)

Note:

Reserves

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Distributable reserve HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2015	1,425,623	9,020	28,180	62,677	209,162	275,870	2,010,532
Loss and total comprehensive expense for the year	–	–	–	–	–	(41,948)	(41,948)
Exercise of share options	30,310	–	–	–	(209,162)	204,269	25,417
Issue of shares upon share subscription – ordinary shares	2,173,593	–	–	–	–	–	2,173,593
Transaction cost attributable to issue of shares	(1,347)	–	–	–	–	–	(1,347)
Dividend paid	–	–	–	–	–	(48,190)	(48,190)
At 31 December 2015	3,628,179	9,020	28,180	62,677	–	390,001	4,118,057
Profit and total comprehensive income for the year	–	–	–	–	–	98,738	98,738
Dividend paid	–	–	–	–	–	(77,036)	(77,036)
At 31 December 2016	3,628,179	9,020	28,180	62,677	–	411,703	4,139,759

Contributed surplus of the Company includes the difference between the nominal value of HK$350,000 of the ordinary shares issued by the Company and the net assets value of approximately HK$28,530,000 of Town Health (BVI), a subsidiary acquired through an exchange of shares pursuant to the group reorganisation in April 2000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

53. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2016 and 2015 are as follows:

Name of company	Place of incorporation/ form of legal entity	Principal place of operation	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company				Proportion of voting power held by the Company				Principal activities
					31 December 2016		31 December 2015		31 December 2016		31 December 2015		
					Directly	Indirectly	Directly	Indirectly	Directly	Indirectly	Directly	Indirectly	
Town Health (BVI)	British Virgin Islands/ limited liability company	Note	Ordinary	US$1,331,131	**100%**	**–**	100%	–	**100%**	**–**	100%	–	Investment holding
Billion Advance Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$100	**–**	**70%**	–	70%	**–**	**100%**	–	100%	Property investment services
Dr. Vio	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1,000	**–**	**94.3%**	–	94.3%	**–**	**100%**	–	100%	Provision of managed care services
Easy Result Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$100	**–**	**51%**	–	51%	**–**	**67%**	–	67%	Provision of medical healthcare services
Faithful Sun Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	**–**	**100%**	–	–	**–**	**100%**	–	–	Property investment services
First Billion Investment Limited)	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$2	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Property investments services
Lucky Rising Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Property investments services
Nanyang Xiangrui	PRC/sino foreign equity joint venture	PRC	–	RMB84,835,000	**–**	**60%**	–	–	**–**	**60%**	–	–	Provision of hospital management services
Perfect Legend Investments Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	**–**	**100%**	–	–	**–**	**100%**	–	100%	Property investments services
PHC Medical Group Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$2	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Provision of medical healthcare and dental consultation services
Oriental Elite Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$100	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Property investments services
Profit Sources Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$100	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Property investments services
Regal Luck International Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Property investments services
Town Health Corporate Advisory and Investments Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$100	**–**	**100%**	–	100%	–	**100%**	**–**	100%	Trading of listed securities
Town Health Corporate Management and Investment Limited	British Virgin Islands/ limited liability company	Hong Kong	Ordinary	US$1	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Investment holding
Town Health Dental Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$2	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Provision of dental consultation services
Town Health Management and Services Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$2	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Provision of management and administrative services
Town Health M&D	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$2	**–**	**100%**	–	100%	**–**	**100%**	–	100%	Provision of medical healthcare services
廣州宜康醫療管理有限公司	PRC/sino foreign equity joint venture	PRC	–	RMB199,750,000	**–**	**80%**	–	80%	**–**	**75%**	–	75%	Provision of medical healthcare services

Note: The subsidiary acts as investment holding company and has no specific principal place of operation.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, results in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

53. PRINCIPAL SUBSIDIARIES *(Continued)*

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. A majority of these subsidiaries operate in Hong Kong. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries 2016	2015
Provision of healthcare and dental services	Hong Kong	**108**	104
Managed care business	Hong Kong	**6**	5
Beauty and cosmetic medicine business	Hong Kong	**–**	3
Investments in securities and properties and treasury management	Hong Kong	**50**	35
Others	Hong Kong	**2**	2
	PRC	**3**	2
		5	4

Details of non-wholly owned subsidiary that have material non-controlling interests

The table below shows details of non-wholly owned subsidiary of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of voting rights held by non-controlling interests 31.12.2016	31.12.2015	Proportion of ownership interests held by non-controlling interests 31.12.2016	31.12.2015	(Loss) profit allocated to non-controlling interests 31.12.2016 HK$'000	31.12.2015 HK$'000	Accumulated non-controlling interests 31.12.2016 HK$'000	31.12.2015 HK$'000
Nanyang Xiangrui	PRC	**40%**	–	**40%**	–	**1,416**	–	**142,205**	–
Individually immaterial subsidiaries with non–controlling interests						**13,226**	6,063	**68,178**	62,090
						14,642	6,063	**210,383**	62,090

54. EVENTS AFTER THE REPORTING PERIOD

On 17 March 2016, ordinary resolution was passed by the Company's shareholders on the approval of the Bonjour Disposal and receipt of a promissory note as part of the consideration in the special general meeting of the Company. The Bonjour Disposal is not yet completed up to the date of this report.

MAJOR PROPERTIES INFORMATION

The Group's property portfolio summary – major properties held for investment.

	Location	Existing use	Tenure	Group's interest (%) 2016	2015
1.	Whole block of Nos. 10-12 Yuen Shun Circuit, Sha Tin Town Lot No. 282, New Territories	Office	Medium term lease	**100%**	100%
2.	Shop Nos. G29 on Ground Floor, Commercial Podium, Sincere House, No. 83 Argyle Street, Kowloon	Shops	Medium term lease	**100%**	100%
3.	Ground Floor, Ultragrace Commercial Building, No. 5 Jordan Road, Kowloon	Shops	Medium term lease	**100%**	100%
4.	Shop C2 on Ground Floor, Carson Mansion, Nos. 4-6 Dung Fat Street, Nos. 46-50 Lo Tak Court, Nos. 3-5 On Wing Street, Tsuen Wan, New Territories	Shops	Medium term lease	**70%**	70%
5.	12/F, 13/F and 14/F, Kaiseng Commercial Centre, Nos. 4-6 Hankow Road, Kowloon	Office	Medium term lease	**100%**	100%
6.	22/F, 3 On Kwan Street, Shek Mun, New Territories	Office	Medium term lease	**100%**	–

FINANCIAL SUMMARY

RESULTS

	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Revenue from continuing operations	**1,011,549**	828,909	494,579	354,553	341,768
Profit (loss) for the year from continuing operations	**93,342**	283,628	80,889	79,318	(430,664)
Loss for the year from discontinued operation	**(15,203)**	(22,762)	–	–	–
Profit (loss) for the year	**78,139**	260,866	80,889	79,318	(430,664)
Attributable to:					
Owners of the Company					
– from continuing operations	**78,700**	277,565	84,612	49,633	(434,952)
– from discontinued operation	**(15,203)**	(22,762)	–	–	–
Non-controlling interests	**14,642**	6,063	(3,723)	29,685	4,288
	78,139	260,866	80,889	79,318	(430,664)

ASSETS AND LIABILITIES

	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Total assets	**5,162,819**	5,243,498	2,824,411	2,012,517	1,672,548
Total liabilities	**(580,860)**	(650,616)	(364,293)	(519,040)	(335,199)
	4,581,959	4,592,882	2,460,118	1,493,477	1,337,349
Assets attributable to:					
Owners of the Company	**4,371,576**	4,530,792	2,115,466	1,209,166	1,127,631
Non-controlling interests	**210,383**	62,090	344,652	284,311	209,718
	4,581,959	4,592,882	2,460,118	1,493,477	1,337,349