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 2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Miss Choi Ka Yee, Crystal *(Chairperson)*
Dr. Hui Ka Wah, Ronnie, *JP*
(Chief Executive Officer)
Mr. Lee Chik Yuet
Mr. Wong Seung Ming, *CPA, FCCA*
(Chief Financial Officer)
Dr. Chan Wing Lok, Brian *(Note 1)*

Non-executive Directors

Dr. Choi Chee Ming, *GBS, JP*
(Deputy Chairman)
Ms. Fang Haiyan *(Deputy Chairperson)*
Mr. Tsai Ming-hsing
(Deputy Chairman) (Note 2)
Mr. Chen Jinhao
Dr. Cho Kwai Chee *(Note 3)*

Independent Non-executive Directors

Mr. Ho Kwok Wah, George, *MH*
Mr. Wong Tat Tung, *MH, JP (Note 4)*
Mr. Yu Xuezhong
Ms. Li Mingqin
Mr. Wang John Hong-chiun
Mr. Yu Kai Fung Jackie *(Note 5)*
Mr. Wong Sai Kit *(Note 6)*

BOARD COMMITTEES

Audit Committee

Mr. Ho Kwok Wah, George, *MH (Chairman)*
Mr. Wong Tat Tung, *MH, JP (Note 4)*
Mr. Yu Xuezhong
Ms. Li Mingqin
Mr. Wang John Hong-chiun
Mr. Yu Kai Fung Jackie *(Note 5)*
Mr. Wong Sai Kit *(Note 6)*

Remuneration Committee

Mr. Ho Kwok Wah, George, *MH (Chairman)*
Mr. Wong Tat Tung, *MH, JP (Note 4)*
Mr. Yu Xuezhong
Ms. Li Mingqin
Mr. Lee Chik Yuet
Mr. Yu Kai Fung Jackie *(Note 5)*
Mr. Wong Sai Kit *(Note 6)*

Nomination Committee

Mr. Wong Tat Tung, *MH, JP (Chairman)*
(Note 4)
Mr. Yu Kai Fung Jackie *(Chairman) (Note 5)*
Mr. Ho Kwok Wah, George, *MH*
Ms. Li Mingqin
Mr. Lee Chik Yuet
Mr. Wong Sai Kit *(Note 6)*

COMPANY SECRETARY

Mr. Wong Seung Ming, *CPA, FCCA*

AUDITORS

Moore Stephens CPA Limited
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

CORPORATE INFORMATION

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
China Construction Bank (Asia) Corporation Limited
CMB Wing Lung Bank Limited
Credit Suisse AG, Hong Kong Branch
Dah Sing Banks, Limited
Fubon Bank (Hong Kong) Limited
Hang Seng Bank Limited
UBS AG, Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Management (Bermuda) Limited
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

Notes:

1. On 29 June 2018, Dr. Chan was appointed as an executive Director.

2. On 29 June 2018, Mr. Tsai Ming-hsing retired as a non-executive Director and ceased to be the Deputy Chairman of the Company.

3. On 6 March 2018, Dr. Cho was redesignated from an executive Director to a non-executive Director and ceased to be the Executive Deputy Chairman of the Company. On 29 June 2018, Dr. Cho retired as a non-executive Director.

4. On 29 June 2018, Mr. Wong Tat Tung, *MH, JP* retired as an independent non-executive Director and ceased to be the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee.

5. On 29 June 2018, Mr. Jackie Yu was appointed as an independent non-executive Director and the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee.

6. On 29 June 2018, Mr. SK Wong was appointed as an independent non-executive Director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

CHAIRPERSON'S STATEMENT

Dear Shareholders,

On behalf of Town Health, I am pleased to present this annual report for the Year to our Shareholders.

2018 was a year full of challenges. The healthcare industry in Hong Kong is facing shortage of professional staff and rising labor cost. At the same time, Hong Kong's healthcare market is mature and nearly saturated, causing difficulty in further expanding the Group's market share under the intensely competitive environment. The Group's investment in healthcare market in the Mainland is still in the early stage and thus is not yet able to become the main growth driver of the Group's revenue. Nevertheless, the Group is committed to investing in the healthcare market in Mainland China, and will endeavor to collaborate with its business partners to develop its PRC healthcare business to become the growth engine of the Group's revenue and profit.

The Group's self-operated clinics chain business in Hong Kong has been growing steadily. While the general practice and dental clinics business has met the bottleneck in its development, the specialist clinics business has been enjoying rapid growth. However, due to a shortage of doctors and nursing professionals, which leads to an increase in labor cost, the overall profit margin of the Group self-operated clinics chain business has been under pressure.

For the third-party healthcare administrator business segment, single-digit growth in revenue has been recorded during the Year. However, intense market competition and rising rental and labor cost have squeezed the net profit margin. The Group expects that the third-party administrator business will maintain a steady growth in the future. The Group aims to maintain the current double-digit pre-tax profit margin level, and strives to generate synergies with the Group's self-operated specialist clinics.

Town Health's health management centres are still at the beginning of development since their launch in 2017, and have not yet been profitable. The ideology of health management centres is to integrate insurance and healthcare services, and the integration has demonstrated to be able to effectively achieve a win-win situation for both sides. However, in-depth cooperation between China Life Group and the Group is still under exploration. Currently, the operation and IT systems of the health management centres have been successfully developed, which could offer comprehensive services and maintain personalised health records of customers, as well as help monitoring and keeping track of users' health status. In the future, the Group will introduce Hong Kong-style management systems and models to the newly developed health management centres in the Mainland, and will incorporate Hong Kong standard healthcare services to the PRC market.

CHAIRPERSON'S STATEMENT

The cosmetic and medical beauty business segment of the Group, under the brand name "The Beauty", has jointly established a centre with the Group's health management centre in Tsim Sha Tsui in 2017 so as to develop cross selling. During the Year, the integration of medical beauty and anti-aging services into health management services has been proven effective. The health management centre has effectively brought in the consumption on cosmetic and medical beauty so as to achieve a competitive advantage in the industry. Following the completion of work force restructuring of Hong Kong frontline staff of " The Beauty" early last year, the operation efficiency of "The Beauty" has been much improved. The revenue of "The Beauty" in Hong Kong has regained stable growth whereas the revenue in the Mainland has achieved double-digit percentage rapid growth in the Year.

During the Year, the Group has continued to focus on developing the healthcare business in the Mainland. The Group has been improving the management system of Nanshi Hospital and enhancing service quality. During the Year, the admission rate of inpatient care of Nanshi Hospital has grown satisfactorily. The overall revenue has increased by approximately 20%. However, due to an increase of approximately 22% in labor cost at the same time, the profit margin has been squeezed. The increasing staff cost was mainly due to an increase in salaries of doctor and nursing staff as an attempt to maintain the competitiveness in the region so as to attract more medical experts to join the group.

In addition to the upward adjustment of salaries, the Group has also implemented an incentive scheme, offering bonuses based on performance and workload of healthcare staff, so as to encourage the doctors and nursing staff to provide high-quality healthcare services and to attract more new talents. After the salary adjustment and implementation of the incentive scheme, the Group expects the upward staff cost pressure in the future will be lessened. At present, the capacity of inpatient beds of Nanshi Hospital has been overloaded, and therefore it is expected that the inpatient business will be unable to grow significantly in the coming two years. In order to solve the problem of overloading, the hospital has embarked on several major development plans, including the construction of a new main hospital block. During the Year, the construction of the new hospital block has been undergoing apace and is expected to be completed by 2020. By then, the total floor area of Nanshi Hospital will be expanded by 1.4 times to approximately 150,000 s.q. m., accommodating 1,000 additional inpatient beds and equipping with international standard surgery centres, intensive care units, high-end obstetric and gynecology VIP wards and other high-end medical facilities. The Group expects the new hospital block will greatly expand the service capacity of Nanshi Hospital and contribute sustainable business growth in the future.

Nanshi Hospital will also establish a new rehabilitation hospital branch with a total floor area of approximately 5,500 sq. m. locating within one-kilometer distance from Nanshi Hospital. Patients who need long-term care or postoperative rehabilitation care, will be transferred from Nanshi Hospital to the newly established rehabilitation hospital branch, so as to accelerate the turnover rate of inpatient beds of Nanshi Hospital and solve the problem of overloading.

CHAIRPERSON'S STATEMENT

During the Year, the Group acquired a commercial building with a total floor area of approximately 3,000 sq. m. in the high-end commercial district of Nanyang City. It will be developed into a high-end eye hospital. The Group expects that the construction of the rehabilitation branch of Nanshi Hospital and the eye hospital will be completed by the end of 2019. The rehabilitation hospital branch and the eye hospital are expected to bring significant revenue growth for Nanshi Hospital and the Group respectively starting from 2020.

During the Year, the revenue of Sixth Hospital's high-end imaging diagnostic centre managed by Yikang in Guangzhou has increased rapidly by approximately 25%. However, the cooperation agreement between Yikang and Sixth Hospital does not conclude on the extension period of cooperation, which may lead to uncertainties in their future cooperation. As such, Yikang and other subsidiaries of the Group have been expanding other healthcare businesses in Southern China. During the Year, the high-end clinic, Ganghe Clinic, was launched in the downtown region of Futian, Shenzhen in a location close to Peking University Shenzhen Hospital, which is a favorable location to attract expert doctors from that public hospital to join the clinic and provide clinical services to the clients. Also, Ganghe Clinic aims to develop cooperation work with Shenzhen branch of China Life Group to become the appointed high-end health management centre for China Life's VIP customers. Moreover, Yikang will develop a high-end health-check centre and imaging centre with a total floor area of 6,000 sq. m. in Zhongshan, Guangzhou. The project is a cooperation with United Imaging and Guangzhou Dixing Real Estate Development Company to establish a high-end imaging diagnostic centre and health management centre in the region.

The Group's cosmetic and medical beauty business under the brand "The Beauty" has been growing rapidly in the Mainland. Currently, there are seven and three centres in Shenzhen and Shanghai respectively. The first wholly-owned medical beauty clinic of "The Beauty" in the Mainland has commenced operation in Futian District, Shenzhen and has obtained a medical beauty license for provision of medical beauty services. The cash sales of the medical beauty business in the Mainland grew by approximately 20% during the Year, and the minimally invasive medical beauty services has become the revenue growth contributor. The Group plans to set up a hotline service centre in the Mainland so as to establish the new selling channels to expand the market share. The Group expects that the business growth of "The Beauty" in the future will be impressive and satisfactory.

The dental clinic business of Yamei in Hangzhou has been on track. During the Year, the overall revenue of the dental clinic has doubled and the loss gradually decreased. The Group expects a breakeven for the dental clinic in 2019. Since Invisalign corporation has started to provide dentist training in Greater China independently, the dental training business of Yamei has been invariably affected. In the future, the Group will focus on expanding the professional team so as to provide high-end Invisalign and other dental services to the public.

CHAIRPERSON'S STATEMENT

During the Year, the Group has entered into the JV Agreement with Taigang Medical to form a joint venture to develop a plastic surgery hospital in Taiyuan City. The hospital will incorporate Hong Kong standard health services model, combining medical beauty, high-end dental and health management services, with an aim to bring in Hong Kong style professional medical beauty service and brand name into the Mainland market. The Group expects that the formation of plastic surgery hospital will be completed in mid-2019, and will become a significant milestone for the Group's medical beauty business in the Mainland.

The Group strives to work closely with China Life Group and its branches to develop chain of one-stop comprehensive health management centres in the Mainland. Located in Jinan, Shandong Province, a newly developed health management centre will be the first flagship centre of the Group in the Mainland. The renovation of the centre is close to completion and the centre is expected to open in mid-2019. The centre will introduce Hong Kong-style health management model, combining medical beauty, high-end dentistry, and health management services. The integration of insurance and health management services is expected to achieve win-win outcome for both parties. The health management centre is expected to become one of the growth drivers of the Group in the future.

The road ahead is still full of challenges, but the Group will work out its best and focus on developing the Mainland healthcare business, with an aim to expanding its market share and creating substantial returns for shareholders.

Lastly, on behalf of the Board, I would like to express my sincere gratitude to all shareholders, investors, business partners and clients for their trusts and support to the Group, and express my heartfelt thanks to all staff for their contribution and dedication in the past year.

Choi Ka Yee, Crystal
Chairperson

Hong Kong, 28 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Company is pleased to report the results of the Group for the Year.

During the Year, the Group's revenue increased by approximately 1.17% to approximately HK$1,121,736,000 (2017: approximately HK$1,108,724,000) and the Group recorded a profit of approximately HK$85,509,000 (2017: loss of approximately HK$75,679,000). The increase in profit was mainly attributable to the net increase in other gains and losses which was set off by the increase in administrative expenses. The Group's gross profit margin for the Year was approximately 33.21% (2017: approximately 32.65%).

Other gains and losses

During the Year, the Group recognised a net gain in respect of other gains and losses of approximately HK$21,467,000 (2017: net loss of approximately HK$179,397,000).

Reversal of impairment losses recognised in respect of promissory notes and other receivables

The Group recorded reversal of impairment losses in respect of the promissory notes of HK$30,000,000 and other receivables of approximately HK$2,258,000 (being the interest accrued on the promissory note) for the Year (while impairment losses of approximately HK$233,705,000 in respect of promissory notes and approximately HK$2,258,000 in respect of other receivables were recorded for the year ended 31 December 2017). Such reversal of impairment losses are due to repayment of the promissory note in the principal amount of HK$30,000,000 issued by a corporation which is a third party independent of the Company and its connected persons (as defined in the Listing Rules) in favour of the Group for partial settlement of the consideration of the Group's disposal of shares of New Ray, whose shares are listed on the Main Board (Stock code: 6108), and interest accrued thereon in the aggregate amount of approximately HK$33,058,000 in July 2018.

Fair value changes on investment properties

The Group recorded a fair value gain on investment properties of approximately HK$25,665,000 for the Year (2017: approximately HK$76,129,000). During the Year, the fair value gain was contributed by the increase in fair value of a number of the Group's properties (while the fair value gain recorded for the year ended 31 December 2017 was mainly contributed by the Group's property in Shatin as the property, being an industrial building, was approved with conditions for commercial uses for a period expiring on 30 June 2047).

MANAGEMENT DISCUSSION AND ANALYSIS

Fair value loss on financial assets at fair value through profit or loss/held for trading investments

During the Year, the Group recorded a fair value loss of approximately HK$8,921,000 (2017: approximately HK$53,243,000) in respect of the Group's investment in the securities of China Parenting, whose shares are listed on the Main Board (Stock code: 1736), which was previously classified as held for trading investments during the year ended 31 December 2017. As at 31 December 2018, the Group's investment in China Parenting is classified as financial assets at fair value through profit or loss.

Administrative expenses

During the Year, the Group recognised administrative expenses of approximately HK$365,279,000 (2017: approximately HK$331,583,000). Such increase was mainly due to the increase in legal and professional fee and also depreciation and rent, rates and building management fee as a result of opening of two health management centres in Hong Kong.

BUSINESS REVIEW

Suspension of Trading and Progress Update on Resumption of Trading

As at the date of this annual report, trading in the Shares remains suspended. As disclosed in the Company's announcement dated 18 December 2017, the Board has established an independent board committee, comprising all the independent non-executive Directors, to conduct an independent investigation into the issues and matters arising from or relating to the trading suspension, to make recommendations to the Board on appropriate actions to be taken, and to work towards the goal of having the Shares resumed trading on the Stock Exchange. In February 2018, the independent board committee engaged an independent forensic accountant to conduct a forensic investigation into the issues and matters arising from or relating to the trading suspension and other related issues. The forensic investigation has been completed and reported to the independent board committee. As disclosed in the Company's announcement dated 31 January 2019, as a result of communication with the SFC, the independent board committee has engaged the independent forensic accountant to conduct further inquiry and investigation into relevant matters and to make recommendations to the Board accordingly. The Company will continue to monitor and report the progress of such further investigation.

As disclosed in the Company's announcements dated 11 July 2018, 1 August 2018, 5 November 2018 and 31 January 2019, respectively, the interim results announcement of the Company for the six months ended 30 June 2018 dated 28 August 2018, the interim report of the Company for the six months ended 30 June 2018 published on 21 September 2018 and the annual results announcement of the Company for the year ended 31 December 2018 dated 28 March 2019, the Company has made representations to the SFC to address the SFC's concerns on the Group and to seek the SFC's re-consideration on its direction. The Company is striving to resume the trading of its Shares on the Stock Exchange and will continue to communicate with the SFC in this regard, but at this stage, the Company is unable to provide a concrete timetable on the next steps in connection with the trading resumption. The Company will continue to keep the Shareholders and potential investors of the Company informed of the progress on the trading resumption.

MANAGEMENT DISCUSSION AND ANALYSIS

Healthcare Service Network of the Group

As at 31 December 2018, the Group had 498 multi-disciplinary healthcare service points, including 283 general practices service points, 84 specialist service points, 35 dental service points and 96 auxiliary service points. As at 31 December 2018, the Group had 698 medical doctors, dentists and auxiliary service providers (including 424 general practitioners, 225 specialists and 49 dentists), who provided healthcare services through its network of self-operated and affiliated medical centres of the Group.

Details of the Group's medical service network are as follows:

	As at 31 December 2018
Medical services	**367**
General practices services	283
Specialist medical services	84
Dental services	**35**
Auxiliary services	**96**
Physiotherapy services	50
Medical imaging and laboratory services	27
Chinese medicine services	17
Health management services	2
Total：	**498**

Details of the self-operated medical service centres of the Group are as follows:

	As at 31 December 2018
Medical services	**93**
General practices services	52
Specialist medical services	41
Dental services	**13**
Auxiliary services	**22**
Medical imaging and laboratory services	13
Physiotherapy services	7
Health management services	2
Total：	**128**

MANAGEMENT DISCUSSION AND ANALYSIS

Business in Hong Kong

Third-Party Administrator Business – Vio

The third-party administrator business of the Group has maintained steady growth and recorded single-digit percentage of growth in revenue. During the Year, Vio's self-operated integrated medical centre in Central has been relocated to another prime site in Central. The new facility is more spacious and provides customers with comprehensive medical services in a comfortable environment. Facing intense market competition and rising rental and labor costs, the net profit margin has been squeezed. The Group expects to maintain the current double-digit pre-tax profit margin level in the future. The Group also expects that by leveraging the network administrator business, Vio could refer customers to the Group's self-operated specialist clinics, and thus be able to generate business synergies.

During the Year, income generated from the Group's Hong Kong managed care business was approximately HK$467,802,000 (2017: approximately HK$439,784,000), representing approximately 41.70% of the Group's revenue for year (2017: approximately 39.67%); and net profit margin has remained relatively stable, marking the leading industry position.

Self-operated Medical and Dental Service Business

During the Year, the Group operated a total of 52 general practice medical centres, 41 specialist centres and 13 dental clinics. The Group's self-operated clinics chain business has been growing steadily. While the general practice and dental clinics business has met the bottleneck in its development, the specialist clinics business has been enjoying rapid growth. The Group has expanded its service points of specialist medical services to capture a bigger market share. The newly covered regions of service have been extended to Central District and Jordan District, demonstrating that the brand of the Group's Hong Kong specialist business has been well-established. During the Year, the Group continued to further enhance its strategic integration of the industry chain of medical services by incorporating its self-operated medical service centres into the medical service network managed by Vio, hence to integrate the upstream and downstream business segments and create synergies to the Group. However, due to a shortage of doctors and nursing professionals which leads to an increase in labor costs, the overall profit margin has been under pressure.

During the Year, income generated from the Group's Hong Kong medical and dental service business was approximately HK$512,689,000 (2017: approximately HK$487,787,000), representing approximately 45.70% of the Group's total revenue for the Year (2017: approximately 44.00%).

MANAGEMENT DISCUSSION AND ANALYSIS

Health Management Centres

During the Year, the Group has worked closely with China Life Group to develop chain health management centres in Hong Kong and the PRC. The health management centres which are located at the China Life Group's building in Wan Chai and Tsim Sha Tsui are still at the beginning of development and have not yet been profitable. During the Year, the Group further deepened the co-operation between its insurance partner and the health management centres. The insurance agents of China Life Group have been trained to become health management consultants so as to provide personalised services to customers, improve the service quality of insurance sales, and promote the sales of health care services of health management centres, resulting in the creation of business synergies. The in-depth cooperation model between the Group and China Life Group is still under exploration. In addition, the operation and IT systems of the health management centres have been successfully developed, which could maintain personalised health records for customers that contain key health information, medical records, health check-up reports and assessment reports. It helps closely monitor and evaluate users' health status and provide users with personalised health advice and guidance. In mid-2018, residents from Mainland China flocked to Hong Kong to receive 9-valent human papillomavirus vaccine (HPV), resulting in a shortage of vaccines in Hong Kong. As such, the business of the Group's health management centres was adversely affected and the centres were unable to accommodate more customers, posing negative impact on the income for the Year. Subsequently, at the end of 2018, the pharmaceutical factory resumed supply of vaccines, and the Group's customers for vaccination service have increased steadily.

Cosmetic and Beauty Business

The cosmetic and beauty business segment of the Group, under the brand of "The Beauty", has jointly established a centre with the Group's health management centre in Tsim Sha Tsui in 2017, so as to develop cross selling and drive up consumption on both sides. The Group introduced advanced medical beauty and high energy cosmetic instruments certified by the Food and Drug Administration of the United States to provide more advanced and safe treatments to customers. Leveraging on its comprehensive network of specialists and with the help of the health management services, the Group's cosmetic and beauty business has enhanced its competitiveness, and hence further strengthened the synergies generated by cross-referrals among different business segments. The beauty business segment of "The Beauty" in Hong Kong has undergoing a series of corporate restructuring early last year, resulting in improving of the operation efficiency and significant reduction in costs. The business volume of Hong Kong business has been affected but regained stable growth thereafter whereas the profit in the Mainland has achieved double-digit percentage rapid growth in the Year.

During the Year, "The Beauty" has recruited a total of 3 full-time or part-time doctors. Its medical network in Hong Kong, Shenzhen and Shanghai have 9, 7 and 3 centres respectively. During the Year, the revenue of "The Beauty" was approximately HK$289,443,000 (2017: approximately HK$247,482,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Business in the Mainland

Hospital Management and Consulting Services Business in the PRC

During the Year, the Group has continued to focus on developing the healthcare business in the Mainland. During the Year, the overall revenue of Nanshi Hospital has increased by approximately 20% and the business revenue for patient care of Nanshi Hospital has grown satisfactorily. The inpatient bed turnover rate has been speeded up and the average length of stay per patient has been shortened to 10.6 days, increasing the capacity of inpatients admission. During the Year, the Group has increased doctor and nursing staff's salaries and offered incentive scheme based on their performance and workload in order to maintain the competitiveness in attracting talented healthcare professional in the region and encourage the doctors to provide high-quality healthcare services. The salary adjustment and incentive scheme led to an increase of approximately 22% in labor cost as compared to 2017. As such, the net profit margin decreased as compared to 2017. However, after the adjustment of salary and implementation of incentive scheme, the Group expects the labor cost in the future to remain stable.

The usage of inpatient beds of Nanshi Hospital has exceeded its maximum capacity. In order to solve the problem of overcapacity, the construction of the new hospital block has been undergoing apace and was in rapid development, and is expected to be completed by 2020. By then, the total floor area of Nanshi Hospital will be expanded to approximately 150,000 sq.m. and the capacity will be increased to approximately 2,000 beds. It will be equipped with international standard surgery centres, intensive care units, high-end obstetrics and gynecology VIP wards and other high-end medical facilities. The new hospital block is expected to greatly expand the service capacity of the hospital and enhance its service standard. Nanshi Hospital will also develop a new rehabilitation hospital in the near proximity with a total floor area of 5,500 sq.m. in 2019. Patients who need long term rehabilitation care or postoperative care will be transferred from Nanshi Hospital to the newly established rehabilitation hospital, so as to release more impatient beds for Nanshi Hospital and accelerate the bed turnover rate. Furthermore, the Group acquired a high-end commercial building with a total floor area of 3,000 sq.m. in the high-end commercial district of Nanyang City during the Year. The building will be developed into a high-end eye hospital. The Group expects that the rehabilitation hospital and the eye hospital will be able to contribute revenue to Nanshi Hospital and the Group respectively starting from 2020.

The Group strives to develop different businesses under Nanyang Xiangrui, the Group's hospital management subsidiary, so as to provide comprehensive and professional management services to hospitals managed by the Group. These include marketing services, property management, medical consumables and equipment procurement services. In the future, the Group will expand the business of its hospital management to introduce Hong Kong-style healthcare management services to other hospitals in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

High-end Health Check Business

The revenue of Sixth Hospital's high-end imaging diagnostic centre managed by Yikang in Guangzhou has increased rapidly by approximately 25% due to rapid business growth. However, the cooperation agreement between Yikang and Sixth Hospital does not conclude on the extension period of cooperation, which may lead to uncertainties their future cooperation. As such, Yikang and other subsidiaries of the Company have been exploring other business opportunities in Southern China. The high-end clinic, Ganghe Clinic, which has been launched in the downtown region of Futian, Shenzhen, provides high-end outpatient clinic services. Furthermore, Yikang will develop a high-end health-check centre and imaging diagnostic centre with an expected total floor area of 6,000 sq.m. in Zhongshan, Guangzhou, together with United Imaging and Guangzhou Dixing Real Estate Development Company, to collaboratively explore high-end imaging diagnostic centre and health management centre business in the region.

High-end Dental Services

The business of Yamei dental clinic in Hangzhou has been on track. During the Year, the overall revenue of the dental clinic has more than doubled and the loss gradually decreased. The Group has enhanced its brand awareness and attracted new customers through effective marketing strategy, including the use of both online and offline promotion channels. However, as Invisalign corporation has started to provide training for dentists in Greater China independently, the dental training business of Yamei has been invariably affected. In the future, the Group will focus on expanding the professional dentists team so as to provide high-end Invisalign and other dental services to the public.

Chain Health Management Centres

The newly developed health management centre, located in Jinan's office building of the Shandong Branch of China Life Group. It is currently under construction and is expected to start operation in mid-2019. The combination of health management services and China Life Group's insurance business will create huge and robust synergies. The Group expects to provide comprehensive services and high-end healthcare solutions for China Life Group's clients and will strive to raise their awareness in preventive care and promote national health. At the same time, leveraging on the electronic information systems which collect and analyse customers' data, as well as health tracking notification function, the Group is committed to providing custom-made professional and personalised health management services to the clients of China Life Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Chain Medical Beauty Centres

During the Year, the PRC business of "The Beauty" has been growing rapidly. Currently, there are 7 centres in Shenzhen and 3 centres in Shanghai respectively. During the Year, the cash sales of the medical beauty business in the Mainland grew by approximately 20%, and the minimally invasive medical beauty services has become the key revenue growth driver. In addition, the first wholly-owned medical beauty clinic in the Mainland of "The Beauty" has commenced operation in the Futian District, Shenzhen in the end of 2017, which helps the Group to further develop the medical beauty market in the Mainland.

During the Year, the Group had entered into a JV Agreement with Taigang Medical in Taiyuan City in relation to the formation of a joint venture to develop medical beauty and other high-end healthcare services in Taiyuan city of Shanxi Province. The Group expects that the plastic surgery hospital will be completed in mid-2019, offering medical beauty, high-end dental and health management services to the public. The Joint Venture will provide a good opportunity for the Group to introduce professional and reliable Hong Kong brand of medical beauty services into the Mainland market. The Group believes that this will be a significant development milestone for the Group's medical beauty business in the Mainland.

Other investments

As at 31 December 2018, the Group held 7,707.27 shares in Heemin Capital – Class A Shares with an aggregate subscription price of US$7,884,000 (equivalent to HK$61,103,000). Heemin Capital is principally engaged in global fund investment. As at 31 December 2018, the fair value of the Group's investment in Heemin Capital is approximately HK$64,480,000. As at 31 December 2018, the Group's investment in Heemin Capital constituted approximately 85% of the balance of the financial assets at fair value through profit or loss which was previously classified as available-for-sale investments as at 31 December 2017.

As at 31 December 2018, the Group held approximately 17.67% of HCMPS with an investment amount of approximately HK$86,585,000. HCMPS 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 year ended 31 December 2018 of HCMPS, it recorded a profit of approximately HK$25 million. 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 HCMPS's business. As at 31 December 2018, the Group's investment in HCMPS constituted approximately 90% of the balance of equity instruments at fair value through other comprehensive income which was previously classified as available-for-sale investments as at 31 December 2017.

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, the Group submitted the redemption notice to redeem all the shares in Heemin Capital in February 2019 and the redemption date will be 1 April 2019. The Group as at the date of this annual report intended to continue to hold the remaining investments in its present portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Going forward, the Group will maintain its leading position in the healthcare market of Hong Kong and step up efforts to expand its healthcare business in the PRC. With favorable policy reforms of the healthcare system by the PRC government, aging population, longer life expectancy, higher health consciousness, and increasing per capita consumption, the demand for high-quality healthcare services in the PRC has been increased. The Group will take advantage of its healthcare brand, its operation model and its extensive management experience to develop its PRC healthcare business, aiming to become the leading corporation in healthcare industry.

Hong Kong

Regarding its self-operated healthcare services business, the Group has employed various measures to solve the problem of elevating labor costs due to a shortage of doctors and nursing professionals in Hong Kong. The Group will leverage its management system to improve operational efficiency, while maintaining a steady development of the general practice and dental clinics business. At the same time, the specialist clinics business is achieving good growth. The Group will strive to attract talented medical specialists to join and will expand its service scope, so as to capture new market share. However, as Hong Kong healthcare market is highly saturated, it would be quite difficult for the Group to achieve rapid business growth under the intensively competitive environment.

In respect to the third-party administrator business, the Group will continue to enhance the service standard of Vio and actively seek for new service contracts in Hong Kong. The Group expects that the current cost structure has been successfully controlled, and the pre-tax profit margin of the business could be maintained at a double-digit percentage level in the near future.

Referring to the health management centre business, the Group will continue to facilitate the co-operation between the health management centres with its insurance partners. The health management centre situated at China Life Group's building in Wan Chai will further its collaboration with China Life Group, in order to mobilise the China Life Group's sales team, to promote sales of health management products, and to provide more value-added services to China Life Group's high-end customers, hence creating mutual benefits to both parties. In addition to maintaining the sales channels in Hong Kong, the health management centre will proactively develop sales channels in the PRC market.

Regarding the future development of its cosmetic and medical beauty business segment, the Group expects a stable development of its Hong Kong business, and strives to maintain a continual rapid growth of its PRC cosmetic and medical beauty business. The Group will establish a telephone customer service centre in Mainland China, aiming to leverage the customer hotline platform to develop sales channels, and to build "The Beauty" brand.

MANAGEMENT DISCUSSION AND ANALYSIS

The Mainland

The demand for high-end healthcare services has been increasing in the Mainland. Leveraging on its competitive edges, the Group has captured the business opportunities in the Mainland and will continue to excel and seize a bigger market share.

Regarding the hospital management business in the Mainland, the new block of Nanshi Hospital is under construction, and is expected to become the development milestone of Nanshi Hospital. In addition, the Group will develop the newly acquired commercial building into a comprehensive high-end eye hospital. The Group has incorporated its subsidiaries in the Mainland to provide professional hospital management services on different fields, namely professional marketing services, hospital property management services, and medical equipment and consumables procurement services. The Group has obtained required trading licenses for procurement of medical consumables and medical equipment. Besides Nanshi Hospital, the Group expects to further expand its hospital management business to other hospitals in Nanyang city.

Referring to the high-end dental business, the Group targets to implement an incentive scheme so as to build up a professional team. The Group will continue to focus on offering high-end dental services to the public.

As for the business of health management centre, the Group's first PRC health management centre, located at Jinan' office building of the Shandong Branch of China Life Group, is under construction and is expected to commence operation by mid of 2019. The Group strives to collaborate with China Life Group to integrate insurance and health management services, generating synergies for both parties.

Regarding the business of medical beauty centres, the Group will cooperate with Taigang Medical in Taiyuan City to build a plastic surgery hospital, which will be completed by mid-2019. This will further strengthen the Group's medical beauty business in the Mainland and expand its service network.

MANAGEMENT DISCUSSION AND ANALYSIS

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 47 to the consolidated financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent cash and financial management policy. As at 31 December 2018, the Group held bank balances and cash of approximately HK$1,720,425,000 (2017: HK$1,391,559,000). In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and substantial cash is generally deposited with banks in Hong Kong and denominated mostly in HK$. As at 31 December 2018, the Group had bank borrowings which represented a mortgage loan of approximately HK$18,756,000 (2017: HK$19,777,000) of which approximately HK$1,137,000 (2017: HK$1,109,000) are repayable within one year. As at 31 December 2018, the Group had no committed borrowing facilities. Details of bank borrowings of the Group are set out in note 36 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2018, the Group's net current assets amounted to approximately HK$1,776,480,000 (2017: HK$1,597,930,000) and the Group had a current ratio (defined as total current assets divided by total current liabilities) of 8.26 (2017: 6.12). As at 31 December 2018, the Group's gearing ratio (defined as total bank borrowings divided by equity attributable to owners of the Company) was 0.46% (2017: 0.49%). 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 HK$, RMB and US$. As HK$ are pegged to the US$ and the fiscal policy of the Central Government of the PRC in relation to RMB 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 2018, the Group had equity attributable to owners of the Company of approximately HK$4,071,271,000 (2017: HK$4,037,403,000).

HUMAN RESOURCES AND TRAINING SCHEME

As at 31 December 2018, the Group employed 1,091 staff (2017: 1,245 staff). Total employee costs for the Year, including directors' remuneration, amounted to approximately HK$640,455,000 (2017: HK$647,185,000). The salary and benefit levels of the employees of the Group are competitive and individual performance is rewarded through the Group's salary and bonus system. Remuneration packages are reviewed annually.

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. Details of the Group's training programmes are set out in the paragraph headed "Development and Training" in the Environmental, Social and Governance Report of this annual report.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no significant contingent liabilities (2017: Nil).

PLEDGE OF ASSETS

As at 31 December 2018, a leasehold land and building of approximately HK$49,169,000 was pledged to secure the Group's mortgage loan.

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment of approximately HK$13,649,000 (2018: Nil). The Group met those capital commitments through its internal resources. Details of capital commitment of the Group are set out in note 44 to the consolidated financial statements.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Miss Choi Ka Yee, Crystal ("Miss Choi"), aged 38, has been an executive 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. 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. Hui Ka Wah, Ronnie ("Dr. Hui"), *JP*, aged 55, 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 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.

Mr. Lee Chik Yuet ("Mr. Lee"), aged 64, has been an executive Director since October 2009. 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. 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. He had been an executive director of New Ray, whose shares are listed on the Main Board (Stock Code: 6108), from 14 September 2012 to 20 June 2017. Mr. Lee is also a member of the Nomination Committee and Remuneration Committee.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS *(Continued)*

Mr. Wong Seung Ming ("Mr. Wong"), aged 47, has been an executive Director and the Chief Financial Officer of the Company since July 2014. He has been working as the Company Secretary since 2007. Mr. Wong is also a director of a number of subsidiaries of the Company. 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. Mr. Wong has extensive experience in accounting, auditing and financial management.

Dr. Chan Wing Lok, Brian ("Dr. Chan"), aged 54, has been appointed as an executive Director since June 2018. Dr. Chan graduated from The University of Hong Kong and holds the qualifications of MBBS (HK), DCH (Irel) and PgDipPD (Cardiff). He has been appointed as a Clinical Assistant Professor (honorary) in Family Medicine of the Faculty of Medicine, Jockey Club School of Public Health and Primary Care of The Chinese University of Hong Kong for the year 2016-2020. Dr. Chan joined the Group in 1991. Dr. Chan is 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. Dr. Chan is also a director of a number of subsidiaries of the Company. As at the date of this annual report, Dr. Chan was interested in 372,000 Shares, representing approximately 0.005% of the issued share capital of the Company under Part XV of the SFO.

NON-EXECUTIVE DIRECTORS

Dr. Choi Chee Ming ("Dr. Choi"), *GBS, JP*, aged 73, 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 (Stock Code: 78). Dr. Choi is a director of Broad Idea, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS *(Continued)*

Ms. Fang Haiyan ("Ms. Fang"), aged 52, 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 (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.

Mr. Chen Jinhao ("Mr. Chen"), aged 38, 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 ten 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. He has been appointed as a director of Shenzhen Mindray Bio-Medical Electronics Co., Ltd. (深圳邁瑞生物醫療電子股份有限公司) since January 2017, whose shares are listed on the ChiNext of Shenzhen Stock Exchange (Stock Code: 300760) on 16 October 2018.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Kwok Wah, George ("Mr. Ho"), *MH*, aged 60, has been an independent non-executive Director since September 2004. Mr. Ho is a Practising Certified Public Accountant in Hong Kong. He is a director of Yong Zheng CPA Limited, 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 Rykadan Capital Limited, whose shares are listed on the Main Board (Stock Code: 2288) and PuraPharm Corporation Limited, whose shares are listed on the Main Board (Stock Code: 1498). He had been an independent non-executive director of Belle International Holdings Limited, whose shares are delisted on the Main Board (Stock Code: 1880) since 27 July 2017, Mr. Ho is also the Chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Yu Xuezhong ("Mr. Yu"), aged 61, 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 purpose 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 purpose 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 purpose 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.

Ms. Li Mingqin ("Ms. Li"), aged 60, has been appointed as an independent non-executive Director since June 2015. Ms. Li graduated from 北京中醫學院 (in English for identification purpose 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 purpose 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 purpose 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 purpose only, Chia Tai Shaoyang Orthopedic Hospital). She has been appointed as an executive director of SBL, whose shares are listed on the Main Board (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.

Mr. Wang John Hong-chiun ("Mr. Wang"), aged 53, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

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 purpose 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). He had been a non-executive director of Convoy Global Holdings Limited, whose shares are listed on the Main Board (Stock Code: 1019), from 5 October 2016 to 25 January 2018. He is a member of the Audit Committee.

Mr. Yu Kai Fung Jackie ("Mr. Jackie Yu"), aged 41, has been appointed as an independent non-executive Director since June 2018. Mr. Jackie Yu graduated from the University of New South Wales in Australia in 1998 with a bachelor degree in Information Systems and Accounting. He is an associate member of CPA Australia. In the past 14 years, Mr. Jackie Yu has been assuming an entrepreneur's role by running his own business in Australia, China and Hong Kong in fields of China sourcing, graphic design, mobile & web solution, photography & videography and promotional product. Mr. Jackie Yu is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee. As at the date of this annual report, he is interested in 300 Shares within the meaning of Part XV of the SFO.

Mr. Wong Sai Kit ("Mr. SK Wong"), aged 56, has been appointed as an independent non-executive Director since June 2018. Mr. SK Wong obtained his Bachelor of Laws degree and the Postgraduate Certificate of Laws from The University of Hong Kong in 1985 and 1986 respectively. He was enrolled as a barrister-at-law in the Supreme Court of Hong Kong in 1986. Thereafter, Mr. SK Wong practised as a barrister in Hong Kong and subsequently practised as a solicitor of the Supreme Court of Hong Kong after he applied to remove his name from the roll of barristers of Hong Kong. Currently, Mr. SK Wong is not practising as a lawyer. Mr. SK Wong is also a member of the Audit Committee, Nomination Committee and the Remuneration Committee.

Mr. SK Wong has been a consultant of Power Circles Dynamic Management Limited since 15 December 2008. Mr. SK Wong has also been a consultant of Australian MBS Fund Limited, the general partner of a limited partnership incorporated in the Cayman Islands, to assist in and advise on the matters of incorporation and the conduct of business of the limited partnership which involves in origination and/or acquisition of residential mortgage loans in Australia, since 2017. Mr. SK Wong was also a non-executive director of Emergent Resources Limited, a company listed on the Australian Securities Exchange (Stock code: EMG) from June 2013 to November 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Dr. Nelson C. K. WONG, aged 65, is the Chief Executive of 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 is a serial entrepreneur, having built and sold 3 successful medical firms to listed companies. In 1982, he co-founded Allied Medical Practices Guild with an innovative structure and a disruptive business model. 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 2008–2016. He is a Vice-Chairman of the Business and Professionals Federation of Hong Kong. His latest innovation is effective Pharmacy Benefit Management.

Dr. Yau Yi Kwong, aged 56, 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.

Dr. Zhao Jun Xiang, aged 68, is a director of Nanyang Xiangrui, a non-wholly owned subsidiary of the Company. He graduated from Guangzhou Zhongshan Medical University and holds the master's degree in business administration of the Asia International Open University (Macau). He is currently the Honorary President of the 2nd Session of the Burns Physician Branch of the Henan Provincial Association of Physicians. He is responsible for the hospital management and consulting services business of the Group in the PRC. He joined the Group in September 2016.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE AND REPORTING PERIOD

This is the third ESG Report by Town Health, highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide contained in Appendix 27 to the Listing Rules.

The Group principally engaged in provision of Hong Kong medical services, Hong Kong managed care business, Mainland hospital management and medical services, securities and properties investments and treasury management, and other miscellaneous healthcare related services. This ESG report covered the Group's overall environmental and social performances of its business operations in:

(i) the headquarter office in Shatin, Hong Kong;

(ii) the back office in Sheung Wan, Hong Kong;

(iii) the medical centres with shareholding > 50% in Hong Kong; and

(iv) the office of the hospital management and medical services business in Nanyang Xiangrui of the PRC.

The reporting period covered 1 January 2018 to 31 December 2018. The above business operations contributed to approximately 98% of the Group's revenue. Other operations that have no significant contribution to the Group's revenue, and environmental and social impacts are excluded from the reporting scope.

STAKEHOLDER ENGAGEMENT AND MATERIALITY

The Group values relationships with its employees, shareholders, investors, customers and suppliers. It believes that feedback from stakeholders helps to improve its business performance and bring insight to its future development. By communicating with stakeholders in a timely manner, the Group collects constructive feedback from stakeholders and builds shareholder and investor confidence. Stakeholders are engaged through regular meetings, regular performance review, appraisals and surveys.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the Year, the Group has specifically engaged internal and external stakeholders, including the Board members, frontline staff, patients and suppliers to provide feedback on materiality of ESG aspects for the Group's operation. From the received stakeholder surveys, the following five ESG aspects were identified to be the most material of the Group's operations:

- Labour standards;
- Customer service;
- Customer privacy;
- Product and service quality; and
- Safety and hygiene in medical centres.

The Group has strictly complied with the statutory requirements in respect of the identified material aspects. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders to share and exchange ideas for advancing the Group's ESG management.

STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on its ESG approach and performance. For any suggestion or opinion, please send to the Group via its email at enquiry@townhealth.com.

THE GROUP'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 medical field, the Group will do its best to fulfil its corporate social responsibility and be responsible to individuals, the community and the environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

The Board attaches great importance to the appropriate and effective ESG risk management and internal control. The Board reviews ESG performances and identifies related risks annually.

THE GROUP'S CORPORATE SOCIAL RESPONSIBILITY POLICY

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

Protecting the Environment

The Group understands its business operation contribute to significant consumption of natural resources and its waste releases pose risk to 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 pledged 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, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

In light of the climate change challenge that the world is facing, the Group puts significant effort on environment protection and reduction of greenhouse gas ("GHG") emissions. Although there was no specific policy adopted in relation to air and GHG emissions, discharges to water and land and generation of hazardous and non-hazardous waste, the Group has developed a guidance memorandum regarding environmental protection practices, which will be reviewed annually and delivered to staff through email. The memorandum has been revised during the Year, with additional initiatives encouraging employees to use energy more efficiently and to reduce paper and stationary waste. The Group mainly consumed electricity, water and paper, and generated clinical waste, expired medication waste and paper waste during the Year.

The Group's business does not involve in the production-related air, water, or land pollutions which are regulated under the laws and regulations of Hong Kong and the PRC. There was no material non-compliance relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste during the Year.

A1. Emissions

A1.1 Air Emissions

Petrol and diesel were used in private cars and vans for business meetings and travels, which contributed to the emission of 0.52 kg of sulphur oxides. Due to lack of related data, emissions of nitrogen oxides and respiratory suspended particles were not calculated, but it is noteworthy that the aspect of air emissions was considered immaterial to the Group's operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A1.2 Greenhouse Gas Emissions

Scope of GHG Emissions	Emission Sources	Emission (in tonnes of carbon dioxide equivalent "tCO_2e")	Total Emission Percentage
Scope 1 Direct Emission			
Combustion of fuel for	Petrol	79.44	
mobile sources	Diesel	15.08	5%
Scope 2 Energy Indirect Emission			
Purchased electricity		1,667.94	93%
Scope 3 Other Indirect Emission			
Paper waste disposal at landfills		13.69	2%
Electricity used for freshwater processing		2.58	
Electricity used for sewage processing		1.30	
Business air travel		12.31	
Total		1,792.34	100%

Notes:

1. Emission factors were made by reference to Appendix 27 to the Listing Rules and their referred documentation as set out by the Stock Exchange, unless stated otherwise.

2. Electricity and water consumption of some clinics were not included in the calculation as relevant data was managed by the facility office and the data was not available to the Group.

The Group's activities contributed to 1,792.34 tCO_2 with emission intensity of 23 tCO_2e/million HKD of total revenue, which included mainly carbon dioxide, methane, nitrous oxide and hydrofluorocarbons emissions, during the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A1.3. Hazardous Waste

The Group mainly involves in the provision of medical services, which generates clinical waste and expired medication from its operation. Handling and disposal of waste during the Year were in compliance with the Waste Disposal Ordinance, Chapter 354 of the Laws of Hong Kong and all applicable regulations and laws of Hong Kong and the PRC.

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. Guidelines on clinical waste management has been issued to all clinical staff. In accordance with the standard guidelines and procedures, employees dispose of wastes into specific containers which are carefully coded with fixed colours and sealed with ties separately. 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

All types of clinical waste are collected by licensed clinical waste collectors and the copies of trip tickets will be kept for record. A total of 1.15 tonnes of clinical waste (waste generation intensity of 1.03 kg/ million HKD of total revenue) was generated during the Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Expired Medication

Every clinic office has a specific collection area for expired medications. The medication inventory is checked by assigned senior nurses regularly, ranging from every 1-3 months depending on individual medical centres. The expired products will be sent back to the headquarters' purchasing department for further handling, which will be returned either to the governmental department or respective suppliers. A total of 0.19 tonne of expired medication waste (waste generation intensity of 0.17 kg/million HKD of total revenue) was generated during the Year.

A1.4. Non-hazardous Waste

Non-hazardous waste from the Group's operation was mainly paper waste from office. A total of 2.85 tonnes of paper (waste generation intensity of 2.54 kg/million HKD of total revenue) was consumed for the office operation during the Year.

A1.5. Measures to Mitigate Emissions

The Group keeps track of its petrol and diesel consumption, electricity consumption, water consumption, paper disposal at landfills and business air travels to estimate GHG emissions and strives to reduce related emissions whenever possible. GHG emissions is also reduced by implementing energy-saving initiatives.

A1.6. Waste Reduction and Initiatives

According to the memorandum regarding environmental protection practices, the Group encourages employees to implement the following initiatives:

- Reduce paper consumption by double-sided printing and photocopying;

- Utilise paper by adjusting margins and font size of documents, and multiple-page printing;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Go paperless by adopting electronic communication and document sharing;
- File documents using soft copies rather than hard copies;
- Reduce use of labels by printing address on envelopes;
- Reduce use of envelopes by folding and stapling internal non-confidential document;
- Dry hands using handkerchiefs instead of tissue paper or dryer; and
- Avoid use of disposable cups by bringing personal mugs or cups.

Employees are also encouraged to reuse whenever possible such as reusing envelopes, files, stationaries and tableware. Paper waste was mostly reused, therefore no data of recycled of paper has been recorded.

A2. Use of Resources

A2.1. Energy Consumption

Energy Consumption Sources	Use of Energy	Direct Consumption	Consumption (in MWh)
Petrol	For vehicles	29,470.34 L	268.61
Diesel	For vehicles	5,452.54 L	54.96
Electricity	For daily operation	3,086,297 kWh	3,086.30

The Group consumed a total of 3,409.87 MWh of energy for vehicles and daily operation during the Year. The energy consumption intensity was 3.04 MWh/million HKD of total revenue.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2.2. Water Consumption

6,412 m^3 of water was consumed by the Group during the Year, with water consumption intensity of 5.72 m^3/million HKD of total revenue. Water consumption included only consumption from headquarter office and key medical centres that directly manage their water consumption data. Water consumption data of a few medical centres were managed by their Building Management Office, therefore respective data was not available for collection. However, it is noteworthy that the water consumption from these medical centres was insignificant.

A2.3. Energy Use Efficiency Initiatives

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

- Maintaining the temperature of air conditioner at 25.5˚C;
- Closing doors and windows when the air conditioner is turned on;
- Shutting down air conditioners, lights and other electronic devices when leaving office/meeting room;
- Using stairs rather than lifts, or choosing elevator that is nearest to your floor;
- Unplugging or disconnecting chargers and transformers when not in use;
- Switching off air conditioners, lights and all electronic equipment and devices when leaving office;
- Tuning brightness of monitors to the lowest comfortable setting;
- Setting computers to energy-saving modes; and
- Printing or photocopying in bulk to avoid frequent activation of printers from power saving mode.

In addition, the Group has installed several sets of solar panels on the roof top of the Group's headquarter office building which generates electricity for corridor lighting in the building. The amount of renewable energy generated from the solar panels was not recorded.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2.4. Water Use Efficiency Initiatives

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

- Clean container only after wastewater in container has been disposed of;
- Control flow from tap;
- Turn off tap when applying soap;
- Avoid flushing unnecessarily;
- Report any dripping taps or water leakage to relevant department promptly; and
- Avoid wasting water in upflow water dispenser.

No issue in sourcing water that is fit for purpose had been identified during the Year.

A2.5. Packaging Materials

Medicinal bottles, pill pouches, ointment jars, ointment bottles and plastic bags have been used for packaging of medicine, pills or topical ointment. The total pieces of packaging materials consumed were 4,824,000 pieces with a consumption intensity of 4.30 pieces/million HKD of total revenue.

Type of Packaging Materials	Consumption (in '000 pieces)	Consumption (in percentage)
Pill pouches	3,358	70%
Medicinal bottles	639	13%
Plastic bags	727	15%
Ointment jars	93.80	2%
Ointment bottles	6.20	<1%
TOTAL	4,824	100%

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

Understanding that consumption of electricity and generation of clinical wastes from its operation pose adverse impact to the environment, the Group strives to promote a "green office" culture in the offices and medical centres. It has implemented energy-saving initiatives focusing on the efficient use of air conditioners, lights and electronic devices; and required staff to strictly abide by the guidelines on clinical waste management. It will continue to improve its environmental performances focusing on the abovementioned aspects.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL

1. Employment and Labour Practices

B1. Employment

Total Employees and Turnover

The Group had a total of 983 employees as of 31 December 2018. Workforce distribution details are shown in the table below.

Workforce Distribution Details as of 31 December 2018*	Management	Doctor	Nurse	General staff	Total
By Gender					
Male	14	98	8	143	263
Female	3	38	446	233	720
By Employment Type					
Full-time	17	94	376	362	849
Part-time	0	42	78	14	134
By Age Group					
<26	0	3	116	23	142
26-35	0	16	188	140	344
36-45	3	57	79	120	259
46-55	6	47	47	59	159
>55	8	13	24	34	79
Total	17	136	454	376	983

* *The difference of 108 between the above number of employees disclosed (983) and the total number of employees of the Group (1,091) represents the number of visiting doctors of the Group, personal data of whom were not collected.*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee Benefits and Welfare

The Group has set up the Remuneration Committee for formulating remuneration policy and recommending specific remuneration packages of all directors and senior management to the Board for approval. Policies on remuneration, benefits, training and occupational health and safety are regularly reviewed. The Group offers competitive remuneration, promotional opportunities, compensation and benefit packages to attract and retain talents. Work hours, remuneration and compensation packages are clearly stated in the employment contract. 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. On top of statutory holidays, different types of paid leave including annual leave, sick leave, maternity leave, paternity leave, compensation leave, compassionate leave, injury leave, birthday leave and long service leave are provided. During the Year, the Group complied with all applicable employment and labour related laws and regulations of Hong Kong and the PRC including but not limited to:

- The Employment Ordinance, Chapter 57 of the Laws of Hong Kong;
- The Minimum Wage Ordinance, Chapter 608 of the Laws of Hong Kong;
- The Employees' Compensation Ordinance, Chapter 282 of the Laws of Hong Kong;
- The Occupational Safety and Health Ordinance, Chapter 509 of the Laws of Hong Kong; and
- The Labour Law of the PRC.

To promote healthy work life, except for contract and part-time staff, staff that have worked for 2 years or above are provided with free annual health check. The Group employs the "Award and Penalty System", under which both staff and medical services centres 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.

During the Year, there was no non-compliance relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, and other benefits and welfare.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 at workplace, and employs employees in a wide range of ages, genders, and ethnicities. During the Year, the Group complied with all relevant laws and regulations of Hong Kong and the PRC including:

- The Sex Discrimination Ordinance, Chapter 480 of the Laws of Hong Kong;
- The Disability Discrimination Ordinance, Chapter 487 of the Laws of Hong Kong;
- The Family Status Discrimination Ordinance, Chapter 527 of the Laws of Hong Kong;
- The Race Discrimination Ordinance, Chapter 602 of the Laws of Hong Kong;
- The Labour Law of the PRC;
- The Employment Promotion Law of the PRC; and
- The Law on the Protection of Persons with Disabilities of the PRC.

During the Year, there was no non-compliance relating to equal opportunity, diversity, and anti-discrimination.

Communication with Employees

As employees are valuable assets of the company, the Group encourages team work and effective communication with employees. 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.

Performance appraisal is conducted annually. In the appraisal reports, appraisers assess if employees' performances are aligned with its corporate values. Appraisees are also invited to comment on the appraisers' assessment results, which facilitates two-way communication and evaluation.

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.

B2. Employee Health and Safety

During the Year, the Group complied with the Occupational Safety and Health Ordinance, Chapter 509 of the Laws of Hong Kong and other applicable laws of the PRC. 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 arranges specific medical attention for the injured 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. The occupational health and safety data during the Year is shown below. The management will continue their effort in strengthening the Group's occupational health and safety performance.

Occupational Health and Safety Data during the Year	
Work related fatality	0
Work injury cases >3 lost days	3
Work injury cases ≤3 lost days	9
Lost days due to work injury	61 days

B3. Development and Training

The Group acknowledges the importance of providing opportunities for training and development. It is not only essential to the personal growth of employees, but also ensures and improves quality of services. Training programmes provided by the Group are customised to suit its business needs and to equip employees with practical knowledge and skills.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 and 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 training to enhance operational efficiency.

334 New Joiner Training for Nurses during the Year	No. of Hours per Lesson	No. of Headcount	Total Hours
1st lesson	4	118	472
2nd lesson	3	83	249
3rd lesson	3	63	189
Examination	1.5	52	78
TOTAL	11.5	316	988

Basic Customer Service Training for Health Care Assistants

The Basic Customer Service Training enables health care assistants ("HCAs") to understand reasons for delivering quality customer services, and ways to upgrade the Group's customer services in aspects of HCAs' physical and oral manners, attitudes, diplomacy, and sensitivity. Apart from delivering relevant knowledge and skills, the training facilitates case discussions which enhance HCAs' preparedness to face future challenges.

Sharing Sessions with Doctors

The Group conducts occasional sharing sessions among doctors. During the sharing 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 communicating with patients.

Sharing Sessions with Doctors during the Year	No. of Hours per Session	No. of Headcount	Total Hours
Patients Case Sharing on 22 November 2018	2	10	20

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B4. Labour Standards

The Group's human resources department strictly abides by the Group's recruitment guidelines throughout the recruitment process. It verifies candidates' identity by checking their identity cards and relevant certificates. Terms regarding employee work hours, rest and leave entitlement, labour protection and working conditions have been stipulated clearly on the employment contract.

During the Year, employees who practise medicine and surgery have registered with the Medical Council of Hong Kong in accordance with the provisions of the Medical Registration Ordinance, Chapter 161 of the Laws of Hong Kong; and employees who practise dental treatment have registered with the Dental Council under the Dentists Registration Ordinance, Chapter 156 of the Laws of Hong Kong. There was no child nor forced labour employed in the Group's operations, and there was no non-compliance with laws and regulations relating to preventing child and forced labour.

2. Operating Practices

B5. Supply Chain Management

The Group is highly attentive to the reputation and reliability of pharmaceutical drugs suppliers. It has no specific policy for managing environmental and social risks of supply chain but it ensures that 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 clinic office 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

B6. Product Responsibility

Ensuring quality of service is of high importance in the Group's operation. It is committed to medical services that are appropriate and safe by the provision of qualified and trained professionals. It has registered trademark and it respects third-party intellectual property rights. During the Year, the Group complied with specific standards and all applicable laws and regulations regarding pharmaceutical handling and medical advertisement. There was no non-compliance relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and method of redress.

Pharmaceuticals Handling

Pharmaceuticals are handled with special precautions. The Group has specific standards for pharmaceuticals storage, labelling of packaging 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, Chapter 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 confirmed with the principle of "3 checks and 5 rights" before distribution. Conspicuous reminders and instructions are also posted in pharmacies for staff's reference. Employees who violate serious pharmaceutical handling and safety procedures can be dismissed according to their employment contracts.

Medical Advertisement

During the Year, the Group complied with the Undesirable Medical Advertisements Ordinance, Chapter 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 clinic offices. All cleaning procedures, guidelines and quality requirements are therefore standardised across the Group. The clinical environment is kept clean and tidy constantly to avoid unnecessary accidents.

Customer Service

The Group makes every effort to maintain a high standard of customer service and continuously improves its service to enhance its competitiveness. It is committed to respectful, compassionate and practice of ethical patient care. Quality of services is monitored and evaluated through monthly inspections by management staff. Frontline staff are provided with customer service training and relevant guidelines to strengthen their awareness and service skills. The Group also has systematic channels for enquiries and complaints. Complaints can be lodged by phone, email, fax and mail, and are dealt with in accordance to the Group's guidelines on clinic complaints. Some medical centres have complied with the requirements of ISO 9001:2008 Quality Management System.

Data Protection and Privacy

The clinics of the Group register and collect patients/customers' personal data according to the Standard Registration Procedures of the Group. Security measures are in place to ensure adequate protection and confidentiality of all corporate data and information. According to the Code of Conduct, directors and staff (including HCAs) should not disclose any classified information of the company without authorisation or misuse any company information. Those who have access to or are in control of such information, including information in the company's computer system, should protect the information from unauthorised disclosure or misuse. Special care should be taken in the use of any personal data, including personal data of directors, staff and patients/customers. The medical centres also have policies for data privacy, which assigned responsibilities to general managers for monitoring and supervising compliance with the Personal Data (Privacy) Ordinance, Chapter 486 of the Laws of Hong Kong and maintaining related documents, such as data protection log book, data privacy policies and data access request forms. During the Year, the Group fully complied with the Personal Data (Privacy) Ordinance, Chapter 486 of the Laws of Hong Kong and other applicable laws of the PRC relating to protection of data privacy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B7. Anti-corruption

The Group commits to managing all business without fraud and has regarded honesty, integrity, transparency 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 clearly states 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; and
- Any acceptance of voluntary gifts over a prescribed value 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, Chapter 201 of the Laws of Hong Kong and other applicable laws and regulations of the PRC relating to anti-corruption. There was no concluded legal case regarding corrupt practices brought against the Group or its employees during the Year.

B8. Community Investment

The Group recognises its responsibility towards its stakeholders, the community and the environment. It has pledged to support local charity organisations through partnership with local charity organisations, donations and active participation in voluntary services in accordance with its Corporate Social Responsibility Policy.

During the Year, 29 employees of the Group participated in the Po Leung Kuk Charity Run 2018. The Group sponsored a total of HK$8,700 for the run, which contributed to the funds for Po Leung Kuk's Medical Assistance Fund-raising Programme and Children and Youth Services. During the Year, the Group also donated a total of HK$20,000 to Egive For You Charity Foundation, which has established a global online donation platform to connect people from all around the world to help people in need, supporting education assistance, elderly services, medical aids, poverty reduction and emergency support etc.

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 respectively set out in notes 51, 22 and 23 to the consolidated financial statements.

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" on pages 8 to 20 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 that 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 (mainly patients) and corporate customers (including insurance companies and corporations).

Most of the patients of the medical and dental practices settle in cash. Payments arising from use of medical cards by patients 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. The Group allows an average credit period of 60 to 240 days to its trade customers under other business activities.

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, 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 with the support of a sound supply chain management. The Group sources its pharmaceutical drugs from reputable and reliable suppliers. The Group is highly attentive as to whether its suppliers and business partners comply with the local and international standards in relation to pharmaceutical drugs. The Group obtains certifications and qualifications from its suppliers before it makes procurement to 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.

REPORT OF THE DIRECTORS

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 27 to 45 of this annual report.

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 relevant PRC and Hong Kong laws, and the 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 of Hong Kong and Dental Council of Hong Kong which were established under Medical Registration Ordinance (Chapter 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 of Hong Kong and Dental Council of Hong Kong are issued a practicing certificate and they are required to renew their practicing certificates each year. The Group maintains an up-to-date register of the registrations status of the doctors and dentists and the Group ensures its 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 (Chapter 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 (Chapter 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.

REPORT OF THE DIRECTORS

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW *(Continued)*

Environmental policies and performance *(Continued)*

(iii) Undesirable Medical Advertisements Ordinance *(Continued)*

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 27 to 45 of this annual report.

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 81 and 82 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 HK0.25 cent per Share for the Year (2017: Nil) to the Shareholders which is subject to Shareholders' approval at the forthcoming AGM.

The payment of the Final Dividend will be made to the Shareholders whose names appear on the register of members of the Company on a record date which will be announced by the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The date and notice of the forthcoming AGM, the book closure date for eligibility to attend and vote at the forthcoming AGM, and the book closure date for eligibility of entitlement to the Final Dividend will be announced by the Company in due course.

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 209 of this annual report.

DONATIONS

Charitable donations made by the Group during the Year amounted to approximately HK$28,700.

SUBSIDIARIES

Details of the Company's principal subsidiaries are set out in note 51 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group has revalued all of its investment properties it held as at 31 December 2018 using the fair value of the investment properties as at 31 December 2018. The net increase in fair value of investment properties, which was debited to the consolidated statement of profit or loss and other comprehensive income, amounted to approximately HK$25,665,000.

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 208 of this annual report.

REPORT OF THE DIRECTORS

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 CPS Subscription Agreement and ordinary shares subscription agreement, both dated 31 October 2014 and entered into among the Company, Fubon Life, Fubon Insurance and Broad Idea, on 29 December 2014, the Company allotted and issued (i) 459,183,673 Shares at HK$0.98 per share; and (ii) 374,999,999 Convertible Preference Shares at HK$1.2 per share. 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.

	HK$ million
Unutilised net proceeds from the Ordinary Shares Subscription and the CPS Subscription as at 31 December 2017	618
Net proceeds utilised during the Year	
Investment and development of a dental chain in the PRC	7
Total amount of net proceeds utilised as at 31 December 2018	
Investment by the Group in Huayao by way of acquisition of the equity interests and/or capital injection (details of which are set out in the announcement of the Company dated 17 March 2015)	244
Investment and development of the dental chain in the PRC	7
Developing One Pass, the "one-stop, IT O2O platform" of the Group	18
	269

The Group has applied and will continue to apply the unutilised net proceeds in the manner as intended.

REPORT OF THE DIRECTORS

SHARE CAPITAL *(Continued)*

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 CLG Subscription which took 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 cross border healthcare platform for medical tourism business.

	HK$ million
Unutilised net proceeds from the CLG Subscription as at 31 December 2017	1,108
Net proceeds utilised during the Year	
Further acquisition of approximately 0.2% interest in Nanyang Xiangrui	2
Developing medical clinics in the PRC	2
Developing health check business in the PRC;	3
Developing health management centres in Hong Kong and the PRC	61
	68
Total amount of net proceeds utilised as at 31 December 2018	
Investment by the Group in Nanyang Xiangrui by way of acquisition of the equity interests and/or capital injection	640
Developing medical clinics in the PRC	2
Developing health check business in the PRC	3
Developing health management centres in Hong Kong and the PRC	61
	706

The Group has applied and will continue to apply the unutilised net proceeds in the manner as intended.

REPORT OF THE DIRECTORS

SHARE CAPITAL *(Continued)*

Further details of other movements in the share capital of the Company during the Year are set out in note 38 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the 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 and reserves available for distribution to the Company's shareholders of the Group and the Company are set out on pages 85 and 86 of this annual report and in note 50 to the consolidated financial statements.

The Company's reserves available for distribution to shareholders as at 31 December 2018, comprised share premium, capital redemption reserve, contributed surplus, distributable reserve and accumulated profits of approximately HK$3,986,721,000 (2017: approximately HK$3,901,256,000).

SHARE OPTIONS

The Company adopted the 2008 Scheme on 16 September 2008 for the primary purpose of providing incentives to directors and eligible employees. The 2008 Scheme remained in force for a period of 10 years commencing from the adoption date of the 2008 Scheme, i.e. 16 September 2008 and has expired on 15 September 2018.

Pursuant to the 2008 Scheme, the Directors might 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.

REPORT OF THE DIRECTORS

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 might 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 was 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 might 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 might be issued upon exercise of all options that may be granted under the then latest 2008 Scheme limit was 91,119,471 ordinary shares of HK$0.01 each (representing approximately 1.21% of the issued share capital of the Company as at the date of the expiry of the 2008 Scheme).

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 2018 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 39 to the consolidated financial statements.

At present, the Company has no intention to adopt a new share option scheme.

REPORT OF THE DIRECTORS

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. Hui Ka Wah, Ronnie, *JP (Chief Executive Officer)*
Mr. Lee Chik Yuet
Mr. Wong Seung Ming *(Chief Financial Officer)*
Dr. Chan Wing Lok, Brian *(Note 1)*

Non-executive Directors:

Dr. Choi Chee Ming, *GBS, JP (Deputy Chairman)*
Ms. Fang Haiyan *(Deputy Chairperson)*
Mr. Tsai Ming-hsing *(Deputy Chairman) (Note 2)*
Mr. Chen Jinhao
Dr. Cho Kwai Chee *(Note 3)*

Independent non-executive Directors:

Mr. Ho Kwok Wah, George, *MH*
Mr. Wong Tat Tung, *MH, JP (Note 4)*
Mr. Yu Xuezhong
Ms. Li Mingqin
Mr. Wang John Hong-chiun
Mr. Yu Kai Fung Jackie *(Note 5)*
Mr. Wong Sai Kit *(Note 6)*

Notes:

1. On 29 June 2018, Dr. Chan was appointed as an executive Director.

2. On 29 June 2018, Mr. Tsai Ming-hsing retired as a non-executive Director and ceased to be the Deputy Chairman of the Company.

3. On 6 March 2018, Dr. Cho was redesignated from an executive Director to a non-executive Director and ceased to be the Executive Deputy Chairman of the Company. On 29 June 2018, Dr. Cho retired as a non-executive Director.

4. On 29 June 2018, Mr. Wong Tat Tung, *MH, JP* retired as an independent non-executive Director and ceased to be the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee.

5. On 29 June 2018, Mr. Jackie Yu was appointed as an independent non-executive Director and the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee.

6. On 29 June 2018, Mr. SK Wong was appointed as an independent non-executive Director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICES CONTRACTS

Dr. Chan has been appointed as an executive Director for a term of 30 months from 29 June 2018 to 31 December 2020.

Mr. Jackie Yu and Mr. SK Wong have been appointed as an independent non-executive Director for a term of 30 months from 29 June 2018 to 31 December 2020.

Each of the Directors, save for Dr. Chan, Mr. Jackie Yu and Mr. SK Wong has been re-appointed for a term of 2 years commenced from 1 January 2019.

As at 31 December 2018, no service contract or appointment letter entered into between a Director and the Group is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

CHANGES IN DIRECTORS' INFORMATION

Updated biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 21 to 26 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.

REPORT OF THE DIRECTORS

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

As at 31 December 2018, 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 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 were as follows:

Long positions in the Shares

Name of Director	Capacity	Number of Shares held	Total	Approximate % of shareholding of the Company *(Note 1)*
Dr. Choi	Interest of a controlled corporation	1,418,576,764 *(Note 2)*	1,420,776,764	18.88%
	Beneficial Owner	2,200,000		
Dr. Chan	Beneficial Owner	372,000	372,000	0.0049%
Mr. Jackie Yu	Beneficial Owner	300	300	0.000004%

Notes:

1. The total number of Shares as at 31 December 2018 (that was, 7,526,134,452 Shares) has been used for the calculation of the approximate percentage.

2. Such Shares were held by Broad Idea. Dr. Choi was deemed to be interested in the 1,418,576,764 Shares held by Broad Idea under Part XV of the SFO given that he is beneficially interested in 49.9% of the issued share capital of Broad Idea. Dr. Choi is also a director of Broad Idea.

Save as disclosed above, as at 31 December 2018, 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 2018, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

(i) Substantial Shareholders' long positions in the Shares

Name of Shareholder	Capacity	Number of Shares held	Approximate % of shareholding of the Company *(Note 1)*
China Life Insurance	Beneficial owner	1,785,098,644	23.72%
Broad Idea	Beneficial owner	1,418,576,764 *(Note 2)*	18.85%
Dr. Cho	Interest of a controlled corporation	1,418,576,764 *(Note 2)*	18.85%

(ii) Other persons' long positions in the Shares

Name of Shareholder	Capacity	Number of Shares held	Approximate % of shareholding of the Company *(Note 1)*
Classictime	Beneficial owner	674,762,000 *(Note 3)*	8.97%
Power Financial	Interest of a controlled corporation	674,762,000 *(Note 3)*	8.97%
Fubon Financial	Interest of controlled corporations	648,809,523 *(Note 4)*	8.62%
Fubon Life	Beneficial owner	471,861,472 *(Note 4)*	6.27%

REPORT OF THE DIRECTORS

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

Notes:

1. The total number of Shares as at 31 December 2018 (that was, 7,526,134,452 Shares) has been used for the calculation of the approximate percentage.

2. Such shares were held by Broad Idea. Broad Idea is beneficially owned by Dr. Cho as to 50.1% and Dr. Choi as to 49.9%. As such, Dr. Cho was deemed to be interested in the 1,418,576,764 Shares held by Broad Idea under Part XV of the SFO.

3. Such 674,762,000 Shares were held by Classictime, a wholly-owned subsidiary of Power Financial. Accordingly, Power Financial is deemed to be interested in the 674,762,000 Shares held by Classictime under Part XV of the SFO.

4. 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. 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.

Save as disclosed above, as at 31 December 2018, 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 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the percentages of turnover attributable to the Group's largest customer and the five largest customers were approximately 9% and 26% of the Group's total turnover respectively. The Group's largest supplier and five largest suppliers accounted for approximately 15% and 35% 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.

REPORT OF THE DIRECTORS

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

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

During the Year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 61 to 73 of this annual report.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

On 1 August 2017, Town Health M&B, an indirect wholly-owned subsidiary of the Company, entered into the Cooperation Agreement with Taigang Medical in relation to formation of the Joint Venture to develop beauty and cosmetic medicine institutions and related business in Taiyuan City of Shanxi Province, the PRC. Pursuant to the Cooperation Agreement, a formal agreement would be entered into between the parties to provide further details on the establishment of the Joint Venture.

On 13 September 2018, Town Health M&B and Taigang Medical entered into the JV Agreement, being the formal agreement in relation to the establishment of the Joint Venture. The JV Agreement shall come into effect after being approved by the relevant PRC authorities.

Subsequent to the signing of the Cooperation Agreement and as at the date of the JV Agreement, Taigang Medical was owned as to 50% by China Life Shanghai, a subsidiary of China Life Insurance. As at the date of the JV Agreement, China Life Insurance held approximately 23.72% of the Shares and was a connected person of the Company. As such, Taigang Medical, being a company controlled by China Life Insurance, was a connected person of the Company and the formation of the Joint Venture with Taigang Medical under the JV Agreement constituted a connected transaction for the Company.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS *(Continued)*

The Joint Venture was to be established to develop beauty and cosmetic medicine institutions and related business in Taiyuan City of Shanxi Province, the PRC.

Town Health M&B and Taigang Medical shall make capital contributions of RMB30,000,000 and RMB20,000,000 to the Joint Venture respectively, and the Joint Venture shall be owned as to 60% by Town Health M&B and 40% by Taigang Medical in accordance with their respective capital contributions. The respective capital commitments of Town Health M&B and Taigang Medical shall be paid up within 30 years of the date of issuance of the business licence of the Joint Venture.

The Joint Venture would become a subsidiary of the Company and the financial results of the Joint Venture would be consolidated into the financial statements of the Company.

The Joint Venture has a term of operation of 30 years and its business scope shall include provision of medical services as permitted under its medical institution practising licence(s), lifestyle beauty and sale of cosmetic products.

Further details of the formation of the Joint Venture are set out in the Company's announcement dated 13 September 2018.

Details of significant related party transactions undertaken by the Group during the Year in the ordinary course of business are set out in note 49 to the consolidated financial statements. Save for the transactions contemplated under the JV Agreement, none of the significant related party transactions set out in note 49 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. Save for the transactions contemplated under the JV Agreement, 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.

EMOLUMENT POLICIES

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

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

The Company has adopted a share option scheme (i.e. 2008 Scheme), of which share options may be granted to eligible persons. Details of the 2008 Scheme are set out in note 39 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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

Moore Stephens CPA Limited was appointed as the new auditors of the Group with effect from 15 February 2018 upon resignation of Deloitte Touche Tohmatsu. Resolution was passed at the AGM of the Company held on 29 June 2018 to re-appoint Moore Stephens CPA Limited as the auditors of the Company until the conclusion of the next AGM of the Company.

A resolution will be submitted to the forthcoming AGM to re-appoint Moore Stephens CPA Limited as the auditors of the Company until the conclusion of the next AGM.

REVIEW BY AUDIT COMMITTEE

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

On behalf of the Board

Choi Ka Yee, Crystal
Chairperson

Hong Kong, 28 March 2019

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 its 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 CG Code.

During the Year, the Company has complied with the respective code provisions of the CG Code in force during the Year.

Directors' securities transactions

The Company has adopted the Model Code 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. Hui Ka Wah, Ronnie, *JP* who is the Chief Executive Officer of the Company, Mr. Lee Chik Yuet, Mr. Wong Seung Ming who is the Chief Financial Officer of the Company and Dr. Chan Wing Lok, Brian. Three 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 and Mr. Chen Jinhao. The remaining members are independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Mr. Yu Xuezhong, Ms. Li Mingqin, Mr. Wang John Hong-chiun, Mr. Yu Kai Fung, Jackie and Mr. Wong Sai Kit. 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" on pages 21 to 26 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 as amended from time to time and the requirements of the Listing Rules.

The Board held twenty-five 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 advice 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.

CORPORATE GOVERNANCE REPORT

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.

Nomination Policy

The Company has adopted a nomination policy with effect from 1 January 2019. Details of the nomination policy are set out below:

1. *Objective*

   The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to shareholders for election as Directors at general meetings or appoint as Directors so as to ensure that all nominations are fair and transparent.

2. *Selection Criteria*

   2.1 The Nomination Committee would use the following factors as reference in assessing the suitability of a proposed candidate:-

   (i) professional and personal integrity and reputation;

   (ii) accomplishment and experience in the healthcare industry in Hong Kong and/or the Mainland China;

   (iii) commitment in respect of available time and relevant interest;

   (iv) diversity in all relevant aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service; and

   (v) any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and the shareholders.

   These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

   2.2 Each proposed candidate will be asked to submit the necessary personal information including the information as required by Rule 13.51(2) of the Listing Rules, together with his/her written consent to be appointed as a Director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to his/her standing for election as a Director.

   2.3 The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

CORPORATE GOVERNANCE REPORT

3. *Nomination Procedures*

(A) Nomination by the Board members

3.1 The secretary of the Nomination Committee shall call a meeting, and invite nominations of candidates from the Board members (if any), for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by the Board members.

3.2 For appointment of any Director by the Board, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Committee shall make nominations to the Board for its consideration and recommendation.

(B) Nomination by the Shareholders

3.3 If a shareholder wishes to propose a person for election as a Director at a general meeting without the Board's recommendation or the Committee's nomination, he/she shall deposit a written notice (the "Notice") at the Company's head office in Hong Kong from time to time or the office of the Company's branch share registrar in Hong Kong.

3.4 The Notice (i) must include the personal information of the proposed candidate as required by Rule 13.51(2) of the Listing Rules; and (ii) must be signed by the shareholder concerned and signed by the proposed candidate indicating his/her willingness to be elected and consent of publication of his/her personal information.

3.5 The period for lodgment of the Notice shall commence on the day after the dispatch of the notice of general meeting and end no later than 7 days prior to the date of such general meeting.

3.6 In order to allow the shareholders to have sufficient time to consider the proposal of election of the proposed candidate as a Director, shareholders who wish to make the proposal are urged to submit and lodge the Notice as early as practicable.

(C) General

3.7 A candidate is allowed to withdraw his/her candidature at any time before the general meeting by serving a notice in writing to the Company Secretary.

3.8 The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

CORPORATE GOVERNANCE REPORT

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. Hui Ka Wah, Ronnie, *JP*, Mr. Lee Chik Yuet, Mr. Wong Seung Ming, Dr. Chan Wing Lok, Brian, Dr. Choi, Ms. Fang Haiyan, Mr. Chen Jinhao, Mr. Ho Kwok Wah, George, *MH*, Mr. Yu Xuezhong, Ms. Li Mingqin, Mr. Wang John Hong-chiun, Mr. Yu Kai Fung Jackie and Mr. Wong Sai Kit had confirmed that they had complied with the code provision A.6.5 of the CG Code during the Year 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.

Independent non-executive Directors

Pursuant to Rule 3.10 of the Listing Rules, the Company has six 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, Ms. Fang Haiyan and Mr. Chen Jinhao, each a non-executive Director, have been re-appointed for a term of two years commenced from 1 January 2019.

Mr. Ho Kwok Wah, George, *MH*, 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 2019.

Mr. Yu Kai Fung Jackie and Mr. Wong Sai Kit, each an independent non-executive Director, have been appointed for a term of 30 months from 29 June 2018 to 31 December 2020.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Board has established a 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.

From 1 January 2018 to 28 June 2018, 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.

From 29 June 2018 to 31 December 2018 and as at the date of this annual report, the Remuneration Committee comprised five independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Mr. Yu Xuezhong, Ms. Li Mingqin, Mr. Yu Kai Fung Jackie and Mr. Wong Sai Kit, and one executive Director, namely Mr. Lee Chik Yuet. During the Year and 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 four 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 Mr. Wong Seung Ming and Dr. Chan Wing Lok, Brian, the letter of re-appointment of each of Miss Choi Ka Yee, Crystal, Dr. Hui Ka Wah, Ronnie, *JP*, Mr. Lee Chik Yuet, Mr. Wong Seung Ming, Dr. Choi, Ms. Fang Haiyan, Mr. Chen Jinhao, Mr. Ho Kwok Wah, George, *MH*, Mr. Yu Xuezhong, Ms. Li Mingqin and Mr. Wang John Hong-chiun and the appointment letter of Dr. Chan Wing Lok, Brian, Mr. Yu Kai Fung Jackie and Mr. Wong Sai Kit and the terms thereof were also reviewed and approved by the Remuneration Committee during the Year.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The 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.

From 1 January 2018 to 28 June 2018, 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. From 1 January 2018 to 28 June 2018, Mr. Wong Tat Tung, *MH, JP* was the chairman of the Nomination Committee.

From 29 June 2018 to 31 December 2018 and as at the date of this annual report, the Nomination Committee comprised four independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin, Mr. Yu Kai Fung Jackie and Mr. Wong Sai Kit and one executive Director, namely Mr. Lee Chik Yuet. From 29 June 2018 to 31 December 2018 and as at the date of this annual report, Mr. Yu Kai Fung Jackie 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" on page 64 in this Corporate Governance 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 merits of the Directors, having due regard to the benefits of diversity on the Board. The process of nomination of Directors is led by the Nomination Committee, whose recommendations are 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 will contain 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 five 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.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Board has established an 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. A revised terms of reference of the Audit Committee has been adopted by the Company with effect from 1 January 2019. 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.

From 1 January 2018 to 28 June 2018, 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.

From 29 June 2018 to 31 December 2018 and as at the date of this annual report, the Audit Committee comprised six independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Mr. Yu Xuezhong, Ms. Li Mingqin, Mr. Wang John Hong-chiun, Mr. Yu Kai Fung Jackie and Mr. Wong Sai Kit. During the Year and 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 eight 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				
Directors	General meetings	Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
Executive Directors					
Miss Choi Ka Yee, Crystal	1/1	22/25	N/A	N/A	N/A
Dr. Hui Ka Wah, Ronnie, *JP*	1/1	24/25	N/A	N/A	N/A
Mr. Lee Chik Yuet	1/1	25/25	N/A	4/4	5/5
Mr. Wong Seung Ming	1/1	25/25	N/A	N/A	N/A
Dr. Chan Wing Lok, Brian *(Note 1)*	N/A	10/10	N/A	N/A	N/A
Non-executive Directors					
Dr. Choi Chee Ming, *GBS, JP*	0/1	23/25	N/A	N/A	N/A
Ms. Fang Haiyan	0/1	17/25	N/A	N/A	N/A
Mr. Tsai Ming-hsing *(Note 2)*	0/1	0/15	N/A	N/A	N/A
Mr. Chen Jinhao	1/1	25/25	N/A	N/A	N/A
Dr. Cho Kwai Chee *(Note 3)*	0/1	9/15	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Ho Kwok Wah, George, *MH*	1/1	25/25	8/8	4/4	5/5
Mr. Wong Tat Tung, *MH, JP (Note 4)*	0/1	13/15	4/4	2/2	3/3
Mr. Yu Xuezhong	0/1	22/25	7/8	4/4	N/A
Ms. Li Mingqin	0/1	22/25 *(Note 7)*	8/8	4/4	4/5
Mr. Wang John Hong-chiun	0/1	21/25	8/8	N/A	N/A
Mr. Yu Kai Fung Jackie *(Note 5)*	N/A	9/10	3/3	1/1	1/1
Mr. Wong Sai Kit *(Note 6)*	N/A	8/10	3/3	1/1	1/1

Notes:

1. On 29 June 2018, Dr. Chan was appointed as an executive Director.

2. On 29 June 2018, Mr. Tsai Ming-hsing retired as a non-executive Director and ceased to be the Deputy Chairman of the Company.

3. On 6 March 2018, Dr. Cho was redesignated from an executive Director to a non-executive Director and ceased to be the Executive Deputy Chairman of the Company. On 29 June 2018, Dr. Cho retired as a non-executive Director.

4. On 29 June 2018, Mr. Wong Tat Tung, *MH, JP* retired as an independent non-executive Director and ceased to be the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee.

5. On 29 June 2018, Mr. Jackie Yu was appointed as an independent non-executive Director and the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee.

6. On 29 June 2018, Mr. SK Wong was appointed as an independent non-executive Director and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee.

7. Notices of two board meetings were not delivered to Ms. Li Mingqin due to inadvertence.

CORPORATE GOVERNANCE REPORT

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, Moore Stephens CPA Limited, regarding their reporting responsibilities is set out in the section headed "Independent Auditor's Report" on pages 74 to 80 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 the Group is exposed to and to manage rather than eliminate the risk of failure to achieve the business objectives of the Company. The systems 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 and head of various business units 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;

(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; and

(7) the internal audit department of the Group will also cooperate with external service provider to identify and take initiatives to prevent various business risks, and to report and make recommendation to the management and also directly to the Audit Committee.

CORPORATE GOVERNANCE REPORT

The Company will perform ongoing assessment to update all material risk factors on a regular basis. In any case, review on risk management and internal controls will be conducted annually.

Internal audit

The Company had engaged an external service provider to conduct an annual review of the effectiveness of the risk management and internal control systems of the Group for the Year. Upon performing the review procedures and understanding of normal industrial practice, the external service providers reported that no significant deficiencies were identified and recommendations were suggested to the Audit Committee and the management for their consideration for the purpose of improving the risk management and control systems.

In October 2018, the Company established an internal audit department. The internal audit department evaluates and advises the management on the adequacy and effectiveness of the risk management and internal control systems. The internal audit department reports directly to the Audit Committee and also reports administratively to the Chief Financial Officer of the Company to ensure the internal controls are in place and functioning properly as intended.

Having considered the reports of the external service provider and the internal audit department, the Audit Committee and the Board considered that the works performed by Group's systems of risk management, financial and non-financial controls (including operational and compliance controls) during the Year are effective and adequate.

Inside information

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 reporting any potential or suspected inside information events to the Board. Based on the information obtained from 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 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.

CORPORATE GOVERNANCE REPORT

Dividend Policy

The Company has adopted a dividend policy with effect from 1 January 2019. Pursuant to the dividend policy, the Board shall take into account, inter alia, the following factors in deciding whether to propose a dividend and in determining the dividend amount:-

(i) the operating results and financial condition of the Group;

(ii) the Group's liquidity position;

(iii) the Group's capital requirement for business operations and future development;

(iv) the retained earnings and distributable reserves of the Group;

(v) the shareholders' expectation and industry's norm;

(vi) the general market conditions; and

(vii) any other factors that the Board may consider appropriate.

Declaration and payment of dividend by the Company is also subject to the laws of Bermuda, the Bye-laws and any applicable laws, rules and regulations.

The dividend policy will continue to be reviewed from time to time by the Board and there can be no assurance that any dividend will be proposed or declared in any given period.

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.

CORPORATE GOVERNANCE REPORT

Directors', senior management's and employees' emoluments *(Continued)*

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	–
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	1
HK$4,000,001 to HK$5,000,000	1

No Director waived any emolument during the Year.

Auditors' remuneration

For the Year, fees for statutory audit services provided by the auditors of the Group, Moore Stephens CPA Limited, to the Group amounted to approximately HK$3,663,000. Non-audit services include tax compliance and planning, agreed upon procedures on review of financial statements and transactions, etc. Total fees paid by the Group for non-audit services during the Year were approximately HK$886,000.

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. These published documents together with the Company's 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 or the Company Secretary, 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.

CORPORATE GOVERNANCE REPORT

Procedures for Shareholders to convene a general meeting/put forward proposals *(Continued)*

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 included 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 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

MOORE STEPHENS

Moore Stephens CPA Limited
801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180
F +852 2375 3828

www.moorestephens.com.hk

大華馬施雲
會計師事務所有限公司

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 81 to 207, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 as significant judgement was required to be exercised by the Group's management on the estimation of the recoverable amounts of the groups of cash-generating units ("CGUs") to which goodwill and intangible assets have been allocated. As disclosed in notes 4, 20 and 21 to the consolidated financial statements, the Group's goodwill and intangible assets as at 31 December 2018 were HK$489,109,000 and HK$349,364,000, respectively (2017: HK$502,127,000 and HK$368,134,000). Goodwill and intangible assets have been allocated to the respective CGUs. Impairment of goodwill and intangible assets were assessed by the management through comparing the recoverable amounts of the CGUs with the carrying amounts of the CGUs including 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 made estimates based on discounted cash flows taking into account key assumptions including discount rate, future growth rate and expected gross margin.	Our procedures in relation to the impairment assessment of goodwill and intangible assets included: • Discussed with management how it performed the impairment assessment of goodwill and intangible assets, including the process of allocating goodwill and intangible assets to the CGUs, and determining the recoverable amounts of the CGUs; • Evaluated the appropriateness of the valuation model adopted by the management; • Evaluated 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 CGU and checked its arithmetical accuracy; • Tested the key inputs used in the discounted cash flows against the relevant supporting evidences and approved budgets; and • Evaluated 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 was HK$606,566,000 as at 31 December 2018 (2017: HK$597,601,000), with a fair value gain for the year ended 31 December 2018 recorded in consolidated profit or loss of HK$25,665,000 (fair value gain for the year ended 31 December 2017: HK$76,129,000). In determining the fair value of investment properties, the management and independent professional valuer (the "Valuer") had taken 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: • Discussed with management and the Valuer how the Group determined the fair value of the investment properties, including the valuation techniques selected and key inputs adopted; • Assessed the qualification and experiences of the Valuer; • Evaluated the appropriateness of valuation techniques and the reasonableness of the key inputs and assumptions adopted by the management of the Group and the Valuer by tracing to entity-specific information and market data; and • Evaluated 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 a key audit matter due to significant judgement was required to be exercised by the Group's management in assessing the impairment. As disclosed in notes 4 and 22 to the consolidated financial statements, the carrying amount of the interests in associates was HK$298,706,000 as at 31 December 2018 (2017: HK$268,675,000). In determining the recoverable amounts of associates, estimation of the value in use was required and the valuation was carried out by management and the Valuer engaged by the Group. In determining the value in use, management's estimates were based on cash flow forecast for the relevant business and required the adoption of certain assumptions such as budgeted sales, gross margin, other related expenses, discount rate and terminal growth rate. Management has concluded that there was no impairment in respect of the interests in associates as at 31 December 2018.	Our procedures in relation to the impairment assessment of interests in associates included: • Discussed with management and the Valuer how the Group estimated the recoverable amounts of associates, including the valuation model adopted, key assumption used; • Assessed the competence, capabilities and objectivity of the Valuer performing the valuation; and • Evaluated the reasonableness of the valuation methodology and key assumptions used in the value in use calculation against historical performance and future business plan of the associates and checking its arithmetical accuracy.

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.

Moore Stephens CPA Limited
Certified Public Accountants

Cheung Sai Kit
Practising Certificate Number: P05544

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Continuing operations			
Revenue	5	**1,121,736**	1,108,724
Cost of sales		**(749,157)**	(746,755)
Gross profit		**372,579**	361,969
Other income	7	**69,572**	80,527
Administrative expenses		**(365,279)**	(331,583)
Other gains and losses, net	8	**21,467**	(179,397)
Finance costs	9	**(688)**	(722)
Share of results of associates		**34,782**	17,851
Share of results of joint ventures		**(17,430)**	(20,020)
Profit (loss) before tax		**115,003**	(71,375)
Income tax expenses	12	**(29,494)**	(25,985)
Profit (loss) for the year from continuing operations	13	**85,509**	(97,360)
Discontinued operations			
Profit for the year from discontinued operations	14	**–**	21,681
Profit (loss) for the year		**85,509**	(75,679)
Other comprehensive (expense) income for the year			
Item that will not be reclassified to profit or loss:			
Fair value gain on movements in equity instruments at fair value through other comprehensive income		**6,208**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on the translation of foreign operations		**(47,794)**	54,893
Share of other comprehensive (expense) income of associates and joint ventures		**(4,041)**	1,837
Reclassification of translation reserve to profit or loss arising from discontinued operations		**–**	601
Fair value gain on available-for-sale investments		**–**	31,625
		(45,627)	88,956
Total comprehensive income for the year		**39,882**	13,277

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Profit (loss) for the year attributable to:			
Owners of the Company			
– from continuing operations		**64,014**	(129,426)
– from discontinued operations		**–**	21,681
Non-controlling interests		**21,495**	32,066
		85,509	(75,679)
Total comprehensive income attributable to:			
Owners of the Company		**30,679**	(33,795)
Non-controlling interests		**9,203**	47,072
		39,882	13,277
Earnings (loss) per share (HK cent(s))	16		
For continuing and discontinued operations			
– Basic		**0.85**	(1.41)
– Diluted		**0.85**	(1.41)
For continuing operations			
– Basic		**0.85**	(1.69)
– Diluted		**0.85**	(1.69)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Investment properties	17	**606,566**	597,601
Property, plant and equipment	18	**377,379**	343,166
Loans receivable	19	**5,109**	5,998
Goodwill	20	**489,109**	502,127
Intangible assets	21	**349,364**	368,134
Interests in associates	22	**298,706**	268,675
Interests in joint ventures	23	**2,442**	17,594
Financial assets at fair value through profit or loss	24	**68,171**	37,840
Equity instruments at fair value through other comprehensive income	25	**85,190**	–
Available-for-sale investments	26	**–**	286,329
Promissory notes	27	**330,000**	330,000
Deposits made for acquisition of property, plant and equipment		**–**	8,165
		2,612,036	2,765,629
CURRENT ASSETS			
Inventories	28	**25,625**	24,585
Trade and other receivables	29	**262,166**	241,325
Financial assets at fair value through profit or loss	24	**7,805**	–
Held for trading investments	30	**–**	16,726
Loans receivable	19	**856**	163,594
Amounts due from associates	31	**2,975**	6,730
Amounts due from non-controlling interests	32	**–**	64
Tax recoverable		**1,180**	867
Fixed bank deposit	33	**–**	64,358
Bank balances and cash	33	**1,720,425**	1,391,559
		2,021,032	1,909,808
CURRENT LIABILITIES			
Trade and other payables	34	**150,859**	222,140
Amount due to an investee	35	**305**	308
Amounts due to non-controlling interests	32	**47,685**	47,101
Bank borrowings	36	**18,756**	19,777
Tax payable		**26,947**	22,552
		244,552	311,878
NET CURRENT ASSETS		**1,776,480**	1,597,930
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,388,516**	4,363,559

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITY			
Deferred tax liabilities	37	**44,418**	49,079
		4,344,098	4,314,480
CAPITAL AND RESERVES			
Share capital	38	**75,261**	75,261
Reserves		**3,996,010**	3,962,142
Equity attributable to owners of the Company		**4,071,271**	4,037,403
Non-controlling interests		**272,827**	277,077
Total equity		**4,344,098**	4,314,480

The consolidated financial statements on pages 81 to 207 were approved and authorised for issue by the board of directors of the Company on 28 March 2019 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 2018

	Attributable to owners of the Company												
	Share capital 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$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017 (restated)	77,613	3,628,179	9,020	10,033	62,677	(102,600)	33,609	(8,239)	(34,760)	703,194	4,378,726	231,928	4,610,654
Loss for the year	–	–	–	–	–	–	–	–	–	(107,745)	(107,745)	32,066	(75,679)
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	–	39,887	–	39,887	15,006	54,893
Share of other comprehensive income of associates and joint venture	–	–	–	–	–	–	–	–	1,837	–	1,837	–	1,837
Reclassification of translation reserve to profit or loss arising from discontinued operations	–	–	–	–	–	–	–	–	601	–	601	–	601
Fair value gain on available-for-sales investments	–	–	–	–	–	–	–	31,625	–	–	31,625	–	31,625
Other comprehensive income for the year	–	–	–	–	–	–	–	31,625	42,325	–	73,950	15,006	88,956
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	31,625	42,325	(107,745)	(33,795)	47,072	13,277
Shares repurchased and cancelled	(2,352)	(286,540)	–	–	–	–	–	–	–	–	(288,892)	–	(288,892)
Transfer of reserve	–	–	–	–	–	3,571	–	–	–	(3,571)	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	–	(21,074)	(21,074)	(9,685)	(30,759)
Disposal of subsidiaries and partial disposal of subsidiaries (note 41)	–	–	–	–	–	2,438	–	–	–	–	2,438	7,762	10,200
At 31 December 2017	75,261	3,341,639	9,020	10,033	62,677	(96,591)	33,609	23,386	7,565	570,804	4,037,403	277,077	4,314,480
Adjustment (see note 2.2)	–	–	–	–	–	–	–	(18,930)	–	23,335	4,405	–	4,405
At 1 January 2018 (restated)	75,261	3,341,639	9,020	10,033	62,677	(96,591)	33,609	4,456	7,565	594,139	4,041,808	277,077	4,318,885
Profit for the year	–	–	–	–	–	–	–	–	–	64,014	64,014	21,495	85,509
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	–	–	(35,502)	–	(35,502)	(12,292)	(47,794)
Share of other comprehensive expense of associates and joint ventures	–	–	–	–	–	–	–	(3,200)	(841)	–	(4,041)	–	(4,041)
Fair value gain on movements in equity instruments at FVTOCI	–	–	–	–	–	–	–	6,208	–	–	6,208	–	6,208
Other comprehensive (expense) income for the year	–	–	–	–	–	–	–	3,008	(36,343)	–	(33,335)	(12,292)	(45,627)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	3,008	(36,343)	64,014	30,679	9,203	39,882
Reclassification upon disposal of equity instruments at FVTOCI	–	–	–	–	–	–	–	(40,468)	–	40,468	–	–	–
Transfer of reserve	–	–	–	–	–	3,098	–	–	–	(3,098)	–	–	–
Dividend paid	–	–	–	–	–	–	–	–	–	–	–	(14,581)	(14,581)
Acquisition of additional interests in subsidiaries (Note v)	–	–	–	–	–	(1,216)	–	–	–	–	(1,216)	1,128	(88)
At 31 December 2018	75,261	3,341,639	9,020	10,033	62,677	(94,709)	33,609	(33,004)	(28,778)	695,523	4,071,271	272,827	4,344,098

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

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 2018 mainly represented:

(a) the Group disposed of 21% interests in TH Shanghai Medical Management Group Limited ("TH Shanghai Medical") for a consideration of HK$1,250,000 in 2017. The decrease in equity interest did not result in a loss of control over TH Shanghai Medical.

(b) the Group disposed of 25% interests in Premium Rich International Limited ("Premium Rich") for a consideration of HK$2,600,000 in 2017. The decrease in equity interest did not result in a loss of control over Premium Rich.

(c) the Group disposed of 30% interests in Silver Grade International Limited ("Silver Grade") for a consideration of HK$5,700,000 in 2017. The decrease in equity interest did not result in a loss of control over Silver Grade.

(d) 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 2017, HK$3,571,000 was transferred.

The other reserves of the Group at 31 December 2018 mainly represented:

(a) the Group acquired further 0.2004% interests in Nanyang Xiangrui Hospital Management Advisory Co., Ltd ("Nanyang Xiangrui") for a consideration of RMB1,833,000 (approximately HK$2,173,000) in 2018. The Group recognised a decrease in non-controlling interests of approximately HK$957,000. The increase in equity interest did not result in change of control over Nanyang Xiangrui.

(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 2018, HK$3,098,000 was transferred.

(v) On 6 April 2018, the Group acquired addition 48% of interests in Hong Kong Nephrology and Integrated Medical Centre Limited ("Hong Kong Nephrology"). On that date, there was share of loss of HK$2,085,000 attributed to non-controlling interests which was settled upon the completion of transfer to the Group. Hong Kong Nephrology became 100% indirect wholly-owned subsidiary of the Group.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Profit (loss) for the year		**85,509**	(75,679)
Adjustments for:			
Income tax		**29,494**	26,385
Interest income		**(53,178)**	(58,898)
Interest expense		**688**	722
Amortisation of intangible assets		**10,561**	10,794
Depreciation of property, plant and equipment		**46,774**	52,100
Dividend income from equity instruments at FVTOCI		**(6,628)**	–
Dividend income from financial assets at FVTPL		**(42)**	–
Dividend income from investments classified as available-for-sale investments		**–**	(7,249)
Increase in fair value of investment properties		**(25,665)**	(76,129)
Unrealised loss on fair value changes on held for trading investments		**–**	53,243
Impairment loss recognised on available-for-sale investments	26	**–**	13,919
Impairment loss recognised on trade receivables		**–**	4,103
(Reversal of) impairment loss recognised on promissory notes		**(30,000)**	233,705
(Reversal of) impairment loss recognised on other receivables, net		**(2,258)**	2,258
Reversal of impairment loss recognised on amounts due from investees		**(500)**	(250)
Reversal of impairment loss recognised on amounts due from associates		**–**	(121)
Loss on disposal of property, plant and equipment		**488**	261
Share of results of associates		**(34,782)**	(17,851)
Share of results of joint ventures		**17,430**	20,020
Gain on disposal of subsidiaries included in discontinued operations	14	**–**	(38,226)
Gain on disposal of a subsidiary	41	**–**	(22,020)
Gain on disposal of associates		**–**	(3,440)
Fair value changes on financial assets at FVTPL		**36,956**	(18,980)
Operating cash inflow before movements in working capital		**74,847**	98,667
Increase in inventories		**(1,078)**	(1,506)
(Increase) decrease in trade and other receivables		**(18,728)**	7,260
(Decrease) increase in trade and other payables		**(69,064)**	18,231
Cash (used in) generated from operations		**(14,023)**	122,652
Income tax paid		**(28,334)**	(28,622)
NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES		**(42,357)**	94,030

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Net proceeds from disposal of subsidiaries		–	226,277
Proceeds from disposal of equity instruments at FVTOCI		140,276	–
Proceeds from disposal of financial assets at FVTPL		13,108	–
Proceeds from disposal of available-for-sale investments		–	150,000
Repayment of loans receivable		163,627	80,830
Repayment of promissory notes	27	30,000	65,000
Interest received		53,178	58,898
Advance from non-controlling interests		648	15,855
Dividend received from associates		3,700	12,804
Dividend received from equity instruments at FVTOCI		6,628	–
Dividend received from financial assets at FVTPL		42	–
Dividend received from available-for-sale investments		–	7,249
Disposal of associates		–	6,545
Repayment from associates		3,755	2,665
Proceeds from disposal of property, plant and equipment		19,416	272
Investment in an associate		(2,998)	(108,000)
Advances of loans receivable		–	(150,000)
Purchase of property, plant and equipment		(79,687)	(73,829)
Purchase of available-for-sale investments		–	(61,107)
Purchase of investment properties		–	(43,849)
Acquisition of a medical practice		–	(2,441)
Investment in a joint venture		(2,270)	–
Repayment from (advance to) investees		497	(631)
Decrease (increase) in fixed bank deposit		64,358	(64,358)
Deposits made for acquisition of equipment		–	(8,165)
NET CASH GENERATED FROM INVESTING ACTIVITIES		414,278	114,015
FINANCING ACTIVITIES			
Partial acquisition of a subsidiary		(2,173)	–
Partial disposal of subsidiaries		–	3,150
Repurchase of shares		–	(288,892)
Repayment of bank borrowings		(1,021)	(1,058)
Dividend paid		(14,581)	(30,759)
Interest paid		(688)	(722)
NET CASH USED IN FINANCING ACTIVITIES		(18,463)	(318,281)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		353,458	(110,236)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,391,559	1,469,837
EFFECT OF FOREIGN EXCHANGE RATES CHANGES		(24,592)	31,958
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing bank balances and cash	33	1,720,425	1,391,559

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

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

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is the same as the functional currency of the Company.

As disclosed in the consolidated financial statements of the Company for the year ended 31 December 2017, the Securities and Futures Commission (the "SFC") has on 27 November 2017 issued a direction to suspend trading in the shares of the Company with effect from 27 November 2017 as it appears to the SFC that, inter alia, the Company's interim report for the six months ended 30 June 2016 published by the Company on 7 September 2016 and the Company's annual report for the year ended 31 December 2016 published by the Company on 27 April 2017 included materially false, incomplete or misleading information (the "Suspension").

On 18 December 2017, the Company announced that in view of the Suspension, the board of directors of the Company has established an independent board committee (the "IBC") comprising all the independent non-executive directors of the Company, whose scope of the primary duties includes:

(i) conducting an independent investigation on the issues and matters arising from or relating to the Suspension;

(ii) making recommendations to the board of directors of the Company on appropriate actions to be taken; and

(iii) working towards the goal of having the shares of the Company resumed in trading on the Stock Exchange.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. GENERAL *(Continued)*

As at the date of approval for issuance of the consolidated financial statements for the year ended 31 December 2017, the investigation by the independent forensic accountant engaged by the IBC to investigate the issues and matters arising from or relating to the suspension has been completed and reported to the IBC. After reviewing the findings and conclusion of the independent forensic accountant (the "First Forensic Report"), the IBC had adopted the First Forensic Report. With reference to the First Forensic Report, the IBC accepted that the matters leading to the SFC's concerns on the materially false, incomplete or misleading information contained in the Company's interim report for the six months ended 30 June 2016 published by the Company on 7 September 2016 and the Company's annual report for the year ended 31 December 2016 published by the Company on 27 April 2017 are not substantiated. Hence, the board of directors of the Company has determined that no restatement of figures stated in the accounts contained in these previously issued annual and interim reports is necessary, and no disclosures contained in these accounts need to be amended. The consolidated financial statements of the Group for the year ended 31 December 2017 have therefore been prepared on the above basis.

On 31 January 2019, the Company announced that as a result of recent communication with the SFC, the IBC has engaged the independent forensic accountant to conduct further inquiry and investigation into the matters and make recommendations to the board of directors. After reviewing the findings and conclusion of the independent forensic accountant (the "Second Forensic Report"), the IBC had adopted the Second Forensic Report. With reference to the Second Forensic Report, the IBC accepts that the matters leading to the SFC's concerns on the materially false, incomplete or misleading information contained in the Company's interim report for the six months ended 30 June 2016 published by the Company on 7 September 2016 and the Company's annual report for the year ended 31 December 2016 published by the Company on 27 April 2017 are not substantiated. Hence, the board of directors of the Company has determined that no restatement of figures stated in the accounts contained in these previously issued annual and interim reports is necessary, and no disclosures contained in these accounts need to be amended. The consolidated financial statements of the Group for the year ended 31 December 2018 have therefore been prepared on the above basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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.

2.1 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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

2.1 HKFRS 15 "Revenue from Contracts with Customers" *(Continued)*

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Hong Kong medical services
- Hong Kong managed care business
- Mainland hospital management and medical services
- Securities and properties investments and treasury management
- Others

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 3 and 5 respectively.

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018
	HK$'000	HK$'000	HK$'000
Trade and other payables			
• Deferred income	2,935	(2,935)	–
• Deposits received	4,235	(4,235)	–
• Contract liabilities	–	7,170	7,170

As at 1 January 2018, deferred income amounting to approximately HK$2,935,000 and certain deposits received amounting to approximately HK$4,235,000 in respect of sales contracts signed with customers previously included in trade and other payables were reclassified to contract liabilities which are included in trade and other payables.

The application of HKFRS 15 has had no material impact on the Group's accumulated profits as at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

2.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale investments *HK$'000*	Held for trading investments *HK$'000*	Equity instruments at FVTOCI *HK$'000*	Financial assets at FVTPL *HK$'000*	Investment revaluation reserves *HK$'000*	Accumulated profits *HK$'000*
Closing balance at 31 December 2017 – HKAS 39	286,329	16,726	–	37,840	(23,386)	(570,804)
Effect arising from initial application of HKFRS 9						
Reclassification						
• From available-for-sale investments	(286,329)	–	216,721	69,608	21,468	(21,468)
• From held for trading investments	–	(16,726)	–	16,726	–	–
Remeasurement						
• From cost less impairment to fair value	–	–	2,538	1,867	(2,538)	(1,867)
Opening balance as at 1 January 2018	–	–	219,259	126,041	(4,456)	(594,139)

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

2.2 HKFRS 9 "Financial Instruments" *(Continued)*

(a) Available-for-sale ("AFS") investments

From AFS investments to equity instruments at fair value through other comprehensive income ("FVTOCI")

At the date of initial application of HKFRS 9, the Group elected to present in other comprehensive income for the fair value changes of certain equity instruments previously classified as AFS investments. These investments are not held for trading and not expected to be sold in the foreseeable future, and their carrying amount of approximately HK$216,721,000 as at 31 December 2017 were reclassified from AFS investments to equity instruments at FVTOCI, of which approximately HK$96,546,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gain of approximately HK$2,538,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and investment revaluation reserves as at 1 January 2018. In addition, impairment losses previously recognised of approximately HK$21,468,000 were transferred from accumulated profits to investment revaluation reserves as at 1 January 2018.

From AFS investments to financial assets at fair value through profit or loss ("FVTPL")

At the date of initial application of HKFRS 9, the Group reclassified certain unlisted bond fund of carrying values amounting to approximately HK$61,103,000 and unlisted equity fund of approximately HK$8,505,000 from AFS investments to financial assets at FVTPL. The fair value gain of approximately HK$1,867,000 relating to these investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and accumulated profits as at 1 January 2018.

(b) Held for trading investments

Financial assets at FVTPL of approximately HK$16,726,000 are held for trading which are required to be classified as financial assets at FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

(c) Impairment under ECL model

In relation to the impairment of financial assets, HKFRS 9 requires an ECL model, as opposed to an incurred credit loss model under HKAS 39. The ECL model requires an entity to account for ECL and changes in those ECL 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

2.2 HKFRS 9 "Financial Instruments" *(Continued)*

(c) Impairment under ECL model (Continued)

In the current year, the Group has applied HKFRS 9 simplified approach to measure ECL using lifetime ECL for trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowance for other financial assets at amortised cost, which mainly comprise of promissory notes, loans receivable, other receivables, fixed bank deposit and bank balances and cash, are measured based on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised against accumulated profits as the estimated allowance under the ECL model was not significantly different to that under HKAS 39.

Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	At 31 December 2017 *HK$'000*	Impact on initial application HKFRS 15 *HK$'000*	Impact on initial application HKFRS 9 *HK$'000*	At 1 January 2018 *HK$'000*
Non-current assets				
AFS investments	286,329	–	(286,329)	–
Equity instruments at FVTOCI	–	–	219,259	219,259
Financial assets at FVTPL	37,840	–	71,475	109,315
Current assets				
Held for trading investments	16,726	–	(16,726)	–
Financial assets at FVTPL	–	–	16,726	16,726
Current liabilities				
Deferred income	2,935	(2,935)	–	–
Deposits received	4,235	(4,235)	–	–
Contract liabilities	–	7,170	–	7,170
Capital and reserves				
Investment revaluation reserves	(23,386)	–	18,930	(4,456)
Accumulated profits	(570,804)	–	(23,335)	(594,139)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

New or revised standards and interpretations that have been issued but not yet effective

HKFRS	
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[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 1 and HKAS 8	Amendments to definition to Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

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

2 Effective the annual periods beginning on or after 1 January 2020

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 2021

5 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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.

In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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. Upon application of 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.

Other than certain requirements which are also applicable to lessor, 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 2018, the Group as lessee had non-cancellable operating lease commitments of approximately HK$105,722,000 (31 December 2017: approximately HK$113,460,000) as disclosed in note 43. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon the application of HKFRS 16, 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. 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.

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 ("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.

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 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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 and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, 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, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. 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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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 are initially at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. 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.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests 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. Changes in net assets of the associate or joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in change in ownership interest held by the Group. 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 interest 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates and joint ventures *(Continued)*

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 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.

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) upon disposal/partial disposal of the relevant associate or joint venture.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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.

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.

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).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 relevant asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, 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.

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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

Leases

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

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 leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

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. HK$) 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)*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018.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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserves; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserves.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

(iii) Financial assets at FVTPL *(Continued)*

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including certain other financial assets, trade receivables and other receivables and prepayments). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

(iii) Financial assets at FVTPL *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(i) Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

(iii) Financial assets at FVTPL *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit– impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

(iii) Financial assets at FVTPL *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) *(Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

(iii) Financial assets at FVTPL *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, 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.

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 47c.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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.

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 except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments 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 reserves. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserves 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, trade and other receivables, amounts due from associates/non-controlling interests 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

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, 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 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 reserves.

Derecognition of financial assets

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.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserves is reclassified to profit or loss.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

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 an investee/non-controlling interests and bank borrowings 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.

Derecognition of financial liabilities

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 39.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-marketing vesting conditions 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 based on assessment of all relevant non-marketing vesting conditions. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share-based payment transactions of the Company (Continued)

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)*

Critical judgments in applying accounting policy *(Continued)*

Indefinite useful life of an intangible asset

Note 21 describes the trade name of the Group 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. In the opinion of the directors of the company, 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 indefinitely.

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 2018, the carrying amount of goodwill and intangible assets are HK$489,109,000 and HK$349,364,000 respectively (net of accumulated impairment loss of goodwill and intangible assets amounting to HK$207,608,000 and nil respectively) (2017: HK$502,127,000 and HK$368,134,000 respectively (net of accumulated impairment loss of goodwill and intangible assets amounting to HK$207,608,000 and nil respectively)).

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, with certain unobservable inputs such as adjustment of the building age, location, fair market rents and people flows to reflect different locations or conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018, the carrying amount of investment properties is HK$606,566,000 (2017: HK$597,601,000).

Fair value measurement of financial instruments

Certain of the Group's financial assets, comprise unquoted equity instruments amounting to HK$85,190,000 as at 31 December 2018 (2017: nil) which are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See notes 25 and 47 for further disclosures.

Impairment of associates and joint ventures

Management regularly reviews the recoverable amount of the associates and joint ventures. Determining whether impairment is required involves the estimation of the value in use. In determining the value in use, management's estimates are based on the Group's share of the present value of the estimated future cash flows expected to be generated. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flow, impairment loss may arise.

As at 31 December 2018, the carrying amount of associates net of accumulated impairment loss of HK$27,000,000, amounted to HK$298,706,000 (2017: carrying amount of associates net of accumulated impairment loss of HK$27,000,000, amounted to HK$268,675,000. As at 31 December 2018, the carrying amount of interests in joint ventures amounted to HK$2,442,000 (2017: HK$17,594,000).

No impairment was recognised on interests in associates and joint ventures for the years ended 31 December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018, the carrying amount of loans receivable net of accumulated impairment loss of HK$3,559,000, amounted to HK$5,965,000 (2017: carrying amount of loans receivable net of accumulated impairment loss of HK$3,559,000, amounted to HK$169,592,000).

Impairment loss on promissory notes

Management regularly reviews the recoverability of the promissory notes. 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 impairment of promissory notes is required, the Group takes into consideration the aged status and likelihood of collection. Management bases its estimates on the credit-worthiness and financial information available of the promissory note holders. If the financial condition of the promissory note holders were to deteriorate, impairment may be required. As at 31 December 2018, the carrying amount of promissory notes net of accumulated impairment loss of HK$203,705,000, amounted to HK$330,000,000 (2017: carrying amount of promissory notes net of accumulated impairment loss of HK$233,705,000, amounted to HK$330,000,000).

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 2018, the carrying amount of trade receivables net of allowance for doubtful debts HK$nil, amounted to HK$158,648,000 (2017: carrying amount of trade receivables net of allowance for doubtful debts HK$5,289,000, amounted to HK$157,611,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

Key sources of estimation uncertainty *(Continued)*

Impairment loss on available-for-sale investments (before application of HKFRS 9 on 1 January 2018)

As at 31 December 2017, 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 was HK$13,919,000 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. There is no seasonality and cyclicality of the operations of the Group. The performance obligation is part of a contract that has an original expected duration of one year or less. Disaggregation revenue from contracts with the customers are as follows:

Continuing operations

	2018 HK$'000	2017 HK$'000
Hong Kong medical services		
– Medical services	**450,334**	426,821
– Dental services	**62,355**	60,966
	512,689	487,787
Hong Kong managed care business	**467,802**	439,784
Mainland hospital management and medical services	**111,746**	161,916
Properties investments		
– Rental income	**16,670**	17,434
Miscellaneous healthcare related services	**12,829**	1,803
Total	**1,121,736**	1,108,724
Timing of revenue recognition		
At point in time	**1,002,660**	1,012,095
Over time	**119,076**	96,629
	1,121,736	1,108,724

Revenue from Hong Kong medical services, majority of Hong Kong managed care business, certain mainland hospital management and medical services and miscellaneous healthcare related services are recognised at a point in time, whereas majority of mainland hospital management and medical services income and rental income are recognised on over time basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION

During the year ended 31 December 2017, there were five reportable and operating segments, namely provision of healthcare and dental services, managed care business, investments in securities and properties and treasury management, hospital management and consulting services business and others, which were based on the different types of major businesses. During the year ended 31 December 2018, the chief operating decision maker, being the chief executive officer ("CEO"), reassessed the current business units of the Group and changed the basis upon which the Group is organised and managed. The CEO considered that the locations of operations of the different types of businesses are more relevant for the purposes of resources allocation and assessment of segment performance.

Specifically, the Group's new operating and reportable segments for the year ended 31 December 2018 are as follows:

- Hong Kong medical services – Provision of medical and dental services in Hong Kong
- Hong Kong managed care business – Managing healthcare networks & provision of third party medical network administrator services in Hong Kong
- Mainland hospital management and medical services – Provision of medical and dental services in the PRC, provision of hospital management and related services
- Securities and properties investments and treasury management – Trading of listed securities and leasing of properties
- Others – Provision of miscellaneous healthcare related services

The "Hong Kong medical services", "Hong Kong managed care business" and "securities and properties investments and treasury management" segments are the same as the "provision of healthcare and dental services", "managed care business" and "investments in securities and properties and treasury management" segments reported in the previous year's consolidated financial statements. The "hospital management and consulting services business" and "others" segments reported in the previous year's consolidated financial statements have been regrouped and reorganised into the "mainland hospital management and medical services" and "others" segments in the current year.

Comparative figures for the segment information presented in the consolidated financial statements have been restated to conform with the current year's presentation of segment information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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.

Segment revenues and results

For the year ended 31 December 2018

Continuing operations

	Hong Kong medical services HK$'000	Hong Kong managed care business HK$'000	Mainland hospital management and medical services HK$'000	Securities and properties investments and treasury management HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Revenue							
External sales	512,689	467,802	111,746	16,670	12,829	–	1,121,736
Inter-segment sales	40,481	–	–	9,340	–	(49,821)	–
	553,170	467,802	111,746	26,010	12,829	(49,821)	1,121,736
Segment results	37,778	48,485	29,423	106,892	(29,337)	–	193,241
Unallocated other income							9,724
Finance costs							(688)
Unallocated other gains and losses							(34,149)
Unallocated corporate expenses							(53,125)
Profit before tax							115,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended 31 December 2017

Continuing operations

	Hong Kong medical services HK$'000	Hong Kong managed care business HK$'000	Mainland hospital management and medical services HK$'000	Securities and properties investments and treasury management HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Revenue							
External sales	487,787	439,784	161,916	17,434	1,803	–	1,108,724
Inter-segment sales	24,211	–	–	6,868	–	(31,079)	–
	511,998	439,784	161,916	24,302	1,803	(31,079)	1,108,724
Segment results	36,966	48,195	36,677	(149,985)	(37,877)	–	(66,024)
Unallocated other income							14,380
Finance costs							(722)
Unallocated other gains and losses							29,311
Unallocated corporate expenses							(48,320)
Loss before tax							(71,375)

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' remuneration, finance costs, certain items of other gains and losses and other income. This is the measure reported to the CEO for the purposes of resources allocation and performance assessment.

Revenue from provision of miscellaneous services

Provision of miscellaneous services are mainly related to provision of health management services and other healthcare related services. No analysis of revenue from provision of miscellaneous services is presented as the management of the Group considers the cost to develop it would be excessive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2018

	Hong Kong medical services HK$'000	Hong Kong managed care business HK$'000	Mainland hospital management and medical services HK$'000	Securities and properties investments and treasury management HK$'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:								
Interest income	–	–	–	(53,178)	–	(53,178)	–	(53,178)
Dividend income	(2,625)	–	–	(4,045)	–	(6,670)	–	(6,670)
Reversal of impairment loss recognised in other receivables	–	–	–	(2,258)	–	(2,258)	–	(2,258)
Increase in fair value on investment properties	–	–	–	(25,665)	–	(25,665)	–	(25,665)
Reversal of impairment loss on promissory notes	–	–	–	(30,000)	–	(30,000)	–	(30,000)
Share of results of associates	(14,771)	–	186	–	(20,197)	(34,782)	–	(34,782)
Share of results of joint ventures	–	–	14	–	17,416	17,430	–	17,430
Depreciation of property, plant and equipment	14,892	3,154	2,734	15,891	9,647	46,318	456	46,774
Amortisation of intangible assets	–	7,251	3,310	–	–	10,561	–	10,561
Loss on disposal of property, plant and equipment	345	–	–	(10)	–	335	153	488
Amounts included in the information regularly provided to the CEO:								
Additions to property, plant and equipment	11,554	2,473	72,927	201	172	87,327	525	87,852

For the year ended 31 December 2017

	Hong Kong medical services HK$'000	Hong Kong managed care business HK$'000	Mainland hospital management and medical services HK$'000	Securities and properties investments and treasury management HK$'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:								
Interest income	–	–	–	(58,898)	–	(58,898)	–	(58,898)
Dividend income	(2,450)	–	–	(4,799)	–	(7,249)	–	(7,249)
Impairment loss recognised in other receivables	–	–	–	2,258	–	2,258	–	2,258
Impairment loss recognised in available-for-sale investments	–	–	–	13,919	–	13,919	–	13,919
Increase in fair value on investment properties	–	–	–	(76,129)	–	(76,129)	–	(76,129)
Loss on fair value changes on held for trading investments	–	–	–	53,243	–	53,243	–	53,243
Impairment loss on promissory notes	–	–	–	233,705	–	233,705	–	233,705
Share of results of associates	(19,528)	–	–	–	1,677	(17,851)	–	(17,851)
Share of results of joint venture	–	–	–	–	20,020	20,020	–	20,020
Depreciation of property, plant and equipment	16,095	2,168	11,792	14,780	3,432	48,267	230	48,497
Amortisation of intangible assets	–	7,252	3,274	–	–	10,526	–	10,526
Impairment loss recognised on trade receivables	4,103	–	–	–	–	4,103	–	4,103
Loss on disposal of property, plant and equipment	261	–	–	–	–	261	–	261
Amounts included in the information regularly provided to the CEO:								
Additions to property, plant and equipment	39,453	6,219	7,123	2,716	35,989	91,500	758	92,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's revenue from external customers in its continuing operations, based on geographical location of operations are detailed below:

	2018 HK$'000	2017 HK$'000
Other regions of the PRC	**111,746**	161,916
Hong Kong	**1,009,990**	946,808
	1,121,736	1,108,724

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

	Carrying amount of non-current assets	
	2018 **HK$'000**	2017 HK$'000
Other regions of the PRC	**496,506**	495,698
Hong Kong	**1,627,060**	1,601,599
Non-current assets (Note)	**2,123,566**	2,097,297

Note: Non-current assets exclude loans receivable, financial assets at fair value through profit or loss, equity instruments at fair value through other comprehensive income, promissory notes, available-for-sale investments and deposits made for acquisition of property, plant and equipment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

7. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Continuing operations		
Interest income	**53,178**	58,898
Dividend income from equity instruments at FVTOCI:		
– Relating to investment derecognised during the year	**3,953**	–
– Relating to investments held at the end of the reporting period	**2,675**	–
Dividend income from financial assets at FVTPL	**42**	–
Dividend income from investments classified as AFS investments	**–**	7,249
Rental income	**4,594**	4,706
Sundry income	**5,130**	9,674
	69,572	80,527

8. OTHER GAINS AND LOSSES, NET

	2018 HK$'000	2017 HK$'000
Continuing operations		
Fair value changes on investment properties (note 17)	**25,665**	76,129
Exchange gain	**–**	6,891
Fair value changes on financial assets at FVTPL	**(36,956)**	18,980
Loss on fair value changes on held for trading investments	**–**	(53,243)
Gain on disposal of associates	**–**	3,440
Net gain on disposal of subsidiaries (note 41)	**–**	22,020
Reversal of impairment loss (impairment loss) recognised in respect of:		
– AFS investments (note 26)	**–**	(13,919)
– promissory notes (note 27)	**30,000**	(233,705)
– trade receivables (note 29)	**–**	(4,103)
– other receivables	**2,258**	(2,258)
– amounts due from associates	**–**	121
– amounts due from investees	**500**	250
	21,467	(179,397)

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Continuing operations		
Interest on bank borrowings	**688**	722

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

During both years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors of the Company as an inducement to join 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 2018

	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	–	810	65	18	893
Dr. Hui Ka Wah, Ronnie, *JP* (Chief Executive Officer)	–	4,853	380	18	5,251
Mr. Lee Chik Yuet	–	2,888	170	18	3,076
Mr. Wong Seung Ming	–	1,548	125	18	1,691
Dr. Chan Wing Lok, Brian (Appointed on 29 June 2018)	–	832	–	9	841
	–	10,931	740	81	11,752
Non-executive directors					
Dr. Choi Chee Ming, *GBS, JP*	–	–	–	–	–
Ms. Fang Haiyan	–	–	–	–	–
Mr. Tsai Ming-hsing (Retired on 29 June 2018)	–	–	–	–	–
Mr. Chen Jinhao	–	–	–	–	–
Dr. Cho Kwai Chee (Retired on 29 June 2018) (Note)	–	224	100	4	328
	–	224	100	4	328
Independent non-executive directors					
Mr. Ho Kwok Wah, George, *MH*	144	–	–	–	144
Mr. Wong Tat Tung, *MH, JP* (Retired on 29 June 2018)	72	–	–	–	72
Mr. Yu Xuezhong	144	–	–	–	144
Ms. Li Mingqin	144	–	–	–	144
Mr. Wang John Hong-chiun	144	–	–	–	144
Mr. Yu Kai Fung Jackie (Appointed on 29 June 2018)	73	–	–	–	73
Mr. Wong Sai Kit (Appointed on 29 June 2018)	73	–	–	–	73
	794	–	–	–	794
Total	794	11,155	840	85	12,874

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*
For the year ended 31 December 2017

	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	65	18	866
Dr. Cho Kwai Chee (Note)	–	1,200	–	18	1,218
Dr. Hui Ka Wah, Ronnie, *JP* (Chief Executive Officer)	–	4,693	–	18	4,711
Mr. Lee Chik Yuet	–	2,664	226	18	2,908
Mr. Wong Seung Ming	–	1,495	120	18	1,633
	–	10,835	411	90	11,336
Non-executive directors					
Dr. Choi Chee Ming, *GBS, JP*	–	–	–	–	–
Ms. Fang Haiyan	–	–	–	–	–
Mr. Tsai Ming-hsing	–	–	–	–	–
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	600	10,835	411	90	11,936

Note: Dr. Cho Kwai Chee has been re-designated from an executive director of the Company to a non-executive director of the Company and has ceased to act as the Executive Deputy Chairman of the Company on 6 March 2018. He retired as a non-executive director of the Company with effect from 29 June 2018.

The performance bonus is a performance-related incentive payment which 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 2018 and 2017.

Salaries and other benefits paid to or received by the executive directors were generally emoluments paid or receivable in respect of those person's salaries in connection with the management of the affairs of the Company and its subsidiaries.

The independent non-executive director's emoluments shown above were for these services as directors of the Company.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2017: one) of them is an executive director of the Company whose emolument is included in note 10 above. The emoluments of the remaining four (2017: four) individuals were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other allowances	12,023	9,393
Performance bonus (Note)	9,152	8,487
Retirement benefits scheme contributions	65	72
	21,240	17,952

Their emoluments were within the following bands:

	2018 Number of employees	2017 Number of employees
HK$3,000,001 – HK$4,000,000	1	2
HK$4,000,001 – HK$5,000,000	2	1
HK$5,000,001 – HK$6,000,000	–	1
HK$6,000,001 – HK$7,000,000	–	–
HK$7,000,001 – HK$8,000,000	1	–
	4	4

During the year, no emoluments were paid by the Group to the five highest paid individuals, including one (2017: one) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

12. INCOME TAX EXPENSES

	2018 HK$'000	2017 HK$'000
Continuing operations		
Tax charge comprises:		
Current tax		
– Hong Kong Profits Tax	15,563	16,222
– PRC Enterprise Income Tax	17,317	16,833
	32,880	33,055
(Over) underprovision in prior years		
– Overprovision of Hong Kong Profits Tax	(809)	(2,589)
– Under (over) provision of PRC Enterprises Income Tax	32	(2,179)
	(777)	(4,768)
	32,103	28,287
Deferred tax		
– Current year (note 37)	(2,609)	(2,302)
	29,494	25,985

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

Under the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. INCOME TAX EXPENSES *(Continued)*

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

	2018 HK$'000	2017 HK$'000
Continuing operations		
Profit (loss) before tax	**115,003**	(71,375)
Tax at the domestic income tax rate of 16.5% (2017: 16.5%)	**18,975**	(11,777)
Tax effect of expenses not deductible for tax purpose	**9,928**	48,485
Tax effect of income not taxable for tax purpose	**(19,763)**	(29,807)
Tax effect of tax losses not recognised	**18,103**	19,907
Tax effect of share of results of associates	**(5,739)**	(2,945)
Tax effect of share of results of joint ventures	**2,876**	3,303
Utilisation of tax losses previously not recognised	**(2,225)**	(1,673)
Overprovision in prior years	**(777)**	(4,768)
Withholding tax paid in PRC	**4,086**	–
Effect of different tax rate of subsidiaries operating in other jurisdictions	**4,030**	5,260
Income tax expenses for the year	**29,494**	25,985

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS

	2018 HK$'000	2017 HK$'000
Profit (loss) for the year from continuing operations has been arrived at after charging:		
Staff costs		
– Directors' remuneration (note 10)	**12,874**	11,936
– Other staff's salaries, bonus and other benefits	**620,451**	598,132
– Other staff's retirement benefits scheme contributions	**7,130**	6,054
	640,455	616,122
Auditors' remuneration	**3,663**	3,483
Cost of inventories recognised as expenses	**126,572**	135,662
Depreciation of property, plant and equipment recognised in administrative expenses	**44,869**	38,642
Depreciation of property, plant and equipment recognised in cost of sales	**1,905**	9,855
Total depreciation of property, plant and equipment	**46,774**	48,497
Loss on disposal of property, plant and equipment	**488**	261
Amortisation of intangible assets (included in administrative expenses)	**10,561**	10,526
and after crediting:		
Gross rental income from investment properties	**16,670**	17,434
Less: Direct operating expenses of properties that generated rental income	**(1,532)**	(3,202)
Net rental income from investment properties	**15,138**	14,232

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. DISCONTINUED OPERATIONS/DISPOSAL GROUP HELD FOR SALE

(i) Description

On 30 December 2016, the Group entered into a sale and purchase agreement with a related party to dispose of the entire issued share capital of Bonjour Beauty International Limited and its subsidiaries (the "Bonjour Beauty Group") at a consideration of HK$430,000,000, which was settled by cash consideration of HK$100,000,000 and a promissory note issued by the purchaser, with a face value of aggregate amount of HK$330,000,000. As at the date of the sale and purchase agreement, the purchaser is a company controlled by a then director of the Company who resigned as a Director on the same date.

The disposal of Bonjour Beauty Group was completed on 13 April 2017. The financial performances of the Bonjour Beauty Group are presented as discontinued operations in the consolidated statement of profit or loss and other comprehensive income. Financial information relating to the discontinued operations for the period to the date of disposal is set out below.

(ii) Financial performance and cash flow information

The profit for the period from the Bonjour Beauty Group is set out below.

	1 January 2017 to 13 April 2017 HK$'000
Revenue	48,759
Cost of sales	(16,041)
Gross profit	32,718
Other income	1,761
Administrative expenses	(50,624)
Loss before tax	(16,145)
Income tax expenses	(400)
Loss after income tax of discontinued operation	(16,545)
Gain on disposal of subsidiaries	38,226
Profit from discontinued operations	**21,681**
Exchange differences on translation of discontinued operations	601
Other comprehensive income from discontinued operations	**601**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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

(ii) Financial performance and cash flow information *(Continued)*

Cash flows for the year ended 31 December 2017 were as follows:

	2017 HK$'000
Net cash used in operating activities	(13,851)
Net cash generated from investing activities (included consideration received of HK$100,000,000)	114,957
Net cash inflows	101,106

No cumulative amount in the year 2017 relating to the disposal group classified as held for sale has been recognised in other comprehensive income and included in equity.

(iii) Details of the disposal of the subsidiaries

	2017 HK$'000
Consideration received or receivable:	
Cash	100,000
Promissory notes (note 27)	330,000
Total consideration	430,000
Carrying amount of net assets sold	(391,173)
Gain on disposal before income tax and reclassification of foreign currency translation reserve	38,827
Reclassification of foreign currency translation reserve	(601)
Gain on disposal of subsidiaries	38,226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

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

(iii) Details of the disposal of the subsidiaries *(Continued)*

Profit for the year from discontinued operations include the following:

	2017 HK$'000
Auditor's remuneration	–
Amortisation of intangible assets (included in administrative expenses)	268
Cost of inventories recognised as expense	3,809
Depreciation of property, plant and equipment	3,603
Interest income	1,725
Operating lease payments in respect of rented premises	17,271
Staff costs	31,063

The carrying amounts of assets and liabilities as at the date of disposal (13 April 2017) were:

	13 April 2017 HK$'000
Property, plant and equipment	22,318
Inventories	7,476
Trade and other receivables	187,705
Goodwill	171,645
Intangible assets	262,242
Total assets	651,386
Trade and other payables	(281,935)
Deferred tax liabilities	(1,465)
Total liabilities	(283,400)
Net assets	367,986
Cash and cash equivalents	23,187
Net assets after cash and cash equivalents	391,173

In the opinion of the directors of the Company at the date of completion of the disposal, the purchaser was no longer a related party and did not have any relationship with the Group or its related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

15. DIVIDENDS

	2018 **HK$'000**	2017 HK$'000
Dividends recognised as distribution during the year – Final dividend of HK$nil per ordinary share for the year ended 31 December 2017 (2017: 2016 final dividend – HK0.28 cent)	**–**	21,074
	–	21,074

On 28 March 2019, the Directors recommended the payment of a final dividend of HK0.25 cent per share for the year ended 31 December 2018 (2017: The Board did not recommend the payment of a final dividend).

16. EARNINGS (LOSS) PER SHARE

For continuing operations

The calculation of the basic and diluted earnings (loss) per share from continuing operations attributable to the owners of the Company is based on the following data:

Earnings (loss) for the purpose of basic and diluted earnings (loss) per share

	2018 **HK$'000**	2017 HK$'000
Profit (loss) for the year from continuing operations attributable to owners of the Company	**64,014**	(129,426)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. EARNINGS (LOSS) PER SHARE *(Continued)*

For continuing operations *(Continued)*

Number of shares

	2018	2017
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**7,526,134,452**	7,619,647,526

For continuing and discontinued operations

The calculation of the basic and diluted earnings (loss) per share from continuing and discontinued operations attributable to the owners of the Company is based on the following data:

Earnings (loss) for the purposes of basic and diluted earnings (loss) per share

	2018 HK$'000	2017 HK$'000
Profit (loss) for the year from continuing and discontinued operations attributable to owners of the Company	**64,014**	(107,745)

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

For discontinued operations

Basic earnings per share for the discontinued operations was HK0.28 cent per share and diluted earnings per share for the discontinued operations was HK0.28 cent per share for the year ended 31 December 2017, based on the profit for the year from the discontinued operations and the denominators used are the same as those detailed above for both basic and diluted earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2017	652,123
Increase in fair value recognised in profit or loss	76,129
Addition	43,849
Transfer to property, plant and equipment (note 18)	(46,800)
Disposal of subsidiaries (note 41)	(127,700)
At 31 December 2017	597,601
Increase in fair value recognised in profit or loss	25,665
Transfer to property, plant and equipment (note 18)	(16,700)
At 31 December 2018	**606,566**

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 2018 and 31 December 2017 has been arrived at on the basis of a valuation carried out on the respective dates by Ascent Partners Valuation Service Limited, an independent qualified professional valuer not connected with the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENT PROPERTIES *(Continued)*

During the year ended 31 December 2018, a premise situated in Hong Kong which was previously leased out for rental income have been changed to self-used premise (2017: certain premises). Accordingly, the investment properties with fair value of HK$16,700,000 (2017: HK$46,800,000) have been transferred to leasehold land and buildings.

Ascent Partners Valuation Service 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.

There has been no change to the valuation technique in 2018 and 2017. 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 2017 and 31 December 2018 are as follows:

	Level 3 HK$'000	Fair value as at 31 December 2018 HK$'000
Property units located in Hong Kong	**606,566**	**606,566**

	Level 3 HK$'000	Fair value as at 31 December 2017 HK$'000
Property units located in Hong Kong	597,601	597,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENT PROPERTIES *(Continued)*

The fair value of all properties located in Hong Kong was derived using the market comparable approach based on price per square feet observed in recent market prices and adjusting the observed prices per square feet with certain unobservable inputs including the adjustments 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:

Investment properties held by the group	Fair value at 31 December 2018 HK$'000	2017 HK$'000	Fair value hierarchy	Valuation technique(s) & key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Property 1 – Commercial Property in Shatin (Note)	**197,650**	187,000	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, which is ranged from HK$6,901 to HK$7,043 (2017: from HK$6,508 to HK$7,098) 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	**26,400**	26,500	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$157,143 (2017: HK$157,738)per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 3 – Commercial Property in Mongkok	**22,000**	22,100	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$181,818 (2017: HK$182,645) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 4 – Commercial Property in Shatin	**10,100**	9,800	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$35,130 (2017: HK$34,087) per square feet	A slight increase in the price per square feet will increase significantly the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. INVESTMENT PROPERTIES *(Continued)*

Investment properties held by the group	Fair value at 31 December 2018 HK$'000	2017 HK$'000	Fair value hierarchy	Valuation technique(s) & key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Property 5 – Commercial Property in Yau Ma Tei	**9,905**	9,624	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 the location and other individual factors such as age and location of the property, of HK$20,287 (2017: HK$19,714) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 6 – Commercial Property in Jordan	**35,100**	33,700	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 the location and other individual factors such as shape of the property, of HK$37,742 (2017: HK$36,237) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 7 – Commercial Property in Tsim Sha Tsui	**66,300**	65,600	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$19,052 (2017: HK$18,851) 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	**66,300**	65,600	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$19,052 (2017: HK$18,851) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 9 – Commercial Property in Tsim Sha Tsui	**66,300**	65,600	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$19,052 (2017: HK$18,851) per square feet	A slight increase in the price per square feet will increase significantly the fair value.
Property 10 – Commercial Property in Shatin	**48,200**	40,600	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$80,872 (2017:HK$68,121) per square feet	A slight increase in the price per square feet will increase significantly the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

17. INVESTMENT PROPERTIES *(Continued)*

Investment properties held by the group	Fair value at 31 December 2018 HK$'000	2017 HK$'000	Fair value hierarchy	Valuation technique(s) & key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Property 11 – Commercial Property in Kwun Tung	**11,231**	10,377	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$15,361 (2017: HK$14,191) per square feet	A slight increase in price per square feet will increase significantly in fair value.
Property 12 – Commercial Property in Tin Shui Wei	**–**	16,700	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 the location and other individual factors such as age and location of the property, of HK$36,784 per square feet in 2017	A slight increase in the price per square feet will increase significantly the fair value.
Property 13 – Commercial Property in Shatin	**980**	400	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$980,000 (2017: HK$400,000) per unit	A slight increase in the price per unit will increase significantly the fair value.
Property 14 – Commercial Property in Tai Po	**46,100**	44,000	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 the location and other individual factors such as age and location of the property, of HK$48,021 (2017: HK$45,833) per square feet	A slight increase in price per square feet will increase significantly in fair value.
	606,566	597,601				

Note: During the year 2017, the Group obtained an approval from the Building Authority for the change of use on Property 1 from industrial property to commercial property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2017	211,125	150,382	6,857	4,425	82,672	455,461
Additions	–	39,982	1,331	510	50,435	92,258
Acquisition of subsidiaries	–	1,954	157	–	2,461	4,572
Exchange realignment	–	890	178	55	3,760	4,883
Transfer from investment properties (note 17)	46,800	–	–	–	–	46,800
Disposals/written off	–	(25,734)	(480)	–	(2,521)	(28,735)
At 31 December 2017	257,925	167,474	8,043	4,990	136,807	575,239
Additions	65,808	11,473	2,746	223	7,602	87,852
Exchange realignment	(2,523)	(304)	(148)	(41)	(373)	(3,389)
Transfer from investment properties (note 17)	16,700	–	–	–	–	16,700
Disposals/written off	–	(17,500)	(1,731)	(1,359)	(56,187)	(76,777)
At 31 December 2018	**337,910**	**161,143**	**8,910**	**3,813**	**87,849**	**599,625**
ACCUMULATED DEPRECIATION						
At 1 January 2017	38,535	123,031	5,631	3,216	38,324	208,737
Charge for the year	10,811	16,012	435	614	20,625	48,497
Exchange realignment	–	619	153	37	2,232	3,041
Eliminated on disposals/written off	–	(25,612)	(387)	–	(2,203)	(28,202)
At 31 December 2017	49,346	114,050	5,832	3,867	58,978	232,073
Charge for the year	11,853	19,975	520	450	13,976	46,774
Exchange realignment	–	(82)	(48)	(39)	(103)	(272)
Eliminated on disposals/written off	–	(14,219)	(1,396)	(928)	(39,786)	(56,329)
At 31 December 2018	**61,199**	**119,724**	**4,908**	**3,350**	**33,065**	**222,246**
CARRYING VALUES						
At 31 December 2018	**276,711**	**41,419**	**4,002**	**463**	**54,784**	**377,379**
At 31 December 2017	208,579	53,424	2,211	1,123	77,829	343,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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

	2018 HK$'000	2017 HK$'000
Fixed-rate loans receivable (unsecured)		
– First Credit Limited ("First Credit")	–	150,000
– Other loans receivable	5,965	19,592
	5,965	169,592
Analysed for reporting purposes as:		
Non-current portion	5,109	5,998
Current portion	856	163,594
	5,965	169,592

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 5% (2017: 1% to 10%) per annum. As at 31 December 2018, the Group has loans receivable of HK$5,109,000 (2017: HK$5,998,000) which are due for repayment from 4 to 26 years (2017: 5 to 27 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.

The loans receivable at the end of the reporting period was net of allowance for impairment amounting to HK$3,559,000 (2017: HK$3,559,000) on loans that were past due and considered not recoverable.

19. LOANS RECEIVABLE *(Continued)*

Included in loans receivable as at 31 December 2017 was an aggregate amount of HK$150,000,000 advanced to First Credit, which accounted for 88% of the loans receivable. The loans carried interest of 5% per annum. Loans of HK$50,000,000 were repayable in January 2018 and loans of HK$50,000,000 and HK$50,000,000 were repayable in February 2018 and March 2018, respectively. The loans were fully guaranteed by First Credit Finance Group Limited, the holding company of First Credit with its shares listed on the Stock Exchange (Stock Code: 8215). On 24 November 2017, the SFC issued a direction to suspend trading in the shares of First Credit Finance Group Limited. In the opinion of the directors of the Company, First Credit is an independent third party which is not related to the Group or its related parties. The loans outstanding as at 31 December 2017 was fully repaid during the year 2018.

As at 31 December 2017, included in the other loans receivable was an amount of HK$12,748,000 which was past due within 6 months but not impaired.

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.

20. GOODWILL

	HK$'000
COST	
At 1 January 2017 (restated)	687,520
Acquisition of medical practices	2,000
Exchange realignment	20,215
At 31 December 2017	709,735
Exchange realignment	(13,018)
At 31 December 2018	**696,717**
IMPAIRMENT	
At 1 January 2017, 31 December 2017 and 2018	**207,608**
CARRYING VALUES	
At 31 December 2018	**489,109**
At 31 December 2017	502,127

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. GOODWILL *(Continued)*

For the purposes of impairment testing, goodwill have been allocated to groups of individual cash generating units ("CGUs") in 3 (2017: 3) divisions of the Group, namely, Hong Kong medical services Hong Kong managed care business and mainland hospital management and medical services in the PRC. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2018 and 31 December 2017 allocated to these units are as follows:

	2018 **HK$'000**	2017 HK$'000
Hong Kong medical services ("Division A"):		
Town Health Medical & Dental Services Limited ("Town Health M&D")	**6,666**	6,666
Hong Kong Traumatology and Orthopaedics Institute Limited ("Hong Kong T&O")	**3,544**	3,544
	10,210	10,210
Hong Kong managed care business ("Division B"):		
Dr. Vio & Partners Limited ("Vio")	**204,935**	204,935
Mainland hospital management and medical services ("Division C")		
Nanyang Xiangrui	**273,964**	286,982
	489,109	502,127

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

Division A

The recoverable amounts of CGUs of Hong Kong medical 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:

	2018	2017
Growth rate	**0% to 4%**	0% to 4%
Pre-tax discount rate	**14.26%**	15.84%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. GOODWILL *(Continued)*

Division A *(Continued)*

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 Hong Kong managed care business was based on its value in use and was determined with the assistance of Ascent Partners Valuation Service 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 a discount rate of 16.58% (2017: 17.24%). The cash flows beyond the five-year period are extrapolated using a growth rate of 2.90% (2017: 3.08%) per annum, which was determined after taking into consideration the economic conditions of the market. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin and other related expenses, such estimation is based on historical performance of Division B. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Division B to exceed the aggregate recoverable amount of Division B. During the years ended 31 December 2018 and 2017, the management of the Group determines that there is no impairment on Division B.

Division C

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

The recoverable amount of the CGU of Mainland hospital management and medical services 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 19.91% (2017: 20.21%). Cash flows after the five-year period were extrapolated using a growth rate of 2.61% (2017: 2.93%) per annum, which was determined after taking into consideration the economic conditions of the market. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenues and gross margin and other related expenses, such estimation is based on historical performance and future plans of Division C. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Division C to exceed the aggregate recoverable amount of Division C. During the years ended 31 December 2018 and 2017, the management of the Group determines that there is no impairment on Division C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. INTANGIBLE ASSETS

	Customer relationship HK$'000	Trade name HK$'000	Management service right and consulting service contracts HK$'000	Total HK$'000
COST				
At 1 January 2017 (restated)	72,512	167,087	156,185	395,784
Exchange realignment	–	–	6,217	6,217
At 31 December 2017	72,512	167,087	162,402	402,001
Exchange realignment	–	–	(8,427)	(8,427)
At 31 December 2018	**72,512**	**167,087**	**153,975**	**393,574**
AMORTISATION				
At 1 January 2017	18,002	–	4,851	22,853
Charge for the year	7,252	–	3,274	10,526
Exchange realignment	–	–	488	488
At 31 December 2017	25,254	–	8,613	33,867
Charge for the year	7,251	–	3,310	10,561
Exchange realignment	–	–	(218)	(218)
At 31 December 2018	**32,505**	**–**	**11,705**	**44,210**
CARRYING VALUES				
At 31 December 2018	**40,007**	**167,087**	**142,270**	**349,364**
At 31 December 2017	47,258	167,087	153,789	368,134

Customer relationship and trade name were recognised as part of the acquisition accounting of Vio and were recognised at their fair value at the date of acquisition.

Management service right and consulting services contracts intangible assets were recognised as part of the acquisition accounting of Nanyang Xiangrui during the year ended 31 December 2016 and was recognised at its fair value at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. INTANGIBLE ASSETS *(Continued)*

The management service right and consulting services contracts intangible assets have 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 Nanshi Hospital.

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. In the opinion of the director of the Group, 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.

22. INTERESTS IN ASSOCIATES

	2018 **HK$'000**	2017 HK$'000
Cost of investments in associates	**277,375**	274,377
Share of post-acquisition profit (loss) and other comprehensive income (expenses), net of dividend received	**21,331**	(5,702)
	298,706	268,675

During the year ended 31 December 2016, Natural Glory International Limited ("Natural Glory"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Stand Forever Corporate Consulting Limited, an independent third party, (the "Vendor"), to acquire 20% equity interest in Auspicious Idea Corporate Development Limited ("Auspicious Idea"), at a total consideration of HK$28,000,000, settled by cash of HK$22,000,000 and the entire issued share capital of Global Excel Limited, a then indirect wholly-owned subsidiary of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. INTERESTS IN ASSOCIATES *(Continued)*

Pursuant to the sale and purchase agreement for the acquisition of 20% equity interest in Auspicious Idea, the Vendor irrevocably and unconditionally guarantees to Natural Glory that the audited consolidated net profits after taxation (the "Audited Profits") of Auspicious Idea for the years ended 31 December 2015, 2016 and 2017 shall not be less than HK$15,000,000, HK$20,000,000 and HK$25,000,000 (the "Targeted Profit Requirement"), respectively. If the aggregate of the consolidated net profits of Auspicious Idea for the years ended 31 December 2015, 2016 and 2017 are less than HK$60,000,000, the Vendor shall pay for the amount on a pro-rata basis equivalent to the ratio of the consideration which is calculated based on the percentage of the difference between the Audited Profits and HK$60,000,000 to Natural Glory. The aggregate of the consolidated net profits of Auspicious Idea for the years ended 31 December 2015, 2016 and 2017 is HK$55,807,000, which is below the Targeted Profit Requirement by HK$4,193,000. For the year ended 31 December 2017, as a result of the shortfall, an amount of HK$1,957,000 was recognised in consolidated profit or loss and included in the trade and other receivables of the Group as at 31 December 2017. The amount was fully settled by the Vendor during the year ended 31 December 2018.

During the year ended 31 December 2017, the identification and determination of fair values of the net identifiable assets of Auspicious Idea have been completed. Included in cost of unlisted investments as at 31 December 2016 is a goodwill of HK$17,726,000 and Group's share of intangible assets, net of deferred tax effect, of HK$7,636,000 arising on acquisition of Auspicious Idea.

In the opinion of the directors of the Company, the Vendor was an independent third party which was not related to the Group at the date of acquisition.

During the year ended 31 December 2017, Natural Glory entered into a sale and purchase agreement with the Vendor, to acquire an additional 30% equity interest in Auspicious Idea, at a consideration of HK$108,000,000 in cash. Included in the Group's cost of unlisted investments as at 31 December 2017 is a goodwill of HK$53,683,000 attributable to the additional 30% equity interest acquired in 2017 and Group's share of intangible assets, net of deferred tax effect, of HK$27,900,000 arising on the acquisitions of the 50% equity interest in Auspicious Idea. In the opinion of the directors of the Company, the Vendor was an independent third party which was not related to the Group at the date of acquisition.

22. INTERESTS IN ASSOCIATES *(Continued)*

Pursuant to the sale and purchase agreement for the acquisition of the additional 30% equity interest in Auspicious Idea, the Vendor irrevocably and unconditionally guarantees to Natural Glory that the audited consolidated net profits after taxation (the "Audited Profits 1") of Auspicious Idea for the years ended 31 December 2017 and 2018 and the year ending 2019 shall not be less than HK$30,000,000, HK$36,000,000 and HK$42,000,000 (the "Targeted Profit Requirement 1"), respectively. If the aggregate of the consolidated net profits of Auspicious Idea for the years ended 31 December 2017 and 2018 and the year ending 31 December 2019 are less than HK$108,000,000, the Vendor shall pay an amount equal to 90% of the difference between HK$108,000,000 and the consolidated net profits or an amount of HK$29,700,000, whichever is lower, to Natural Glory. In addition, Natural Glory and the Vendor entered into a put option deed, pursuant to which the Vendor granted a put option (the "Put Option") to Natural Glory requiring the Vendor, in the event that the total consolidated net profits is less than HK$75,000,000, to purchase back all the Sales Shares from Natural Glory at the price of HK$108,000,000 less all dividends relating to the Sales Shares received/to be received and any damages received or to be received.

The management of the Group has performed a review of the Audited Profits 1 for the year ended 31 December 2018. The Audited Profits for 2018 is HK$48,882,000, which is above the Targeted Profit Requirement 1 by HK$10,882,000.

As at 31 December 2018, the fair value of the Targeted Profit Requirement 1 is HK$3,691,000, which was presented as financial assets at FVTPL in the consolidated statement of financial position. As at 31 December 2017, the fair value of the Targeted Profit Requirement 1 is HK$37,840,000. Fair value changes on financial assets at FVTPL of HK$34,149,000 was recognised in consolidated profit or loss during the year.

The fair value of the Targeted Profit Requirement 1 as at 31 December 2018 and 2017 was estimated by the directors of the Company after taking into consideration of the discounted cash flow calculation of Auspicious Idea. The valuation expert engaged by management adopted Monte-Carlo simulation analysis to derive the fair value of the Targeted Profit Requirement 1. The key inputs and assumptions used by the valuation expert included the net profit of Auspicious Idea for 2017 and 2018, time to maturity, risk-free rate, volatility and target profit requirements for the year ending 31 December 2019.

The Put Option is exercisable by Natural Glory within six months from the day of confirmation of the total consolidated net profits as shown in the audited consolidated financial reports.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. INTERESTS IN ASSOCIATES *(Continued)*

During the year ended 31 December 2016, Eyecare International Holdings Limited ("Eyecare International"), 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. Western Aurora is regarded as an associate of the Group.

Pursuant to the sale and purchase agreement, the vendor irrevocably and unconditionally guaranteed to Eyecare International that the audited consolidated revenue and the audited consolidated net profit after taxation of Western Aurora for each of the eight financial years ending 31 December 2024 shall not be less than HK$86,916,000 and HK$10,000,000, respectively. Subsequent to the completion of the acquisition, Eyecare International entered into a consultancy agreement with a company controlled by the vendor (the "Consultant"). The Consultant shall be responsible for the management and the daily operation of the medical centres and shall provide all the medical consultation and related healthcare services to patients of the medical centers and charges for consultancy services fee. If the audited consolidated revenue and/or the audited consolidated net profit after taxation is less than the target revenue and target profit after taxation for the relevant year, Western Aurora shall be entitled to deduct the consultancy services fee paid to the vendor by an equal amount equal to the shortfall.

The management of the Group has performed a review of the audited consolidated revenue and the audited consolidated net profit after taxation of Western Aurora for the year ended 31 December 2018 and 2017. The audited consolidated revenue and the audited consolidated net profit after taxation for the year ended 31 December 2018 are HK$104,451,000 and HK$12,482,000 (2017: HK$89,585,000 and HK$10,354,000) respectively which are above the target revenue and target profit. No shortfall of revenue and profit was recognised in profit or loss for the years ended 31 December 2018 and 2017.

As at 31 December 2018, the directors of the Company took into consideration of the discounted cash flow calculation of Western Aurora and the profit target for the year ended 2018 was met and the directors of the Company expected that the audited consolidated revenue and the audited consolidated net profit after taxation for each of the six years ending 31 December 2024 could meet the target requirement and accordingly, the fair value of the target requirement is zero.

In the opinion of the directors of the Company, the vendor was an independent third party which was not related to the Group at the date of acquisition.

22. 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
					2018	2017	**2018**	2017	
Auspicious Idea	Incorporated	British Virgin Islands	Hong Kong	Ordinary	**50% (Note i)**	50% (Note i)	**50%**	50%	Investment holding and its subsidiaries engaged in provision of beauty and cosmetic medical services in Hong Kong and the PRC
Luck Key Investment Limited ("Luck Key")	Incorporated	British Virgin Islands	Hong Kong	Ordinary	**33.51%**	33.51% (Note ii)	**20%**	20%	Investment holding and its subsidiaries engaged in provision of medical diagnostic and health care services in Hong Kong
Western Aurora	Incorporated	British Virgin Islands	Hong Kong	Ordinary	**48%**	48%	**33%**	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.

Notes:

(i) The Group is entitled to appoint up to two out of four directors to the board of directors of Auspicious Idea. As at 31 December 2018, the Group has appointed one out of two directors (2017: two out of four). According to the shareholders' agreement, the director who is appointed by the other shareholder shall be entitled to a second and/or casting vote in the event of an equality of vote. Hence, in the opinion of the directors of the Company, the Group has significant influence over the company.

(ii) During the year ended 31 December 2017, the other shareholders of Luck Key made additional capital contribution to Luck Key. The Group's equity interest in Luck Key was decreased from 35% to 33.51% after the capital contribution made by the other shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

22. 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

	2018	2017
	HK$	HK$
Current assets	**189,738**	168,593
Non-current assets	**33,178**	36,208
Current liabilities	**(142,324)**	(160,633)
Non-current liabilities	**–**	(2,740)

	2018	2017
	HK$	HK$
Revenue	**289,443**	247,482
Profit for the year	**46,882**	12,836
Other comprehensive (expense) income for the year	**(7,718)**	4,402
Profit and total comprehensive income for the year	**39,164**	17,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

22. 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:

	2018 **HK$'000**	2017 HK$'000
Net assets of Auspicious Idea	**80,592**	41,428
Proportion of the Group's ownership interest in Auspicious Idea	**50%**	50%
Net assets of the Group's interest in Auspicious Idea	**40,296**	20,714
Effects of fair value adjustments on intangible assets	**22,639**	27,900
Goodwill	**71,409**	71,409
Carrying amount of the Group's interest in Auspicious Idea	**134,344**	120,023

(b) *Luck Key*

	2018 **HK$'000**	2017 HK$'000
Current assets	**64,978**	86,781
Non-current assets	**101,382**	56,433
Current liabilities	**(24,244)**	(15,967)
Non-controlling interest	**213**	(438)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates *(Continued)*

(b) Luck Key (Continued)

	2018 HK$'000	2017 HK$'000
Revenue	**219,072**	233,210
Profit and total comprehensive income for the year	**15,520**	36,229
Dividend distributed by the associate during the year	**–**	(20,000)

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

	2018 HK$'000	2017 HK$'000
Net assets of Luck Key attributable to owners	**142,329**	126,809
Proportion of the Group's ownership interest in Luck Key	**33.51%**	33.51%
Carrying amount of the Group's interest in Luck Key	**47,694**	42,494

(c) Western Aurora

	2018 HK$'000	2017 HK$'000
Current assets	**44,657**	32,926
Non-current assets	**12,662**	15,373
Current liabilities	**(8,805)**	(12,267)
Non-current liabilities	**(1,250)**	(1,250)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates *(Continued)*

(c) Western Aurora (Continued)

	2018 HK$'000	2017 HK$'000
Revenue	**104,451**	89,585
Profit and total comprehensive income for the year	**12,482**	10,354

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

	2018 HK$'000	2017 HK$'000
Net assets of Western Aurora	**47,264**	34,782
Proportion of the Group's ownership interest in Western Aurora	**48%**	48%
Net assets of the Group's interest in Western Aurora	**22,687**	16,695
Effects of fair value adjustments on intangible assets	**15,546**	15,546
Goodwill	**45,168**	45,168
Carrying amount of the Group's interest in Western Aurora	**83,401**	77,409

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

22. INTERESTS IN ASSOCIATES *(Continued)*

Aggregate information of associates that are not individually material

	2018 **HK$'000**	2017 HK$'000
The Group's share of profit and other comprehensive income for the year	**5,410**	3,242
Aggregate carrying amount of the Group's interests in these associates	**33,267**	28,749

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:

	2018 **HK$'000**	2017 HK$'000
Unrecognised share of losses of associates for the year	**(1,846)**	(2,213)
Accumulated unrecognised share of losses of associates	**(17,316)**	(15,470)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. INTERESTS IN JOINT VENTURES

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

	2018 HK$'000	2017 HK$'000
Cost of unlisted investments in joint ventures	**43,482**	41,212
Share of post-acquisition loss and other comprehensive expenses, net of dividend received	**(41,048)**	(23,618)
Exchange adjustment	**8**	–
	2,442	17,594

Details of a major joint venture 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 2018	2017	Proportion of voting power held by the Company 2018	2017	Principal activities
Sky View Investment Limited ("Sky View")	Incorporated	British Virgin Islands	PRC	Ordinary	**51%**	51%	**50%**	50%	Investment holding in an associate engaged in operation of beauty mobile application in the PRC

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

Sky View

	2018 HK$'000	2017 HK$'000
Current assets	**351**	410
Non-current assets	**–**	34,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

23. INTERESTS IN JOINT VENTURES *(Continued)*
Sky View *(Continued)*

	2018 HK$'000	2017 HK$'000
Revenue	–	–
Loss and total comprehensive expense for the year	(34,148)	(39,254)

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

	2018 HK$'000	2017 HK$'000
Net assets of Sky View	351	34,499
Proportion of Group's ownership interest in Sky View	51%	51%
Carrying amount of Group's interest in Sky View	179	17,594

The loss of Sky View for the year ended 31 December 2018 included an amount of HK$27,066,000 (2017: HK$33,000,000) representing its share of impairment loss of its associate.

The above financial information lists the major joint venture of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the interests in joint ventures of the Group. To give details of other joint ventures would result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Financial assets mandatorily at FVTPL:		
Listed equity securities in Hong Kong (note i)	**7,805**	–
Unlisted bond fund (note ii)	**64,480**	–
Financial asset as profit guarantee (note 22)	**3,691**	37,840
	68,171	37,840
Total	**75,976**	37,840
Analysed for reporting purposes as:		
Current assets	**7,805**	–
Non-current assets	**68,171**	37,840
	75,976	37,840

Notes:

(i) Listed equity securities held for trading purposes 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 2018, fair value loss on listed securities amounted to HK$8,921,000 was recognised in profit or loss.

(ii) Unlisted bond fund represented investment in Heemin Capital Global Enhanced Yield Bond Fund ("Heemin Capital") – Class A Shares. During the year ended 31 December 2018, fair value gain on the unlisted bond fund amounted to HK$1,511,000 was recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

25. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 **HK$'000**
Unlisted investments:	
– Equity securities (note i)	**85,190**

Note:

i) The above unlisted equity investments represent the Group's entity interest in private entities established in the Hong Kong, Cayman Islands and British Virgin Islands. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that these investments are held for long-term purposes and realising their performance potential in the long run.

During the year ended 31 December 2018, the investments, Archermind Technology (Nanjing) Co., Ltd. ("Archermind") a company listed in the PRC and Union Medical Healthcare Limited ("Union Medical"), a company listed in Hong Kong no longer met the investment objective of the Group. The Group disposed of the investments at a consideration of approximately HK$31,802,000 and HK$108,474,000 respectively, total fair value gain of approximately HK$20,101,000 was accounted to other comprehensive income, approximately HK$40,468,000 of the previous recognised changed in fair value has been transferred to accumulated profits upon the date of disposal.

During the year ended 31 December 2018, the Group received a dividend income of approximately HK$3,953,000 from Union Medical.

In the opinion of the directors of the Company, the investees are not related to the Group or its related parties.

26. AVAILABLE-FOR-SALE INVESTMENTS
Available-for-sale investments comprise:

	2017 HK$'000
At fair value:	
– Unlisted equity fund	8,505
– Listed equity securities (note i)	120,175
At cost:	
– Unlisted equity securities (note ii)	157,649
Total	286,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

26. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

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 2017, fair value gain on listed securities amounting to HK$31,625,000 was recognised in other comprehensive income.

(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.

Included in unlisted equity securities as at 31 December 2017 was an investment in NSD Capital of HK$7,001,000. The outstanding loan balance of HK$15,434,000 had been capitalised as a capital contribution to the investee and included in available-for-sale investments. NSD Capital is an exempted company incorporated in the Cayman Island with limited liability. The management shares of which are wholly owned by Convoy Fund Management Limited ("CFM"), a wholly owned subsidiary of Convoy Global Holdings Limited ("Convoy Global"), with its shares listed on the Stock Exchange. Therefore, NSD Capital is a subsidiary of CFM and is ultimately controlled by Convoy Global. NSD Capital is currently holding listed equity securities of a listed company, which is listed on the Stock Exchange. As at 31 December 2017, the share price of the listed shares was significantly declined. The directors assessed the fair values of the listed securities and impairment loss of HK$13,919,000 was recognised in profit or loss (note 8). The balance of HK$7,001,000 equity instruments was designated at FVTOCI (note 25) at the date of initial application of HKFRS 9 on 1 January 2018 and a loss in fair value of HK$1,655,000 was recognised in other comprehensive income as at 31 December 2018.

During the year ended 31 December 2017, the Group entered into a subscription agreement to acquire 7,708.37 shares in Heemin Capital – Class A Shares at a subscription price of US$7,884,000 (equivalent to HK$61,103,000). The balance of HK$62,969,000 was reclassified to financial assets at FVTPL (note 24) at the date of initial application of HKFRS 9 on 1 January 2018 and as at 31 December 2018, gain from fair value change was recognised in profit or loss.

As at 31 December 2017, the two major unlisted investees, Heemin Capital Global Enhanced Yield Bond Fund ("Heemin Capital") and HCMPS Healthcare Holdings Limited ("HCMPS"), accounted for 94% of total unlisted equity securities. Heemin Capital is principally engaged in global fund investment, HCMPS and its subsidiaries are principally engaged in the provision of contracted medical scheme for integrated medical and healthcare check-up services in Hong Kong. The balance of HCMPS of HK$88,703,000 equity instruments was designated at FVTOCI (note 25) at the date of initial application of HKFRS 9 on 1 January 2018 and as at 31 December 2018 a loss from fair value change of HK$11,662,000 was recognised in other comprehensive income.

In the opinion of the directors of the Company, the investees are not related to the Group or its related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. PROMISSORY NOTES

	Notes	2018 HK$'000	2017 HK$'000
Megacom Investment Incorporated ("Megacom Investment")	(i)	–	–
Mr. Dai Hai Dong	(ii)	–	–
Profit Castle Holdings Limited	(iii)	**330,000**	330,000
		330,000	330,000

Notes:

(i) A promissory note with a principal amount of HK$30,000,000 which carried interest of 5% per annum and matured in June 2018, was issued by Megacom Investment as part of the consideration of the acquisition of the Group's interests in New Ray Medicine International Holding Limited ("New Ray"). The promissory note is secured by Mr. Chan Ka Chung, an executive director of China Wah Yan Healthcare Limited ("China Wah Yan") and a shareholder of China Wah Yan based on the information in the published annual report of China Wah Yan for the year ended 31 December 2016. 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.

According to the announcement of China Wah Yan dated 29 March 2018, the SFC issued a direction to suspend trading in the shares of China Wah Yan on 24 November 2017 because it appears to SFC that, among other things, China Wah Yan's discloseable transaction announcement dated 23 June 2016 (which relates to its acquisition of interests in New Ray from the Group) contained materially false, incomplete or misleading information. Subsequent to the date of suspension, the directors of the Company reassessed the recoverable amount of the promissory notes due from Megacom Investment as at 31 December 2017. As a result of the reassessment, which included credit assessment of the guarantor who is also the sole shareholder of Megacom Investment, it was determined that the suspension of trading in the shares of China Wah Yan had adversely impacted the financial ability of this counterparty to repay the monies owed under the promissory notes, thus leading to the recognition of the impairment loss of HK$30,000,000 during the year ended 31 December 2017 to fully write down the carrying amount of the promissory note receivable to Nil as at 31 December 2017. The Group received the principal amount of the promissory note in full in July 2018 and hence the impairment loss amounting to HK$30,000,000 was reversed during the year ended 31 December 2018. In the opinion of the directors of the Company, the note issuers is an independent third party which is not related to the Group or its related parties.

27. PROMISSORY NOTES *(Continued)*

Notes: *(Continued)*

(ii) As at 31 December 2018 and 2017, a promissory note with a principal amount of HK$203,705,000 is outstanding, which carries interest of 5% per annum and will mature in November 2019. The promissory note was issued by the purchaser, Mr. Dai Hai Dong, as part of consideration of the acquisition of the Group's interests in Wise Lead Holdings Limited ("Wise Lead") in 2016. The promissory note is secured by the entire issued share capital of Wise Lead. Wise Lead owns 49% interest in Huayao Medical Group Limited ("Huayao"), whose major assets were a rehabilitation-oriented hospital situated in Hangzhou and certain outpatient medical clinics situated in Hangzhou. As disclosed in the annual report of the Company for the year ended 31 December 2017, the Group had reassessed the recoverability of the promissory note receivable as at 31 December 2017 by carrying out credit reviews on the financial condition of the counterparty. During the credit reviews, it was noted upon preliminary inspection conducted by the staff members of the Company that the operations of the hospital and the outpatient medical clinics of Huayao in Hangzhou had ceased. The directors of the Company conducted further credit assessments on Mr. Dai Hai Dong and reassessed the recoverable amount of the promissory note and impairment loss of HK$203,705,000 was recognised in consolidated profit or loss to fully write down the carrying amount of the promissory note. In the opinion of the directors of the Company, the note issuer is an independent third party who is not related to the Group or its related parties.

During the year ended 31 December 2018, the Group has conducted another credit review on the financial condition of the counterparty. During the credit review, it was noted upon the inspection conducted by the staff members of the Company concerning the status of the hospital and clinics remained unchanged. The directors of the Company considered the recoverability of the promissory note is still remote. Accordingly, the impairment loss recognised in the prior year was not reversed.

(iii) A promissory note with a principal amount of HK$330,000,000, which carries interest of 6% per annum and will mature in April 2020, was issued by Profit Castle Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and owned as to 50% by Dr. Ip Chun Heng, Wilson ("Dr. Ip"), a former director of the Company, and 50% by his spouse, as consideration of the acquisition of the Group's interests in Bonjour Beauty Group as set out in note 14. The promissory note is covered by personal guarantee provided by Dr. Ip and secured by the entire issued share capital of Bonjour Beauty International Limited. If there is any default, the Group has the right to apply to the court for realising the collateral of the shares. 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.

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 borrowing rates of the note issuers and considered the interest rates as fair and reasonable. The principal amounts of the promissory notes are considered as the fair value at the date of issuance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

28. INVENTORIES

	2018 HK$'000	2017 HK$'000
Pharmaceutical supplies	**23,858**	21,465
Healthcare equipment	**766**	1,734
Dental materials and supplies	**1,001**	1,386
	25,625	24,585

29. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**158,648**	162,900
Less: Allowance for doubtful debts	**–**	(5,289)
Total trade receivables, net of allowance	**158,648**	157,611
Deposits	**40,469**	47,060
Other receivables	**48,813**	29,582
Prepayments	**14,236**	7,072
	262,166	241,325

Most of the patients of the medical and dental practices settle in cash. Payments arising from use of medical cards by patients 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. The Group allows an average credit period of 60 to 240 days to its trade customers under other business activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

29. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

	2018 HK$'000	2017 HK$'000
0 – 60 days	**145,287**	120,953
61 – 120 days	**10,619**	24,096
121 – 180 days	**1,964**	12,143
181 – 240 days	**778**	419
	158,648	157,611

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.

As at 31 December 2018, no trade receivables are past due at the end of the reporting period for which the Group has not provided for impairment loss.

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:

	2017 HK$'000
Balance at the beginning of the year	4,889
Impairment losses recognised	4,103
Amounts written off as uncollectible	(3,703)
Balance at the end of the year	5,289

The impairment losses recognised represent 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

29. TRADE AND OTHER RECEIVABLES *(Continued)*

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

Included in the Group's other receivables as at 31 December 2018 were receivable from disposal of Archermind of HK$30,994,000 (2017: interest receivable of HK$14,555,000 and receivable from disposal of subsidiaries of HK$6,656,000).

30. HELD FOR TRADING INVESTMENTS

	2017 HK$'000
Listed equity securities in Hong Kong	16,726

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

The balance of HK$16,726,000 was reclassified to financial assets at FVTPL (note 24) at the date of initial application of HKFRS 9 on 1 January 2018.

In the opinion of the directors of the Company, the investees are not related to the Group or its related parties.

31. AMOUNTS DUE FROM ASSOCIATES

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

At 31 December 2018 and 2017, the balance of amounts due from associates is net of accumulated allowance of HK$10,557,000 due to the amounts were credit-impaired as at those dates. The directors of the Company considered the carrying amounts of remaining amounts due from associates approximate their fair values as at 31 December 2018 and 2017.

32. 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 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. BANK BALANCES AND CASH/FIXED BANK DEPOSIT

Bank balances and cash comprise cash held by the Group and bank balances that carry interest at market rates ranging from 0.01% to 1% (2017: 0.01% to 1%) per annum and have original maturity of three months or less.

As at 31 December 2018, no fixed bank deposit is incurred (2017: HK$64,358,000 carried fixed interests rate ranging from 1.35% to 2.1% per annum which was will be matured in 2018 and cannot be redeemed before their maturity date).

34. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	HK$'000
Trade payables	**36,997**	56,691
Other payables	**12,993**	80,079
Deposits received	**5,333**	9,243
Contract liabilities	**11,885**	–
Deferred income	**–**	2,935
Accruals	**83,651**	73,192
	150,859	222,140

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

	2018	2017
	HK$'000	HK$'000
0 – 60 days	**34,635**	39,746
61 – 120 days	**1,648**	5,305
Over 121 days	**714**	11,640
	36,997	56,691

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

35. AMOUNT DUE TO AN INVESTEE

At 31 December 2018 and 2017, the amount due to an investee was non-trade nature, unsecured, interest-free and repayable in demand.

36. BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Secured:		
Mortgage loan	**18,756**	19,777
The bank borrowings are repayable as follows:		
On demand and within one year	**1,137**	1,109
In more than one year but not more than two years	**1,165**	1,137
In more than two years but not more than three years	**1,194**	1,165
In more than three years but not more than four years	**1,224**	1,194
In more than four years but not more than five years	**1,254**	1,224
Over five years	**12,782**	13,948
	18,756	19,777
Less: Amounts due within one year shown under current liabilities	**(1,137)**	(1,109)
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)	**(17,619)**	(18,668)
	–	–

As at 31 December 2018, the bank borrowings of the Group carry variable interest rates at Hong Kong Interbank Official Rate ("HIBOR") +2.25% per annum (2017: variable interest rate from 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation	Fair value adjustment on business combinations	Tax losses	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017 (restated)	1,755	47,020	(33)	(265)	48,477
Credit to profit or loss	(585)	(2,015)	33	265	(2,302)
Exchange realignment	–	2,904	–	–	2,904
At 31 December 2017	1,170	47,909	–	–	49,079
Credit to profit or loss	(585)	(2,024)	–	–	(2,609)
Exchange realignment	–	(2,052)	–	–	(2,052)
At 31 December 2018	**585**	**43,833**	**–**	**–**	**44,418**

Fair value adjustments on business combinations represent deferred tax effect of HK$11,990,000 on customer relationship acquired on the acquisition of Vio and deferred tax effect of HK$40,627,000 on management service right and consulting service contracts acquired on the acquisition of Nanyang Xiangrui.

At 31 December 2018, the Group has unused tax losses of HK$505,997,000 (2017: HK$385,679,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Such losses may be carried forward indefinitely.

No deferred tax liabilities has been provided for in the consolidated financial statements in respect of the temporary differences attributable to the undistributed accumulated profits of HK$71,539,000 as at 31 December 2018 (2017: HK$47,183,000) earned by the subsidiaries established in the PRC as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

38. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 2018	30,000,000,000	300,000
Issued and fully paid:		
At 1 January 2017	7,761,298,452	77,613
Shares repurchased and cancelled (Note)	(235,164,000)	(2,352)
At 31 December 2017 and 2018	**7,526,134,452**	**75,261**

Note:

(i) During the year ended 31 December 2017, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid (after expenses) HK$'000
May 2017	235,164,000	1.24	1.09	288,892

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

39. 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 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 might 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 might at its absolute discretion determine the period during which a share option might 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 might also provide restrictions on the exercise of a share option during the period a share option might be exercised.

The exercise price was 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 might 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 might 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.

There were no share options outstanding under the 2008 Scheme as at 1 January 2017.

No share options have been granted during both years ended 31 December 2017 and 2018.

The 2008 Scheme has expired on 15 September 2018. At present, the Company has no intention to adopt a new share option scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

40. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2017

(a) Hangzhou Zanbu Group

On 1 July 2017, TH Shanghai (China) Limited ("TH Shanghai"), a then wholly owned subsidiary of the Company, entered into an agreement with an independent third party to acquire 100% equity interest in 杭州贊布生物科技有限公司 (Hangzhou Zanbu Biological Technology Company Limited)* and its subsidiary ("Hangzhou Zanbu Group") at a cash consideration of RMB1,000,000 (equivalent to HK$1,157,000) included in other payables as at 31 December 2017. The transaction was completed on 14 August 2017. The acquisition of Hangzhou Zanbu Group had been accounted for using the purchase accounting method. Hangzhou Zanbu Group is engaged in the provision of medical healthcare consultation services in the PRC.

The Group subsequently disposed of 21% equity interest in TH Shanghai Medical the immediate holding company to a related third party (note 41(b)). The Group retains control over TH Shanghai Medical and its subsidiaries.

Assets acquired and liabilities of Hangzhou Zanbu Group recognised at the date of acquisition are as follows:

	Total HK$'000
Property, plant and equipment	4,572
Inventories	104
Trade and other receivables	532
Bank balances and cash	716
Trade and other payables	(4,767)
Net assets	1,157
Consideration paid and payable	1,157
Less: net assets recognised	(1,157)
Goodwill arising on acquisition	–

During the year ended 31 December 2017, the identification and determination of fair values of the net identifiable assets of Hangzhou Zanbu Group have been completed.

The acquisition-related costs were insignificant and have been excluded from the consideration transferred and recognised in profit or loss.

* *English name for identification only*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

40. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2017 *(Continued)*

(a) Hangzhou Zanbu Group (Continued)

	HK$'000
Analysis of net outflow of cash and cash equivalents in connection with the acquisition of a subsidiary:	
Cash consideration paid	1,157
Less: Bank balances and cash acquired	(716)
Net cash outflow in respect of the acquisition of a subsidiary	441

Included in the loss for the year ended 31 December 2017 from continuing operations was loss of HK$2,802,000 attributable to the additional business generated by Hangzhou Zanbu Group. Revenue from continuing operations for the year ended 31 December 2017 included HK$918,000 generated from Hangzhou Zanbu Group.

Had the acquisition been completed on 1 January 2017, total Group's revenue from continuing operations for the year would have been approximately HK$1,109,519,000 and loss for the year from continuing operations would have been approximately HK$100,630,000. 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 2017, nor is it intended to be a projection of future results.

(b) Medical Practice

On 30 April 2017, Town Health M&D, a wholly-owned subsidiary of the Company, had entered into an agreement with Essential Health Limited, an associate of the Company, for the acquisition of a medical practice at a consideration of HK$2,000,000 in cash. In the opinion of the director of the Company, no significant identifiable assets and liabilities were assumed, accordingly, goodwill of HK$2,000,000 was recognised in Division A. Details please refer to the note 20 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

41. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2017

(a) Disposal of subsidiaries with loss of control

Faithful Sun Limited is principally engaged in properties investment. On 14 August 2017, the Group completed the disposed of its entire equity interest in Faithful Sun Limited to an independent third party at a consideration of HK$149,464,000. The consideration was settled by cash.

The aggregate amount of the assets and liabilities attributable to subsidiaries on the date of disposal were as follows:

	Faithful Sun Limited 14 August 2017 HK$'000
Analysis of assets and liabilities over which control was lost:	
Investment properties	127,700
Net assets disposed of	127,700
Gain on disposal of a subsidiary:	
Consideration received and receivable	149,720
Net assets disposed of	(127,700)
Gain on disposal	22,020
Consideration received:	
Cash received	149,464
Other receivables	256
Total consideration received	149,720
Net cash inflow arising on disposal:	
Cash consideration	149,464
Less: bank balances and cash disposed of	–
	149,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2017 *(Continued)*

(b) Disposal of partial interests in subsidiaries without loss of control

On 3 November 2017, Town Health Dental Group Limited, a wholly owned subsidiary of the company, entered into a sale and purchase agreement with a company which is a wholly owned by Dr. Yau Yi Kwong ("Dr. Yau"), a member of the senior management of the Group, and is guaranteed by Dr. Yau to dispose of 21% equity interest of TH Shanghai Medical at a cash consideration of HK$1,250,000. The transaction was completed on the same day. The carrying amount of the net assets attributable to the 21% equity interest in TH Shanghai Medical and its subsidiaries on the date of disposal was approximately HK$1,277,000. Accordingly, the Group recognised an increase in non-controlling interest of approximately HK$1,277,000 and a decrease in equity attributable to owners of the Company of approximately HK$27,000.

On 3 November 2017 and 29 December 2017, Town Health Corporate Management and Investment Limited, a wholly owned subsidiary of the Group entered into agreements with three employees of a subsidiary of Premium Rich and an independent third party to dispose of 5% and 20% equity interests in Premium Rich at a total consideration of HK$2,600,000. The carrying amount of the net assets attributable to the 5% and 20% equity interest in Premium Rich and its subsidiaries on the respective dates of disposal were approximately HK$650,000 and HK$1,624,000 respectively. Accordingly, the Group recognised an increase in non-controlling interests of approximately HK$2,274,000.

On 3 November 2017 and 29 December 2017, Town Health Corporate Management and Investment Limited, a wholly owned subsidiary of the Group entered into agreements with three employees of a subsidiary of Premium Rich and an independent third party to dispose of 10% and 20% equity interests in Silver Grade at a consideration of HK$1,900,000 and HK$3,800,000 respectively. The carrying amount of the net assets attributable to the 10% and 20% equity interests in Silver Grade on the respective dates of disposal was approximately HK$1,555,000 and HK$2,656,000 respectively. The Group recognised an increase in non-controlling interests of approximately HK$1,555,000 and HK$2,656,000 respectively and an increase in equity attributable to owners of the Company of approximately HK$345,000 and HK$1,144,000 respectively.

The consideration of the above disposals were to be satisfied in cash, of which HK$3,150,000 has been received and HK$6,400,000 remained outstanding as at 31 December 2017. Such amounts were included in other receivables. In April 2018, the remaining outstanding consideration has been fully settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

42. 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$1,500 per month, 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$7,215,000 (2017: HK$7,030,000) represents contributions payable to the above schemes by the Group during the year.

43. OPERATING LEASES

The Group as lessee

	2018 **HK$'000**	2017 HK$'000
Minimum lease payments paid under operating leases in respect of properties during the year	**76,147**	70,071

During the year ended 31 December 2018, the total rental expenses incurred by the Group amounted to HK$91,764,000 (2017: HK$101,323,000).

43. OPERATING LEASES *(Continued)*

The Group as lessee *(Continued)*

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:

	2018 HK$'000	2017 HK$'000
Within one year	**62,687**	53,138
In the second to fifth year inclusive	**43,035**	60,322
	105,722	113,460

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 terms ranging from two to five years.

The Group as lessor

During the year ended 31 December 2018, the Group had property rental income of approximately HK$21,264,000 (2017: HK$21,329,000).

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:

	2018 HK$'000	2017 HK$'000
Within one year	**14,607**	11,860
In the second to fifth year inclusive	**9,440**	5,125
	24,047	16,985

All of the properties held have committed tenants for the coming one to two years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

44. CAPITAL COMMITMENT

	2018 HK$'000	2017 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment	–	13,649

45. PLEDGE OF ASSETS

As at 31 December 2018, property, plant and equipment and investment properties of the Group with carrying value of approximately HK$49,169,000 (2017: HK$195,732,000) and HK$nil (2017: HK$486,502,000), respectively, were pledged to secure general banking facilities granted to the Group.

46. 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.

47. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at FVTPL	**75,976**	37,840
Equity instruments at FVTOCI	**85,190**	–
Held for trading investments	**–**	16,726
AFS investments	**–**	286,329
Financial assets at amortised cost (including cash and cash equivalents)	**2,266,826**	–
Loans and receivables (including cash and cash equivalents)	**–**	2,163,358
Financial liabilities		
Amortised cost	**122,069**	213,199

(b) 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 and loans receivable 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Interest rate risk management *(Continued)*

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's Hong Kong dollars denominated borrowings.

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 (2017: 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 (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by HK$78,000 (2017: decrease/increase by HK$83,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

(ii) Other price risk management

As at 31 December 2017, the Group has concentration risk on held for trading investments which mainly represent investment in an equity security listed on the Stock Exchange. The Group has concentration risk by investment in China Parenting Network Holdings Limited, as it represents 100% of the total held for trading investments. During the year ended 31 December 2018, there was no concentration of other price risk.

47. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(ii) Other price risk management *(Continued)*

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% (2017: 10%) higher/lower:

- post-tax profit for the year ended 31 December 2018 would increase/decrease by HK$781,000 (2017: HK$1,397,000) as a result of the changes in fair value of financial assets at FVTPL.

  - investment revaluation reserves for the year ended 31 December 2018 would increase/decrease by HK$8,519,000 for the Group as a result of the changes in fair value of unlisted securities under equity instruments at fair value.

  - investment revaluation reserves for the year ended 31 December 2017 through other comprehensive income would increase/decrease by HK$12,017,000 for the Group as a result of the changes in fair value of AFS investments.

The percentage applied in the sensitivity analysis is 10% in both year 2018 and 2017 of which management considers that is reasonable in current financial market.

Credit risk and impairment assessment

As at 31 December 2018 and 2017, 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.

As at 31 December 2018 and 2017, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of Target Profit Requirement 1 in relation to financial guarantees granted to the Group as disclosed in note 22. 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 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

The Group has concentration of credit risk by customer as 42% (2017: 47%) and 16% (2017: 24%) 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 companies with good reputation.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date.	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	External credit rating	Internal credit rating	Gross carrying amount HK$'000	Credit-impaired HK$'000	Net carrying amount HK$'000
Promissory notes	27	N/A	N/A	533,705	(203,705)	330,000
Loans receivable	19	N/A	Low risk (Note 2)	9,524	(3,559)	5,965
Amounts due from associates	31	N/A	Low risk	13,532	(10,557)	2,975
Bank balances	33	AA+	N/A	1,717,681	–	1,717,681
Other receivables	29	N/A	Low risk (Note 2)	48,813	–	48,813
Trade receivables	29	N/A	Low risk (Note 3)	158,648	–	158,648

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment (Continued)

Notes:

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

2.

	Past due HK$'000	Not past due/ No fixed repayment terms HK$'000	Total HK$'000
Loans receivable	3,559	5,965	9,524
Other receivables	–	48,813	48,813

3. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by past due status.

As at 31 December 2018, the Group also has concentration of credit risk on aggregate promissory notes due from one company amounting to HK$330,000,000, and aggregate loans receivable due from one company amounting to HK$2,493,000 (2017: aggregate promissory notes due from one company amounting to HK$330,000,000, and aggregate loans receivable due from two companies amounting to HK$162,748,000). The Group's promissory notes receivable from one company and the loans receivable due from the company (2017: promissory notes receivable from one company and two largest loans receivable due from the companies) mentioned above have good credit and/or repayment history or is in good financial position. An internal credit assessment process assesses the potential borrower's credit quality and defines credit limits by borrower, and the credit risk is considered to be low. There is no other significant concentration risk during the year.

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.

47. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

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.

Liquidity and interest risk tables

	Weighted average effective interest rate	On demand or less than 1 month	1 –3 months	Total undiscounted cash flows	Carrying amount at 31.12.2018
		HK$'000	HK$'000	HK$'000	HK$'000
31 December 2018					
Non-derivative financial liabilities					
Trade and other payables	–	–	55,323	55,323	55,323
Amounts due to non-controlling interests	–	47,685	–	47,685	47,685
Amount due to an investee	–	305	–	305	305
Variable rate bank borrowings	3.54%	18,756	–	18,756	18,756
		66,746	55,323	122,069	122,069

	Weighted average effective interest rate	On demand or less than 1 month	1 –3 months	Total undiscounted cash flows	Carrying amount at 31.12.2017
		HK$'000	HK$'000	HK$'000	HK$'000
31 December 2017					
Non-derivative financial liabilities					
Trade and other payables	–	–	146,013	146,013	146,013
Amounts due to non-controlling interests	–	47,101	–	47,101	47,101
Amount due to an investee	–	308	–	308	308
Variable rate bank borrowings	2.82%	19,777	–	19,777	19,777
		67,186	146,013	213,199	213,199

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity and interest risk tables (Continued)

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 2018, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$18,756,000 (2017: HK$19,777,000). 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 14 years (2017: within 3 months to 15 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$22,052,000 (2017: HK$23,636,000).

(c) 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), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

1. Level 1 fair value measurements are those derived from quoted process (unadjusted) in active market for identical assets or liabilities;

2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

47. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments *(Continued)*

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

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 are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

	Financial assets	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Fair value hierarchy	Valuation technique	Significant unobservable input(s)	Range (weighted average)	Relationship of unobservable inputs for fair value
1	Financial assets at FVTPL – listed equity securities in Hong Kong (31 December 2017 classified as held for trading investments)	7,805	16,726	Level 1	Quoted bid prices in an active market	n/a	n/a	n/a
	– unlisted bond fund	64,480	–	Level 2	Quoted market prices provided by financial institute, represent the fair value based on the quoted prices on the underlying investments	n/a	n/a	n/a
	– contingent consideration	3,691	37,840	Level 3	Monte-Carlo Simulation analysis	Discount rate for vendor cash payment	25% (2017: 25%)	n/a
						Expected volatility	50.03% (2017: 39.7%)	The increase in expected volatility rate would decrease in fair value
						Expected shortfall	HK$6,300,000	The increase in expected shortfall would increase in fair value
2	Equity instruments at FVTOCI (31 December 2017: classified as AFS investments)	85,190	–	Level 3	Discounted cash flow method	Yearly growth rates of revenue	Ranging from 7% to 13.3%	The increase in yearly growth rates of revenue would increase in fair value
						Terminal growth rate	2.90%	The increase in terminal growth rate would increase in fair value
						Pre-tax operating profit margin	14%	The increase in yearly pre-tax operating profit margin would increase in fair value
						Weighted average cost of capital	14.86%	The increase in weighted average cost of capital would decrease in fair value
						Company specific risk premium	4.50%	The increase in company specific risk premium would decrease in fair value
3	Listed equity securities in Hong Kong (31 December 2017: AFS investments)	–	120,175	Level 1	Quoted bid prices in an active market	n/a	n/a	n/a
4	Unlisted equity fund in Hong Kong (31 December 2017: AFS investments)	–	8,505	Level 2	Derived from quoted bid prices in an active market	n/a	n/a	n/a

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

47. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments *(Continued)*

Fair value of the Group's financial assets that are measured at fair value on a recurring basis *(Continued)*

There were no transfers of financial assets between different levels of the fair value hierarchy in the current year and prior year.

The quantitative information of significant unobservable inputs used in arriving at the Level 3 fair value measurement are set out above.

The directors of the Company consider that except for financial assets as disclosed in the above table, the carrying amounts of remaining financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL HK$'000	Equity instruments at FVTOCI HK$'000
At 31 December 2017	37,840	–
Effect arising from initial application of HKFRS9	–	99,084
At 1 January 2018	37,840	99,084
Fair value changes	(34,149)	17,908
Disposal	–	(31,802)
At 31 December 2018	**3,691**	**85,190**

The fair value loss on financial assets at FVTPL for the year under review of approximately HK$34,149,000 related to the contingent consideration that are measured at fair value at the end of each reporting period (2017: fair value gain of approximately HK$18,980,000) and are included in "other gains and losses, net".

The fair value gain of approximately HK$17,908,000 included other comprehensive income related to equity instruments at FVTOCI held at the end of the reporting period and are reported as changes of "investment revaluation reserves".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings (note 36) HK$'000
At 1 January 2018	**19,777**
Changes from financing cash flows	
Repayment of bank loans	(1,021)
Interest expenses	(688)
Total changes from financing cash flow	**(1,709)**
Other changes	
Interest expenses	**688**
At 31 December 2018	**18,756**
At 1 January 2017	**20,835**
Changes from financing cash flows	
Repayment of bank loans	(1,058)
Interest expenses	(722)
Total changes from financing cash flow	**(1,780)**
Other changes	
Interest expenses	**722**
At 31 December 2017	**19,777**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

49. 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	2018 HK$'000	2017 HK$'000
Advance Bond Limited*	Rental income	**933**	900
Apex Frame Limited	License fee expenses#	**–**	581
Auspicious Idea*	Management service fee income	**278**	–
China Life Insurance (Overseas) Company Limited**	Medical services income	**237**	862
China Life Real Estate Investment Holding Co., Ltd.**	Rental expense	**(585)**	(1,079)
Hong Kong Bariatric and Metabolic Institute Limited*	Management services fee income	**315**	225
	Rental income	**–**	26
Hong Kong Health Check and Medical Diagnostic Centre Limited*	Rental income	**4,023**	4,023
My Beauty Company Limited*	Rental income	**773**	–
Bonjour Cosmetic Wholesale Centre Limited	License fee expenses#	**–**	5,865
	Purchase of cosmetic medicine##	**–**	179
Bonjour Group Limited	Interest income##	**–**	1,725
Full Gain Developments Limited	License fee expenses#	**–**	1,243

49. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

Notes:

* The related parties are the associates of the Company during the year ended 31 December 2018 and 2017.

** The related parties are the subsidiaries of China Life Insurance (Group) Company, a substantial shareholder of the Company.

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.

These transactions constitute continuing connected transactions as defined in Charter 14A of the Listing Rules. However, these transactions are exempted from disclosure requirement as they are below the de minimis threshold under the Listing Rules.

As disclosed in note 1 to the consolidated financial statements, the Company published an announcement that the SFC has on 27 November 2017 issued a direction to suspend trading in the shares of the Company as it appears to the SFC that, inter alia, the Company's interim report for the six months ended 30 June 2016 published by the Company on 7 September 2016 and the Company's annual report for the year ended 31 December 2016 published by the Company on 27 April 2017 included materially false, incomplete or misleading information.

Notwithstanding the above, the board of directors of the Company has determined that no disclosures contained in these consolidated financial statements or in previously issued consolidated financial statements of the Group need to be amended.

Further, in the opinion of the directors of the Company, based on the information and explanations received by them and the best efforts and endeavors done by them to-date, there were no transactions or balances with related parties of the Group other than those disclosed in this Note or elsewhere in the consolidated financial statements.

During the year ended 31 December 2017, the Group entered into a sale and purchase agreement with a senior management personnel of the Group on the partial disposal of TH Shanghai Medical. Details are set out in note 41.

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 31, 32 and 35.

Compensation of key management personnel

The remuneration of key management personnel which represent the directors of the Company during the year was as follows:

	2018	2017
	HK$'000	HK$'000
Short-term benefits	**12,789**	11,846
Post-employment benefits	**85**	90
	12,874	11,936

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Unlisted investment in a subsidiary	**28,529**	28,529
Amounts due from subsidiaries	**3,850,744**	3,946,187
	3,879,273	3,974,716
CURRENT ASSETS		
Amount due from an associate	**500**	500
Other receivables	**799**	911
Bank balances and cash	**181,903**	872
	183,202	2,283
CURRENT LIABILITY		
Other payables	**493**	482
NET CURRENT ASSETS	**182,709**	1,801
	4,061,982	3,976,517
CAPITAL AND RESERVES		
Share capital	**75,261**	75,261
Reserves (Note)	**3,986,721**	3,901,256
Total equity	**4,061,982**	3,976,517

The Company's statement of financial position was approved and authorised for issue by the board of directors of the Company on 28 March 2019 and are signed on its behalf by:

Dr. Hui Ka Wah, Ronnie	**Mr. Lee Chik Yuet**
DIRECTOR	*DIRECTOR*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

50. 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	Accumulated profits HK$'000	Total HK$'000
At 1 January 2017	3,628,179	9,020	28,180	62,677	411,703	4,139,759
Profit and total comprehensive income for the year	–	–	–	–	69,111	69,111
Share repurchased and cancelled	(286,540)	–	–	–	–	(286,540)
Dividend paid	–	–	–	–	(21,074)	(21,074)
At 31 December 2017	3,341,639	9,020	28,180	62,677	459,740	3,901,256
Profit and total comprehensive income for the year	–	–	–	–	85,465	85,465
At 31 December 2018	3,341,639	9,020	28,180	62,677	545,205	3,986,721

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 2018

51. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2018 and 2017 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 2018		31 December 2017		31 December 2018		31 December 2017		
					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
Allied Gallant Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$100	–	60%	–	60%	–	67%	–	67%	Provision of medical healthcare services
Audio Health Hearing Care (Shatin) Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1,000	–	56%	–	56%	–	60%	–	60%	Provision of audio diagnostic tests and sale of hearing-aid devices
Bright Dragon Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	–	100%	–	100%	–	100%	–	100%	Property investment services
City Elite Development Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	–	100%	–	100%	–	100%	–	100%	Property investment services
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
First Billion Investment Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$2	–	100%	–	100%	–	100%	–	100%	Property investments services
Hong Kong T&O	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1,000 (2017: HK$100)	–	51%	–	51%	–	67%	–	67%	Provision of medical healthcare services
i smile Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	–	100%	–	100%	–	100%	–	100%	Provision of dental consultation services
Lucky Rising Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	–	100%	–	100%	–	100%	–	100%	Property investments services
Modern Ascent Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	–	35%	–	35%	–	67%	–	67%	Provision of medical healthcare services
Nanyang Xiangrui	PRC/sino foreign equity joint venture	PRC	–	RMB84,835,000	–	60.2%	–	60%	–	60%	–	60%	Provision of hospital management services
Perfect Legend Investments Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	–	100%	–	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 services
Premier ENT Specialist Centre Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	–	52%	–	52%	–	100%	–	100%	Provision of medical healthcare 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 Dental Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$2	–	100%	–	100%	–	100%	–	100%	Provision of dental consultation services
Town Health HMC (Kowloon) Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$10,000	–	75%	–	75%	–	67%	–	67%	Provision of health management 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

51. 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	
		2018	2017
Hong Kong medical services	Hong Kong	**71**	71
Hong Kong managed care business	Hong Kong	**6**	6
Mainland hospital management and medical services	PRC	**13**	7
Securities and properties investments and treasury management	Hong Kong	**53**	53
Others – miscellaneous healthcare related services	Hong Kong	**9**	9
Others – unallocated	Hong Kong	**42**	42

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		Proportion of ownership interests held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31 December 2018	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018 HK$'000**	31 December 2017 HK$'000	**31 December 2018 HK$'000**	31 December 2017 HK$'000
Nanyang Xiangrui	PRC	**40%**	40%	**39.8%**	40%	**13,813**	16,284	**196,216**	193,638
Individually immaterial subsidiaries with non-controlling interests						**7,682**	15,782	**76,611**	83,439
						21,495	32,066	**272,827**	277,077

Note:

On 5 February 2018, Hong Kong Town Health Hospital Management Limited, a indirectly owned subsidiary of the Company acquired additional 0.2004% equity interest in Nanyang Xiangrui. The Group effectively holds 60.2004% equity interest in Nanyang Xiangrui and the acquisition of additional interest has been accounted for equity transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018

51. PRINCIPAL SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiary that have material non-controlling interests *(Continued)*

Nanyang Xiangrui	2018 HK$'000	2017 HK$'000
Current assets	**335,685**	370,242
Non-current assets	**68,678**	2,766
Current liabilities	**24,356**	9,923
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**228,766**	217,851
Non-controlling interests	**151,241**	145,234
Income	**90,439**	72,417
Expenses	**(53,250)**	(29,606)
Profit for the year	**37,189**	42,811
Profit attributable to owners of the Company	**22,388**	25,687
Profit attributable to the non-controlling interests	**14,801**	17,124
Profit for the year	**37,189**	42,811
Other comprehensive (expenses) income attributable to owners of the Company	**(12,201)**	14,344
Other comprehensive (expenses) income attributable to the non-controlling interests	**(8,066)**	9,563
Other comprehensive (expenses) income for the year	**(20,267)**	23,907
Total comprehensive income attributable to owners of the Company	**10,187**	40,031
Total comprehensive income attributable to the non-controlling interests	**6,735**	26,687
Total comprehensive income for the year	**16,922**	66,718
Net cash inflow from operating activities	**21,822**	11,073
Net cash outflow used in investing activities	**(871)**	(53,185)
Effect of foreign exchange rate changes	**(17,489)**	23,765
Net cash inflow (outflow)	**3,462**	(18,347)

MAJOR PROPERTIES INFORMATION

The Group's property portfolio summary – major properties held for investment.

	Location	Existing use	Tenure	Group's interest (%)	
				2018	2017
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.	12/F, 13/F and 14/F, Kaiseng Commercial Centre, Nos. 4-6 Hankow Road, Kowloon	Office	Medium term lease	**100%**	100%
3.	Shop G01, Kings Wing Plaza 1, 3 On Kwan Street, Sha Tin, New Territories	Shops	Medium term lease	**100%**	100%
4.	Shop 1 on Ground Floor, Kam Ming House, Nos.21/23 Heung Sze Wui Street, Nos. 18-20 Heung Sze Wui Square, Tai Po, New Territories	Shops	Medium term lease	**100%**	100%
5.	Ground Floor, Ultragrace Commercial Building, No. 5 Jordan Road, Kowloon	Shops	Medium term lease	**100%**	100%

FINANCIAL SUMMARY

RESULTS

	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue from continuing operations	**1,121,736**	1,108,724	1,011,549	828,909	494,579
Profit (loss) for the year from continuing operations	**85,509**	(97,360)	93,342	283,628	80,889
Profit (loss) for the year from discontinued operation	**–**	21,681	(15,203)	(22,762)	–
Profit (loss) for the year	**85,509**	(75,679)	78,139	260,866	80,889
Attributable to:					
Owners of the Company					
– from continuing operations	**64,014**	(129,426)	78,700	277,565	84,612
– from discontinued operations	**–**	21,681	(15,203)	(22,762)	–
Non-controlling interests	**21,495**	32,066	14,642	6,063	(3,723)
	85,509	(75,679)	78,139	260,866	80,889

ASSETS AND LIABILITIES

	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)		
Total assets	**4,633,068**	4,675,437	5,209,587	5,243,498	2,824,411
Total liabilities	**(288,970)**	(360,957)	(598,933)	(650,616)	(364,293)
	4,344,098	4,314,480	4,610,654	4,592,882	2,460,118
Assets attributable to:					
Owners of the Company	**4,071,271**	4,037,403	4,378,726	4,530,792	2,115,466
Non-controlling interests	**272,827**	277,077	231,928	62,090	344,652
	4,344,098	4,314,480	4,610,654	4,592,882	2,460,118

GLOSSARY

2008 Scheme	share option scheme of the Company adopted on 16 September 2008
AGM	annual general meeting of the Company
Audit Committee	audit committee of the Board
Board	the board of Directors
Broad Idea	Broad Idea International Limited
Bye-laws	bye-laws of the Company
CG Code	Corporate Governance Code as contained in Appendix 14 to the Listing Rules
China Life Group	China Life Insurance and its subsidiaries
China Life Insurance	中國人壽保險（集團）公司 (in English for identification purpose only, China Life Insurance (Group) Company)
China Life Shanghai	國壽成達（上海）健康產業股權投資中心（有限合夥）(in English for identification purpose only, China Life Chengda (Shanghai) Health Industry Equity Investment Centre (Limited Partnership))
China or Mainland China or PRC	the People's Republic of China excluding, for the purpose of this annual report only, Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
China Parenting	China Parenting Network Holdings Limited
Classictime	Classictime Investments Limited
CLG Subscription	the subscription for 1,785,098,644 ordinary shares of the Company by China Life Group pursuant to an investment agreement dated 5 January 2015 entered into between the Company and China Life Group
Company or Town Health	Town Health International Medical Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability whose Shares are listed on the Main Board
Company Secretary	company secretary of the Company

GLOSSARY

Convertible Preference Shares	perpetual non-voting redeemable convertible preference shares of HK$0.01 each in the share capital of the Company subscribed by Fubon Life, Fubon Insurance and Broad Idea pursuant to the CPS Subscription Agreement
Cooperation Agreement	the cooperation agreement dated 1 August 2017 and entered into between Town Health M&B and Taigang Medical
CPS Subscription	the subscription for 212,121,212 Convertible Preference Shares by Fubon Life, 79,545,454 Convertible Preference Shares by Fubon Insurance and 83,333,333 Convertible Preference Shares by Broad Idea, pursuant to the CPS Subscription Agreement
CPS Subscription Agreement	perpetual non-voting redeemable convertible preference shares subscription agreement dated 31 October 2014 and entered into between the Company, Fubon Life, Fubon Insurance and Broad Idea
Director(s)	the director(s) of the Company
Dr. Chan	Dr. Chan Wing Lok, Brian, an executive Director
Dr. Cho	Dr. Cho Kwai Chee
Dr. Choi	Dr. Choi Chee Ming *GBS, JP*, a non-executive Director and the Deputy Chairman of the Company
EIT Law	the Law of PRC on Enterprise Income Tax
ESG	Environmental, Social and Governance
Fubon Financial	Fubon Financial Holding Co., Ltd.
Fubon Insurance	Fubon Insurance Co., Ltd.
Fubon Life	Fubon Life Insurance Co., Ltd.
Ganghe Clinic	港和診所 (in English for identification purpose only, Ganghe Clinic)
GEM	GEM of the Stock Exchange
Group	the Company and its subsidiaries

GLOSSARY

HCMPS	HCMPS Healthcare Holdings Limited
Heemin Capital	Heemin Capital Enhanced Yield Bond Fund
HIBOR	Hong Kong Interbank Official Rate
HK$ or HKD	Hong Kong Dollars, the lawful currency of Hong Kong
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	Hong Kong Special Administrative Region of the PRC
Huayao	Huayao Medical Group Limited
Joint Venture	山西太鋼康健整形美容醫院有限公司 (in English for identification purpose only, Shanxi Taigang Town Health Beauty Surgery Hospital Co., Ltd.), the joint venture to be established by Town Health M&B and Taigang Medical pursuant to the JV Agreement
JV Agreement	the joint venture agreement dated 13 September 2018 and entered into between Town Health M&B and Taigang Medical, together with the articles of the Joint Venture
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Main Board	the Main Board of the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
Mr. Jackie Yu	Mr. Yu Kai Fung Jackie, an independent non-executive Director
Mr. SK Wong	Mr. Wong Sai Kit, an independent non-executive Director
Nanshi Hospital	南陽南石醫院 (in English for identification purpose only, Nanshi Hospital of Nanyang)
Nanyang Xiangrui	南陽祥瑞醫院管理諮詢有限公司 (in English for identification purpose only, Nanyang Xiangrui Hospital Management Advisory Co., Ltd.), a subsidiary of the Company
New Ray	New Ray Medicine International Holding Limited

GLOSSARY

Nomination Committee	nomination committee of the Board
Ordinary Shares Subscription	the subscription of 459,183,673 Shares by Fubon Life, Fubon Insurance and Broad Idea and the allotment and issue of the subscription shares
Power Financial	Power Financial Group Limited (forming known as Jun Yang Financial Holdings Limited)
Remuneration Committee	remuneration committee of the Board
RMB	Renminbi, the lawful currency of the PRC
SBL	Sino Biopharmaceutical Limited（中國生物製藥有限公司）
SFC	Securities and Futures Commission of Hong Kong
SFO	Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
Share(s)	ordinary share(s) of HK$0.01 each in the share capital of the Company
Shareholders	the shareholders of the Company
Sixth Hospital	中山大學附屬第六醫院 (in English for identification purpose only, The Sixth Affiliated Hospital of Sun Yat-Sen University)
Stock Exchange	The Stock Exchange of Hong Kong Limited
Taigang Medical	山西太鋼醫療有限公司 (in English for identification purpose only, Shanxi Taigang Medical Co. Ltd.)
Town Health M&B	Hong Kong Town Health Medical & Beauty Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
US$	United States Dollars, the lawful currency of the United States of America
Vio	Dr. Vio & Partners Limited, a subsidiary of the Company

GLOSSARY

Yamei	杭州康健雅美口腔門診部有限公司 (in English for identification purpose only, Hangzhou Town Health Yamei Dental Centre Company Limited), a subsidiary of the Company
Year	year ended 31 December 2018
Yikang	廣州宜康醫療管理有限公司 (in English for identification purpose only, Guangzhou Yikang Medical Management Limited), a subsidiary of the Company