



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)

INTERIM REPORT

2017





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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Miss Choi Ka Yee, Crystal (*Chairperson*)

Dr. Cho Kwai Chee

(*Executive Deputy Chairman*)

Dr. Hui Ka Wah, Ronnie, JP

(*Chief Executive Officer*)

Mr. Lee Chik Yuet

Mr. Wong Seung Ming, CPA, FCCA

(*Chief Financial Officer*)

Non-executive Directors

Dr. Choi Chee Ming, GBS, JP (*Deputy Chairman*)

Ms. Fang Haiyan (*Deputy Chairperson*)

Mr. Tsai Ming-hsing (*Deputy Chairman*)

Mr. Chen Jinhao

Independent Non-executive Directors

Mr. Ho Kwok Wah, George, MH

Mr. Wong Tat Tung, MH, JP

Mr. Yu Xuezhong

Ms. Li Mingqin

Mr. Wang John Hong-chiun

BOARD COMMITTEES

Audit Committee

Mr. Ho Kwok Wah, George, MH (*Chairman*)

Mr. Wong Tat Tung, MH, JP

Mr. Yu Xuezhong

Ms. Li Mingqin

Mr. Wang John Hong-chiun

Remuneration Committee

Mr. Ho Kwok Wah, George, MH (*Chairman*)

Mr. Wong Tat Tung, MH, JP

Mr. Yu Xuezhong

Ms. Li Mingqin

Mr. Lee Chik Yuet

Nomination Committee

Mr. Wong Tat Tung, MH, JP (*Chairman*)

Mr. Ho Kwok Wah, George, MH

Ms. Li Mingqin

Mr. Lee Chik Yuet

COMPANY SECRETARY

Mr. Wong Seung Ming, CPA, FCCA

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6th Floor, Town Health Technology Centre

10-12 Yuen Shun Circuit

Siu Lek Yuen

Shatin, New Territories

Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.

China Construction Bank (Asia) Corporation Limited

Dah Sing Bank, Limited

Fubon Bank (Hong Kong) Limited

Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Management (Bermuda) 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

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2017:

- The Group recorded revenue from continuing operations of approximately HK\$538,174,000 (2016: approximately HK\$468,118,000).
- The Group recorded a profit of approximately HK\$57,953,000 (2016: approximately HK\$56,455,000). The increase in profit was mainly attributable to (i) the increase in profit generated from provision of healthcare and dental services and managed care business; and (ii) profit generated from provision of hospital management service following the Group's acquisition of 60% equity interest in Nanyang Xiangrui in September 2016. The increase in profit was slightly offset by the loss on fair value changes on held for trading investments.

As at 30 June 2017:

- The Group had net current assets and net assets of approximately HK\$1,484,993,000 and HK\$4,344,779,000, respectively.
- The Group had a current ratio of 5.79 and a gearing ratio of 0.49%.

During the six months ended 30 June 2017, a final dividend of HK0.28 cent per ordinary share for the year ended 31 December 2016 was declared.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Town Health International Medical Group Limited and its subsidiaries are pleased to report the results for the six months ended 30 June 2017.

During the period under review, the Group recorded profit of approximately HK\$57,953,000 (2016: approximately HK\$56,455,000).

The increase in profit was mainly attributable to (i) the increase in profit generated from provision of healthcare and dental services and managed care business; and (ii) profit generated from provision of hospital management service following the Group's acquisition of 60% equity interest in Nanyang Xiangrui in September 2016. The increase in profit was slightly offset by the loss on fair value changes on held for trading investments.

BUSINESS REVIEW

In the first half of 2017, the Group has further consolidated its business segments and gradually integrated its business in the whole industry chain in the healthcare service market. During the period under review, the Group has completed the disposal of its entire interest in Bonjour Beauty and its subsidiaries, and has completed the acquisition of additional 30% interest in Auspicious Idea and its 14 subsidiaries, fortifying the Group's leading position in the healthcare industry in Hong Kong and strengthening the Group's expansion in medical market in China through further business integration. Details of the above disposal and acquisition are set out in the paragraph headed "Material Acquisition And Disposal" below.

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Healthcare service network of the Group

As at 30 June 2017, the Group has developed 505 healthcare service points that provide various healthcare services, including 310 general practices service points, 90 specialties service points, 28 dental service points and 77 auxiliary service points. As at 30 June 2017, a total of 733 medical doctors, dentists and auxiliary service providers (comprising 446 general practitioners, 241 specialists and 46 dentists), offered healthcare services through the network of self-operated and affiliated centers under the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Business in Hong Kong

Managed care business – Dr. Vio

The Group's managed care business continued to achieve satisfactory results. During the period under review, Dr. Vio expanded its market share through enhancing its service scope and quality. By upgrading its information technology systems, Dr. Vio has optimised its operational efficiency in terms of conducting payment and making insurance claims, simplifying the expense approval, settlement and payment procedures, which improved its management efficiency and brought high standard medical network management services to its clients. Also, following further centralisation of its drug management system, with better economies of scale, the overall operating profit margin of Dr. Vio has increased and was maintained at a double-digit percentage level, performance of which has become one of the best in the industry. Through improving the quality of its services and better communications with clients, Dr. Vio has not only successfully renewed contracts with its existing core business clients, but also acquired new potential clients and seized bigger market share. During the period under review, Dr. Vio has recorded a high growth rate in its profits.

Healthcare service business

At present, the Group operates 52 medical centers, 44 specialty centers and 10 dental clinics in Hong Kong. During the period under review, while the business of the Group's self-operated clinics has maintained a steady growth, the Group's specialty medical business has been growing rapidly. The Group has proactively expanded the scale of its existing specialty centers. The Group has also set up new integrated specialty centers in Yuen Long and Causeway Bay and has introduced the specialty of anesthesiology in these two centers. The Group has been making the best of its leading position in the Hong Kong healthcare service industry chain, and proactively integrated its chain healthcare service centers with Dr. Vio's medical network, so as to create synergies and enhance overall operational efficiency. During the period under review, income generated from the Group's medical and dental services business was approximately HK\$238,209,000 (2016: approximately HK\$226,965,000), representing approximately 44.26% of the Group's revenue for the six months ended 30 June 2017 (2016: approximately 48.48%).

Cross-border medical tourism business

The Group has been committed to developing chain health management centers together with CLIO. The Group has partnered with CLIO in setting up its first health management center in the Wan Chai office building of CLIO, to provide one-stop health management services for customers of China Life Group, including personalised comprehensive health check and analysis, together with follow up treatment plans for clients of China Life Group in Hong Kong and the PRC. There will be facilities inside this health management center for conducting telemedicine with the Group's medical centers in the PRC, including Nanshi Hospital.

MANAGEMENT DISCUSSION AND ANALYSIS

Beauty and cosmetic medicine business

In order to further its development strategies in the whole industry chain in the healthcare market, during the period under review, the Group proactively consolidated and expanded its beauty and cosmetic medicine business. Following the acquisition of 20% interest in Auspicious Idea in August 2016, during the period under review, the Group has completed the acquisition of additional 30% interest in Auspicious Idea, which is principally engaged in the provision of beauty and cosmetic medicine services under the brand of “The Beauty Medical” in Hong Kong and the PRC. The Beauty Medical, as a lifestyle beauty expert possessing years of abundant experience and a considerable customer base, together with the Group’s expertise in provision of medical healthcare services and a pool of outstanding and well-trained doctors, the Group’s cosmetic medicine business is expected to expand quickly. During the period under review, the Group recruited 5 full-time and part-time doctors, one of whom is a plastic surgeon, and the number of the Group’s cosmetic beauty centers has increased to 11, 5 and 4 in Hong Kong, Shenzhen and Shanghai respectively. The Group has also introduced various types of high-end medical beauty equipment with the United States Food and Drug Administration (FDA) certification, successfully upgrading the service quality provided to its customers. During the period under review, with gradual increase in the proportion of medical cosmetic services, the revenue of The Beauty Medical continued to achieve a double-digit growth, with revenue generated from medical cosmetic services accounting for approximately 22% of its total revenue for the six months ended 30 June 2017 as compared to approximately 17% in the corresponding period in 2016. This indicated the strong customer loyalty and confidence in the brand as well as the successful creation of synergies between the Group and The Beauty Medical. Currently, the Group is also working with a PRC hospital group to jointly develop beauty and cosmetic medicine business in the PRC.

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Business in the PRC

Healthcare service business in the PRC

During the period under review, the Group has been actively involved in the management of Nanshi Hospital and Nanshi Hospital Youtian Branch in enhancing their service quality and operational efficiency so as to consolidate Nanshi Hospital’s leading position as a Class A Tertiary Hospital in Nanyang City of Henan Province of the PRC. Nanshi Hospital was ranked number 21 in the Best Non-Public Hospitals in China in 2016. During the period under review, Nanshi Hospital recorded a nearly 20% growth in revenue and operating income, and the earnings before interest, tax and amortisation margin was maintained at a high double-digit percentage level.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect of improving its infrastructure, the Group has focused on upgrading the hospital environment and hardware facilities of Nanshi Hospital. During the period under review, the Group has renovated the hospital's lobby and various floors of the outpatient center of Nanshi Hospital including the obstetrics and gynecology department, and the cosmetic medicine and health check department, so as to improve the service quality, and introduce people-oriented style of healthcare services into the hospital. In line with the long-term development of Nanshi Hospital, the Group has embarked on the construction of a new hospital block next to the existing block. The total floor area of the new block is approximately 83,000 square meters, which is one third larger than the existing block. The Group is dedicated to constructing a new hospital block with international standard in order to make Nanshi Hospital a high class and most advanced hospital in the region. To this end, the Group has invited the world's leading Hong Kong-based architects to participate in the design and planning of the new hospital block so as to introduce designs and facilities of international standard to the new building, including surgery centers, intensive care units and high-end obstetrics and gynecology wards, VIP inpatient wards, as well as other advanced medical equipment. Nanshi Hospital has obtained the approval of construction of the new medical building from the relevant governmental authorities, and has granted construction contracts to the selected contractor, with construction expected to commence in the second half of 2017 and complete in 2019.

In respect of operational management, in order to enhance the hospital's service quality and broaden the scope of high-end specialist services provided in Nanshi Hospital, during the period under review, the Group has proactively developed new service scopes of Nanshi Hospital, such as diabetes mellitus clinics, pediatric genetics and growth and development clinics. Nanshi Hospital is the first medical institution to set up such high-end medical services in the region. The Group has also renovated and upgraded the health check centers of Nanshi Hospital, leading to a rapid growth in revenue of the Group for its hospital management business segment. Meanwhile, the Group has consolidated the sales representatives of individual departments to form an integrated sales team in order to enhance the marketing capability of Nanshi Hospital.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, during the period under review, the Group has assisted Nanshi Hospital in setting up two community clinics in Wolong and Yulong districts, which are located in the core business districts of Nanyang City. This will expand the market reach of Nanshi Hospital and establish a more solid foundation for general healthcare services of the hospital. The community clinics are operated with Hong Kong clinic-style systems providing convenient outpatient services, family medicine and other healthcare services to the citizens of Nanyang. Patients would be referred to Nanshi Hospital for follow-up treatments if necessary, which will effectively increase the outpatient service volumes and the demand for inpatient services at Nanshi Hospital. The Group has also proactively developed an information technology system for patient care and community medical services. During the period under review, the Group has set up a health management platform for community and family users to record their personal health, medical records and related information. The platform provides specialised health management services for clients of Nanshi Hospital and builds a big data platform, enhancing service quality and competitiveness and lays a strong foundation for future development in healthcare services of Nanshi Hospital. Also, the Group has continued to work with Nanyang Branch of China Life Group to provide their clients with quality and comprehensive healthcare services. Meanwhile, the Group has been continuously seeking further acquisitions or business collaboration opportunities with other hospitals in the PRC.

Chain health management centers

The Group has collaborated with China Life Group to jointly develop chain-style integrated health management centers in various key regions in the PRC in order to develop a new collaborative business model between insurance and medical services. The health management centers are operated with Hong Kong management style and standards and focused on disease prevention and health enhancement. Through health assessment, consultation and follow-up management, the centers provide one-stop health management services mainly focusing on four categories of healthcare services, namely specialty medical services, diagnostic health check, lifestyle management services, and anti-ageing services to clients of China Life Group. The Group is committed to introducing advanced Hong Kong style healthcare services into the China market and expanding its presence in major cities in the PRC. During the period under review, the Group has begun negotiating with Shandong Branch of China Life Group and is expected to set up the first PRC health management center in its new Jinan office building, to forge and create synergies between insurance products and health management services, strengthen the cooperation between the Group and China Life Group, and accelerate the Group's development and expansion of chain health management centers in the PRC and Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

High-end dental services

The Group's Invisalign orthodontic training business is growing rapidly. During the period under review, the Group's dental team head, who is also the designated Invisalign instructor in the Asia Pacific region, offered professional training of orthodontic treatments and dental surgeries to more than 100 dentists in China.

Other investments

As at 30 June 2017, the Group had available-for-sale investments of approximately HK\$378,129,000.

As at 30 June 2017, the Group invested in loan notes with a principal amount of HK\$130,000,000 which are issued by GET Holdings Limited, whose shares are listed on the Growth Enterprise Market of the Stock Exchange (Stock Code: 8100). The loan notes, which are denominated in HK\$, carry interest at the rate of 9% per annum and will mature on the second anniversary of their issue date. The Group recorded interest income from the loan notes of approximately HK\$6,245,000 for the period under review.

As at 30 June 2017, the Group held approximately 3.22% of Union, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 2138), with an investment amount of approximately HK\$96,789,000. As at 30 June 2017, the fair value of the Group's investment in Union was approximately HK\$83,490,000. Union is principally engaged in the provision of medical, quasi-medical, health management and traditional beauty services, the sale of skincare, healthcare and beauty products in Hong Kong, Macau and the PRC. As disclosed in the annual report of Union for the year ended 31 March 2017, it recorded a profit of approximately HK\$203,496,000 (2016: approximately HK\$149,308,000). Based on the information published by Union, Union's commitment of upholding its position as the leader in aesthetic medical service industry in Hong Kong and striving for excellence and creating value for shareholders growth can be achieved.

As at 30 June 2017, the Group held approximately 17.67% of C&C with an investment amount of approximately HK\$86,585,000. C&C and its subsidiaries are principally engaged in the provision of contracted medical schemes for integrated medical and healthcare check-up services. Based on the latest unaudited combined financial information for the year ended 31 March 2017 of C&C, it recorded a profit of approximately HK\$24,280,000. The Group is of the view that the ageing population and the increasing demand for corporate medical solutions services in Hong Kong are favourable to the continuing development of C&C's business.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The above three investments constituted approximately 79% of the balance of the available-for-sale investments of the Group as at 30 June 2017.

OUTLOOK

In 2017, the State Council of the PRC announced two significant documents with regards to deepening the 13th Five-Year Plan on medical reform and health planning, implying its intensifying efforts in solving the growing demands and difficulties in the healthcare industry in the PRC. Stepping into the second year of the 13th Five-Year Plan, China's healthcare market is expected to maintain a rapid growth pace, which will be conducive to the Group's development in the healthcare industry in the PRC.

Meanwhile, the Group will strive to maintain its leading position in the healthcare service industry in Hong Kong and further its strategic objectives of consolidating the whole-industry value chain. The Group will also strive to introduce its people-oriented healthcare service concepts, processes, international service standards and community-based healthcare systems to the PRC market, with an aim to improving the healthcare system and service standard in the PRC, which in return could render the Group to become a prominent healthcare services operator both in Hong Kong and the PRC.

Hong Kong

In respect of the managed care business, the Group will continue to enhance Dr. Vio's service standards, strengthen the communications with its clients and constantly upgrade the efficiency of its management systems. The Group will strive to capture more service contracts with large scaled enterprises and insurance companies so as to expand its market share. Meanwhile, the Group will continue to set up new self-operated medical centers, so as to capture additional referral cases through managed care business network, and to further enhance the synergies between the Group and Dr. Vio's business in order to amplify the benefit from better economics of scale of the whole-industry value chain.

MANAGEMENT DISCUSSION AND ANALYSIS

In respect of self-operated medical business, the Group will continue to develop its specialty medical centers in the core districts in Hong Kong to provide comprehensive and convenient healthcare services to the public. The Group will also enhance the brand awareness of its specialty medical services through conducting various talks and seminars. Moreover, the Group will continue to explore potential acquisitions of specialty medical centers, and through adopting reasonable incentive mechanism, the Group will pay continuous efforts in attracting talented specialty doctors so as to strengthen its core competitiveness in the healthcare industry and consolidate its leading position in the market.

In respect of the health management centers, the Group has been working with China Life Group to develop the first health management center in the first half of 2017. The newly developed health management center, located in Wan Chai, has commenced operation in August 2017. It will provide clients with comprehensive healthcare services, such as medical, health check, lifestyle management and anti-aging services, by ways of health assessment, consultation and follow-up treatments. In the future, the Group will strive to collaborate with various divisions of China Life Group in the PRC to develop health management centers in various provinces of the PRC, by replicating the business model of the Wan Chai center so as to deepen the cooperation between insurance and medical services industries, and to achieve a win-win outcome.

The PRC

In 2016, the Group has completed the acquisition of 60% equity interest in Nanyang Xiangrui which manages Nanshi Hospital and Nanshi Hospital Youtian Branch. In the future, the Group will continue to reform and renovate various hospital departments as well as the current hospital building of these two institutions. Presently, the staff and patients' canteen is under relocation so as to free up the space for new medical wards. The existing hospital lobby will be renovated to create a modern and cozy environment for patients. Various outpatient departments will also be renovated and upgraded so as to improve the hardware facilities and make better use of space. Tender process of the new hospital block has completed, and a professional committee has been formed to effectively monitor the construction progress. The new block is expected to be completed by end of 2019, following which the hospital will be equipped with more than 2,000 beds, immensely boosting the hospital's operation capacity. The new hospital block will be equipped with international standard intensive care units, surgery centers, and a newly added high-end obstetrics ward. Apart from hardware enhancement, the Group will also introduce Hong Kong style holistic healthcare services systems to Nanshi Hospital. Through continuous exchange and training programs between Hong Kong and Nanshi Hospital, the Group is now setting

MANAGEMENT DISCUSSION AND ANALYSIS

up new high-end departments, such as pediatric endocrinology department, and the professional guidelines and treatment protocols for pediatric department with the assistance of the Group's Hong Kong medical expertise. The Group will acquire the most advanced femtosecond ophthalmic equipment, making Nanshi Hospital the first medical institution with such high-end equipment in Nanyang City. The Group will also introduce Invisalign orthodontic services to Nanshi Hospital, bringing in the most advanced and high-end orthodontic services to the citizens of Nanyang City. Meanwhile, the Group will introduce community-based healthcare service system, similar to that of the chain clinics the Group is operating in Hong Kong, to provide comprehensive and convenient healthcare services for the citizens of Nanyang City, with an aim to introduce Hong Kong style community care model to the PRC healthcare industry.

In respect of the dental business in the PRC, the Group's Invisalign orthodontic training center in the business center of Hangzhou has commenced operation in the second half of 2016. In the future, the Group will step up the marketing efforts to promote Invisalign orthodontic services so as to build brand awareness and expand market share in the PRC. The Group will also replicate the operation model of the Hangzhou dental center to other regions in the PRC, as well as incorporating high-end dental services into the health management centers about to be set up in the PRC. The Group will also introduce high-end orthodontic services to its hospitals such as Nanshi Hospital. Besides dental services, to enhance market penetration and market share, the Group will continue to provide Invisalign orthodontic training programs to the dentists in the PRC.

In the future, with the commencement of services of the Hangzhou dental clinic in late 2017, being the hub for developing high-end dental services in other regions, the Group hopes to introduce similar operation model and dental training programs to other cities in the PRC. The Group would proactively promote Hong Kong style high-end orthodontic services to expand the Group's dental and Invisalign services market in the PRC.

With the structural change in China's economy, consumption and services industries have become the main driving forces contributing to China's economic growth, and the demand for quality healthcare services is ever-increasing. In view of this, the Group will collaborate with The Beauty Medical to proactively develop beauty and cosmetic medicine business in the PRC. The Group will expand the business scale and the scope of medical cosmetic services including medical cosmetic skin care and anti-aging services through reorganising the sales team and strengthening external cooperation. The Beauty Medical plans to strengthen its position by setting up new beauty and cosmetic medicine flagship store in Shenzhen and Shanghai in the second half of 2017. The first wholly-owned beauty and cosmetic medicine clinic of The Beauty Medical in the Futian District of Shenzhen will commence operation in the final quarter of 2017. This move is an important milestone in entering into the beauty and cosmetic medicine market in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

The standard of living in the PRC has advanced significantly in recent years, and the public's health awareness and demand for healthcare services continues to increase. The Group is planning to jointly develop its first health management center with Shandong Branch of China Life Group in China. The health management center will be situated in Jinan City of Shandong Province, and provide professional healthcare consultation services to the public with demand of high quality healthcare services. The center will keep track of its clients' physical general health, establish health records and monitor the changes of their physical conditions via the use of professional and advanced medical equipment. The health consultants will not only take care of medical problems of their clients but also their life habits, such as dietary management, weight management and sports management. The Group, together with China Life Group, will continue to replicate the Hong Kong style health management service model to various major cities in the PRC, and explore the development model between insurance and medical services service providers so as to create synergies.

Investments

The Group will further intensify its business development in the PRC to enhance its core competitiveness. The Group will also continue to maintain prudent strategies and to retain a stable financial profile and cash position for funding future potential acquisition projects, and to build a solid foundation for the Group's long-term development and to increase the Group's income.

In spite of the global economic slowdown, the economy in the United States has shown signs of improvement with the Federal Reserve raising the interest rate in the United States in the first half of 2017. Notwithstanding the weak market sentiments, with a solid business foundation, the Group will continue to enhance profitability. In the future, the Group will remain cautious when undertaking investment activities and implement stringent capital expenditure policy on core business, optimise each of the Group's business segment, and sustain its outstanding position in the market.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has adopted a prudent approach in financial resources management, maintaining an appropriate level of cash and cash equivalents as well as adequate banking facilities to meet the requirements of day-to-day operations and business development, while also controlling borrowings at a healthy level.

As at 30 June 2017, the Group held bank balances and cash of approximately HK\$1,015,503,000 (31 December 2016: approximately HK\$1,447,756,000) of which approximately 55% and 45% are denominated in HK\$ and RMB respectively. The Group had bank borrowings which represented a mortgage loan of approximately HK\$20,309,000 (31 December 2016: approximately HK\$20,835,000) of which approximately HK\$1,095,000 (31 December 2016: approximately HK\$1,082,000) are repayable within one year. As at 30 June 2017, the Group's unutilised available banking facilities amounted to approximately HK\$320,000,000 are denominated in HK\$. The Group's loans were arranged on a floating interest rate basis. Detail of bank borrowings of the Group are set out in note 16 to the condensed consolidated financial statements for the six months ended 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2017, the Group's net current assets amounted to approximately HK\$1,484,993,000 (31 December 2016: approximately HK\$2,177,942,000) and the Group had a current ratio of 5.79 (31 December 2016: 4.96). As at 30 June 2017, the Group's gearing ratio was 0.49% (31 December 2016: 0.48%). The Group considers the level of liabilities of a company reflects its financial health. The Group strives to keep the level of borrowings at minimum and to maintain ample internal resources to support its business operations, not only to reduce interest burden, but also to enable the Group to respond to changes and capture business opportunities in a timely manner when they arise. As such, both current ratio and gearing ratio are useful in assessing 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 period under review, 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 period under review, the Group considers that the potential foreign exchange exposure of the Group is limited.

During the period under review, the Group did not use any financial instruments for hedging activities.

The operating and capital expenditure of the Group is funded by cash flows generated from operations and financing agreements with banks. The Group maintains a strong liquidity position with its cash and cash equivalents on hand and unutilised banking facilities and the Group has adequate financial resources to meet its contractual obligations and operating requirements.

CAPITAL STRUCTURE

As at 30 June 2017, the Group had equity attributable to owners of the Company of approximately HK\$4,119,476,000 (31 December 2016: approximately HK\$4,371,576,000).

SHARE CAPITAL

Details of movements in the share capital of the Company during the period under review are set out in notes 17 and 18 to the condensed consolidated financial statements for the six months ended 30 June 2017.

MATERIAL ACQUISITION AND DISPOSAL

On 30 December 2016, (i) Oasis Beauty, a wholly-owned subsidiary of the Company, as vendor, (ii) Profit Castle, a company owned as to 50% by Dr. Ip (who resigned as an executive Director on 30 December 2016) and 50% by his spouse as purchaser and (iii) Dr. Ip as guarantor entered into a sale and purchase agreement pursuant to which Oasis Beauty has conditionally agreed to sell, and Profit Castle has conditionally agreed to acquire, 100% of the issued share capital of Bonjour Beauty at the consideration of HK\$430,000,000, further details of which are set out in the circular of the Company dated 23 February 2017. The Group has completed the disposal of its entire interest in Bonjour Beauty and its subsidiaries on 13 April 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the Group's acquisition of 20% interest in Auspicious Idea in August 2016, on 5 May 2017, Natural Glory, an indirect wholly-owned subsidiary of the Company, as purchaser, Stand Forever as vendor and Mr. Lau Sui Ching as guarantor, entered into the sale and purchase agreement pursuant to which Natural Glory has agreed to acquire, and the Stand Forever has agreed to sell, additional 30% of the issued share capital of Auspicious Idea at the initial consideration of HK\$108,000,000, further details of which are set out in the announcement of the Company dated 5 May 2017. Completion of the acquisition of additional 30% interest in Auspicious Idea took place immediately after the signing of the sale and purchase agreement, after which the Group owns 50% interest in Auspicious Idea.

PLEDGE OF ASSETS

As at 30 June 2017, certain property, plant and equipment and investment properties of the Group with carrying value of approximately HK\$168,516,000 (31 December 2016: approximately HK\$125,201,000) and HK\$455,923,000 (31 December 2016: approximately HK\$531,225,000) respectively, were pledged to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: Nil).

HUMAN RESOURCES AND TRAINING SCHEMES

As at 30 June 2017, the Group employed 1,168 staff (31 December 2016: 1,567). Total employee costs, including directors' emoluments, amounted to approximately HK\$328,571,000 for the six months ended 30 June 2017 (2016: approximately HK\$352,244,000).

The salary and employee benefits of the Group are competitive and individual performance is rewarded through the Group's salary, bonus system and share option schemes. Remuneration packages are reviewed annually.

Training is valued as essential to the personal growth of employees, which also ensures and improves the Group's customer services. Apart from the strict code of conduct that all employees shall follow, employees are also provided with customised trainings and handbooks with respect to their specialities.

Training courses include: (i) 334 New Joiner Training, which enables new employees to familiarise them with necessary knowledge, technical skills and procedures, while existing employees are also provided with reinforcement trainings to enhance operational efficiency; (ii) Basic Customer Service of Health Care Assistants, which enables health care assistants to understand reasons for delivering quality customer services, and ways to upgrade the Group's customer services in aspects of health care assistant's physical and oral manners, attitudes, diplomacy, and sensitivity; and (iii) Share Customer Service Cases with Doctors and Discussion, which are the occasional sharing sessions among doctors that allow doctors to be aware of professional attitudes and good manners which they should maintain when facing patients.

DISCLOSURE OF INTERESTS

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

As at 30 June 2017, 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. Cho	Interest of a controlled corporation	1,418,576,764 (Note 2)	1,418,576,764	18.85%
Dr. Choi, GBS, JP	Interest of a controlled corporation	1,418,576,764 (Note 2)	1,418,576,764	18.85%

Notes:

1. The Shares as at 30 June 2017 (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. Cho and Dr. Choi were deemed to be interested in the 1,418,576,764 Shares held by Broad Idea under Part XV of the SFO given that they are beneficially interested in 50.1% and 49.9% of the issued share capital of Broad Idea respectively. Dr. Cho and Dr. Choi are also directors of Broad Idea.

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executives 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).

DISCLOSURE OF INTERESTS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the six months ended 30 June 2017 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.

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

As at 30 June 2017, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in the Shares

Name of Shareholder	Capacity	Number of Shares held	Total	Approximate % of shareholding of the Company (Note 1)
China Life Insurance (Group) Company	Beneficial owner	1,785,098,644	1,785,098,644	23.72%
Broad Idea (Note 2)	Beneficial owner	1,418,576,764	1,418,576,764	18.85%
ClassicTime	Beneficial owner	674,762,000 (Note 3)	674,762,000	8.97%
Jun Yang	Interest of a controlled corporation	674,762,000 (Note 3)	674,762,000	8.97%
Fubon Financial	Interest of controlled corporations	648,809,523 (Note 4)	648,809,523	8.62%
Fubon Life	Beneficial owner	471,861,472 (Note 4)	471,861,472	6.27%

DISCLOSURE OF INTERESTS

Notes:

1. The total number of Shares as at 30 June 2017 (that was, 7,526,134,452 Shares) has been used for the calculation of the approximate percentage.
2. Broad Idea is beneficially owned by Dr. Cho as to 50.1% and Dr. Choi as to 49.9%.
3. Such 674,762,000 Shares were held by Classictime, a wholly-owned subsidiary of Jun Yang. Accordingly, Jun Yang 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 is 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 30 June 2017, the Company has not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

During the period under review, the Company repurchased a total of 235,164,000 ordinary shares of the Company on the Stock Exchange, with the aggregate consideration paid (before expenses) amounting to HK\$287,525,860. All the shares repurchased were subsequently cancelled during the period under review. As at 30 June 2017, the total number of Shares in issue was 7,526,134,452.

Particulars of the share repurchases are as follows:

	Number of ordinary shares repurchased	Price per share Highest HK\$	Lowest HK\$	Aggregate consideration (before expenses) HK\$
May 2017	235,164,000	1.24	1.09	287,525,860

The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK\$2,351,640 was charged to the share capital account. The premium of HK\$285,174,220 paid on the repurchases shares and share repurchase expenses of HK\$1,365,476 were charged against the share premium account.

DISCLOSURE OF INTERESTS

The purchase of the Company's shares during the period under review was effected by the Directors, pursuant to the mandate granted by the shareholders of the Company at the annual general meeting of the Company held on 17 June 2016.

Save as disclosed above, during the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company.

SHARE OPTION SCHEME

2008 Scheme

The Company has terminated the share option scheme adopted on 24 April 2002 and adopted the 2008 Scheme, as approved by the shareholders of the Company at the extraordinary general meeting held on 16 September 2008 in accordance with Chapter 17 of the Listing Rules.

According to the 2008 Scheme, the Directors may grant share options to eligible persons including directors, employees and consultants, etc. of each member of the Group and entity in which member of the Group holds an equity interest, to subscribe for shares in the Company.

There were no share options outstanding under the 2008 Scheme as at 1 January 2017 and no share options were granted by the Company under the 2008 Scheme during the six months ended 30 June 2017.



CORPORATE GOVERNANCE

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2017, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' securities transactions. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

AUDIT COMMITTEE

During the six months ended 30 June 2017, the audit committee comprised of five independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH* as the chairman of the audit committee, Mr. Wong Tat Tung, *MH, JP*, Mr. Yu Xuezhong, Ms. Li Mingqin and Mr. Wang John Hong-chiun. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited financial statements of the Group for the six months ended 30 June 2017 and this interim report.

OTHER INFORMATION

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this interim report, there was a sufficient public float of the Company as required under the Listing Rules.

On behalf of the Board

Town Health International Medical Group Limited

Lee Chik Yuet

Executive Director

RESULTS

The board of directors of Town Health International Medical Group Limited is pleased to report the unaudited interim condensed consolidated results of the Company and its subsidiaries for the six months ended 30 June 2017, together with the comparative unaudited figures for the six months ended 30 June 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June 2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
	Notes		
Continuing operations			
Revenue	4	538,174	468,118
Cost of sales		(367,705)	(338,488)
Gross profit		170,469	129,630
Administrative expenses		(153,706)	(143,741)
Finance costs	8	(323)	(4,352)
Other income	6	42,322	28,116
Other gains and losses	7	21,098	49,392
Share of results of associates		10,359	5,001
Share of results of joint ventures		(1,152)	(1,408)
Profit before tax		89,067	62,638
Income tax expenses	9	(14,569)	(7,925)
Profit for the period from continuing operations	10	74,498	54,713
Discontinued operation			
(Loss) profit for the period from discontinued operation		(16,545)	1,742
Profit for the period		57,953	56,455

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Other comprehensive income (expense) for the period			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising from the translation of foreign operations		23,929	(3,658)
Fair value loss on available-for-sale investments		(5,060)	–
Reclassification of translation reserve and investment revaluation reserve to profit or loss upon dilution of interest and disposal of an associate		–	(5,965)
Share of translation reserve of associates and joint ventures		–	2,363
		18,869	(7,260)
Total comprehensive income for the period		76,822	49,195
Profit for the period attributable to:			
Owners of the Company			
– from continuing operations		60,062	52,497
– from discontinued operation		(16,545)	1,742
Non-controlling interests		14,436	2,216
		57,953	56,455
Total comprehensive income attributable to:			
Owners of the Company		57,865	47,432
Non-controlling interests		18,957	1,763
		76,822	49,195
Earnings per share (HK cent)	12		
For continuing operations and discontinued operation			
– Basic		0.56	0.69
– Diluted		0.56	0.68
For continuing operations			
– Basic		0.78	0.67
– Diluted		0.78	0.66

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
NON-CURRENT ASSETS			
Investment properties		695,973	652,123
Property, plant and equipment		261,919	246,724
Loans receivable	13	6,461	6,913
Goodwill		516,687	505,635
Intangible assets		298,435	300,440
Interests in associates		291,833	175,756
Interests in joint ventures		36,462	37,614
Available-for-sale investments		248,129	192,082
Promissory notes		533,705	298,705
Deposits made on acquisition of investment properties and property, plant and equipment		393	18,429
		2,889,997	2,434,421
CURRENT ASSETS			
Inventories		24,096	22,969
Trade and other receivables	14	253,208	230,563
Available-for-sale investments		130,000	150,000
Held for trading investments		55,194	69,969
Loans receivable	13	243,005	92,597
Promissory notes		47,369	–
Amounts due from associates		9,399	9,286
Amount(s) due from an investee/investees		15,081	14,556
Amount due from a non-controlling interest		1,168	–
Tax recoverable		867	2,732
Bank balances and cash		1,015,503	1,447,756
		1,794,890	2,040,428
Assets classified as held for sale		–	687,970
		1,794,890	2,728,398

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
CURRENT LIABILITIES			
Trade and other payables	15	206,714	193,130
Amounts due to associates		12	12
Amount due to an investee		310	311
Amounts due to non-controlling interests		54,084	31,182
Bank borrowings	16	20,309	20,835
Tax payable		28,468	24,752
		309,897	270,222
Liabilities associated with assets classified as held for sale		–	280,234
		309,897	550,456
NET CURRENT ASSETS		1,484,993	2,177,942
TOTAL ASSETS LESS CURRENT LIABILITIES		4,374,990	4,612,363
NON-CURRENT LIABILITIES			
Deferred tax liabilities		30,211	30,404
		4,344,779	4,581,959
CAPITAL AND RESERVES			
Share capital – ordinary shares	17	75,261	77,613
Share capital – convertible preference shares	18	–	–
Reserves		4,044,215	4,293,963
Equity attributable to owners of the Company		4,119,476	4,371,576
Non-controlling interests		225,303	210,383
Total equity		4,344,779	4,581,959

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company													
	Share capital – ordinary shares	Share capital – convertible preference shares	Share premium	Capital redemption reserve	Capital reserve	Distributable reserve	Other reserve	Investment revaluation reserve	Property revaluation reserve	Translation reserve	Accumulated profits	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	77,613	-	3,628,179	9,020	10,033	62,677	(111,658)	(8,239)	33,609	(32,852)	703,194	4,371,576	210,383	4,581,959
Profit for the period	-	-	-	-	-	-	-	-	-	-	43,517	43,517	14,436	57,953
Other comprehensive income for the period	-	-	-	-	-	-	-	(5,060)	-	19,408	-	14,348	4,521	18,869
Total comprehensive income for the period	-	-	-	-	-	-	-	(5,060)	-	19,408	43,517	57,865	18,957	76,822
Shares repurchased and cancelled	(2,352)	-	(286,540)	-	-	-	-	-	-	-	-	(288,892)	-	(288,892)
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	-	(21,073)	(21,073)	-	(21,073)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(4,037)	(4,037)
At 30 June 2017	75,261	-	3,341,639	9,020	10,033	62,677	(111,658)	(13,299)	33,609	(13,444)	725,638	4,119,476	225,303	4,344,779

For the six months ended 30 June 2016

	Attributable to owners of the Company													Non-controlling interests	Total
	Share capital – ordinary shares	Share capital – convertible preference shares	Share premium	Capital redemption reserve	Capital reserve	Distributable reserve	Investment revaluation reserve	Property revaluation reserve	Translation reserve	Accumulated profits	Total				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2016	74,696	2,917	3,628,179	9,020	10,033	62,677	3,720	33,609	(12,661)	718,602	4,530,792	62,090	4,592,882		
Profit for the period	-	-	-	-	-	-	-	-	-	54,239	54,239	2,216	56,455		
Other comprehensive expense for the period	-	-	-	-	-	-	(3,720)	-	(3,087)	-	(6,807)	(453)	(7,260)		
Total comprehensive income for the period	-	-	-	-	-	-	(3,720)	-	(3,087)	54,239	47,432	1,763	49,195		
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	11,895	11,895		
Conversion of convertible preference shares	2,917	(2,917)	-	-	-	-	-	-	-	-	-	-	-		
Dividends recognised as distribution	-	-	-	-	-	-	-	-	-	(77,036)	(77,036)	-	(77,036)		
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(2,309)	(2,309)		
At 30 June 2016	77,613	-	3,628,179	9,020	10,033	62,677	-	33,609	(15,748)	695,805	4,501,188	73,439	4,574,827		

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Net cash generated from operating activities	6,209	546,252
Net cash used in investing activities	(157,866)	(371,825)
Net cash used in financing activities	(293,778)	(200,513)
Decrease in cash and cash equivalents	(445,435)	(26,086)
Cash and cash equivalents at the beginning of period	1,447,756	1,826,679
Effect of foreign exchange rates changes	13,182	—
Cash and cash equivalents at the end of period, representing bank balances and cash	1,015,503	1,800,593



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 ordinary shares are listed on the Stock Exchange.

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

The condensed consolidated financial statements are presented in HK\$, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with HKAS 34 "Interim Financial Reporting" issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed 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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE

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

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Provision of healthcare and dental services	238,209	226,965
Managed care business	225,474	216,701
Property rental income	9,226	9,043
Hospital management service income	34,855	–
Miscellaneous services income	30,410	15,409
	538,174	468,118

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

5. SEGMENT INFORMATION

Segment revenue and results

Six months ended 30 June 2017

Continuing operations

	Provision of healthcare and dental services (unaudited) HK\$'000	Managed care business (unaudited) HK\$'000	Investments in securities and properties and treasury management (unaudited) HK\$'000	Hospital management business (unaudited) HK\$'000	Others (unaudited) HK\$'000	Elimination (unaudited) HK\$'000	Total (unaudited) HK\$'000
REVENUE							
External sales	238,209	225,474	9,226	34,855	30,410	-	538,174
Inter-segment sales	11,464	-	3,431	-	-	(14,895)	-
	249,673	225,474	12,657	34,855	30,410	(14,895)	538,174
Segment results	14,579	24,040	8,284	17,238	(3,115)	-	61,026
Finance costs							(323)
Other income							15,099
Other gains and losses							38,226
Share of results of associates							798
Share of result of joint ventures							(1,152)
Unallocated corporate expenses							(24,607)
Profit before tax (continuing operations)							89,067

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

Six months ended 30 June 2016

Continuing operations

	Provision of healthcare and dental services (unaudited) HK\$'000	Managed care business (unaudited) HK\$'000	Investments in securities and properties and treasury management (unaudited) HK\$'000	Hospital management business (unaudited) HK\$'000	Others (unaudited) HK\$'000	Elimination (unaudited) HK\$'000	Total (unaudited) HK\$'000
REVENUE							
External sales	226,965	216,701	9,043	–	15,409	–	468,118
Inter-segment sales	6,997	–	3,003	–	–	(10,000)	–
	233,962	216,701	12,046	–	15,409	(10,000)	468,118
Segment results	7,679	19,613	47,463	–	(4,977)	–	69,778
Finance costs							(4,352)
Other income							6,744
Other gains and losses							23,323
Share of results of associates							(307)
Share of results of joint ventures							(1,408)
Unallocated corporate expenses							(31,140)
Profit before tax (continuing operations)							62,638

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

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

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

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Hong Kong	472,909	453,555
Other regions of the PRC	65,265	14,563
	538,174	468,118

6. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Dividend income from unlisted investments classified as available-for-sale investments	2,050	2,027
Interest income	25,173	18,382
Rental income	1,613	1,500
Sundry income	13,486	6,207
	42,322	28,116

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

7. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Continuing operations		
(Impairment loss) reversal of impairment loss recognised in respect of trade and other receivables, loans receivable and goodwill	(2,353)	8,068
(Loss) gain on fair value changes on held for trading investments	(14,775)	58
Gain on disposal of available-for-sale investments	–	5,504
Gain on disposal of subsidiaries	38,226	–
Net gain on dilution of interest and disposal of an associate	–	35,762
	21,098	49,392

8. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Effective interest expense on loan notes	–	4,093
Interest on bank borrowings	323	259
	323	4,352

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Continuing operations		
Hong Kong Profits Tax	7,553	7,925
PRC Enterprise Income Tax	7,016	–
	14,569	7,925

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for both interim periods.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

10. PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period from continuing operations has been arrived at after charging:		
Staff costs		
– Directors' remuneration	5,711	5,701
– Other staff's salaries, bonus and other benefits	288,442	284,682
– Other staff's retirement benefits scheme contributions	3,355	3,099
	297,508	293,482
Amortisation of intangible assets	4,434	3,626
Depreciation of property, plant and equipment	16,768	13,549

11. DIVIDENDS

During the six months ended 30 June 2017, a final dividend of HK0.28 cent per ordinary share for the year ended 31 December 2016, amounting to approximately HK\$21,073,000 (2016: approximately HK\$76,061,000), was declared to the owners of the Company, and such dividend has been paid in July 2017.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

12. EARNINGS PER SHARE

For continuing operations

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

Earnings for the purpose of basic and diluted earnings per share

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period from continuing operations attributable to owners of the Company	60,062	52,497
Less: Convertible Preference Shares dividend distributed during the period	–	(975)
Profit for the period from continuing operations attributable to ordinary shareholders of the Company	60,062	51,522
	30 June	30 June
	2017	2016
	(unaudited)	(unaudited)
Number of shares (in thousand):		
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,714,711	7,734,055
Effect of dilutive potential ordinary shares:		
Convertible Preference Shares	–	27,243
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,714,711	7,761,298

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

12. EARNINGS PER SHARE (CONTINUED)

For continuing and discontinued operations

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

Earnings for the purpose of basic and diluted earnings per share

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period attributable to owners of the Company	43,517	54,239
Less: Convertible Preference Shares dividend distributed during the period	—	(975)
Profit for the period attributable to ordinary shareholders of the Company	43,517	53,264

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

For discontinued operation

Basic loss per share for the discontinued operation is HK0.22 cent per share (2016: earnings per share of HK0.02 cent per share) and diluted loss per share for the discontinued operation is HK0.22 cent per share (2016: diluted earnings per share of HK0.02 cent per share), based on the loss for the period from the discontinued operation of approximately HK\$16,545,000 (2016: earnings for the period of approximately HK\$1,742,000) and the denominators detailed above for both basic and diluted earnings per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. LOANS RECEIVABLE

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Fixed-rate loans receivable (unsecured)	249,466	99,510
Analysed for reporting purpose as:		
Non-current portion	6,461	6,913
Current portion	243,005	92,597
	249,466	99,510

14. TRADE AND OTHER RECEIVABLES

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Trade receivables	127,143	146,754
Less: Allowance for doubtful debts	(5,439)	(4,889)
Total trade receivables, net of allowance	121,704	141,865
Prepayments, deposits and other receivables	131,504	88,698
	253,208	230,563

Most of the patients of the medical and dental practices of the Group settle in cash. Payments by patients using medical cards will normally be settled within 180 to 240 days while settlement by corporate customers of the Group's managed care operation takes 60 to 180 days. Trade receivables from credit card sales are due within 150 days from the date of billings. The Group provides an average credit period of 60 to 240 days to its trade customers under its other business activities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
0–60 days	107,035	130,220
61–120 days	12,196	8,017
121–180 days	1,704	3,467
181–240 days	769	161
	121,704	141,865

The above trade receivables were neither past due nor impaired at the end of the reporting period.

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

15. TRADE AND OTHER PAYABLES

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Trade payables	51,487	53,166
Accruals	68,019	68,290
Deposits received	5,256	5,115
Deferred income	3,618	5,747
Dividend payable	21,073	–
Other payables	57,261	60,812
	206,714	193,130

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

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
0–60 days	51,058	40,826
61–120 days	374	5,252
Over 120 days	55	7,088
	51,487	53,166

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

16. BANK BORROWINGS

	30 June 2017 (unaudited) HK\$'000	31 December 2016 (audited) HK\$'000
Secured	20,309	20,835

As at 30 June 2017 and 31 December 2016, the bank borrowings of the Group carried variable interest rates at 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.

17. SHARE CAPITAL – ORDINARY SHARES

	Numbers of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 30 June 2017	30,000,000,000	300,000
Issued and fully paid:		
At 1 January 2016	7,469,631,786	74,696
Conversion of Convertible Preference Shares	291,666,666	2,917
At 31 December 2016	7,761,298,452	77,613
Cancellation of shares	(235,164,000)	(2,352)
At 30 June 2017	7,526,134,452	75,261

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

18. SHARE CAPITAL – CONVERTIBLE PREFERENCE SHARES

	Numbers of shares	Amount HK\$'000
Convertible Preference Shares of HK\$0.01 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 30 June 2017	375,000,000	3,750
Issued and fully paid:		
At 1 January 2016	291,666,666	2,917
Converted during 2016	(291,666,666)	(2,917)
At 31 December 2016 and 30 June 2017	–	–

The Convertible Preference Shares were redeemable, carried no voting right and each of the Convertible Preference Shares was convertible into one ordinary share any time after issue.

Pursuant to the CPS Subscription Agreement, 374,999,999 Convertible Preference Shares were allotted and issued at HK\$1.2 per share on 29 December 2014. The gross proceeds from the CPS Subscription were approximately HK\$450,000,000. For details of the CPS Subscription, please refer to the announcement of the Company dated 31 October 2014 and the circular of the Company dated 28 November 2014.

The Convertible Preference Shares allotted and issued were converted into 83,333,333 and 291,666,666 ordinary shares of the Company on 22 May 2015 and 18 January 2016, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

This note provides information about how the Group determines the fair value of its various financial assets and financial liabilities.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key input
	30 June 2017 (unaudited)	31 December 2016 (audited)		
1. Held for trading investments	Listed equity securities in Hong Kong – HK\$55,194,000	Listed equity securities in Hong Kong – HK\$69,969,000	Level 1	Quoted bid prices in an active market.
2. Unlisted fund classified as available-for-sale investments	Unlisted equity fund in Hong Kong – HK\$8,505,000	Unlisted equity fund in Hong Kong – HK\$8,501,000	Level 2	Derived from quoted bid prices in an active market.
3. Listed available-for-sale investments	Listed equity securities in Hong Kong – HK\$83,490,000	Listed equity securities in Hong Kong – HK\$88,550,000	Level 1	Quoted bid prices in an active market.

There were no transfers between Levels 1 and 2 in the current and prior period/year.

GLOSSARY

2008 Scheme	share option scheme of the Company adopted on 16 September 2008
Auspicious Idea	Auspicious Idea Corporate Development Limited
Board	the board of Directors
Bonjour Beauty	Bonjour Beauty International Limited
Broad Idea	Broad Idea International Limited
C&C	C&C International Healthcare Group Limited
China Life Group	CLIO and its subsidiaries
China or PRC	the People's Republic of China excluding, for the purpose of this interim report only, Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
Classictime	Classictime Investments Limited
CLIO	China Life Insurance (Overseas) Company
Company	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 of the Stock Exchange
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
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

GLOSSARY

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
current ratio	total current assets divided by total current liabilities
Director(s)	the director(s) of the Company
Dr. Cho	Dr. Cho Kwai Chee, an executive Director
Dr. Choi	Dr. Choi Chee Ming, a non-executive Director
Dr. Ip	Dr. Ip Chun Heng, Wilson, a former executive Director
Dr. Vio	Dr. Vio & Partners Limited
EIT Law	the Law of PRC on Enterprise Income Tax
Fubon Financial	Fubon Financial Holding Co., Ltd.
Fubon Insurance	Fubon Insurance Co., Ltd.
Fubon Life	Fubon Life Insurance Co., Ltd.
gearing ratio	total bank borrowings divided by equity attributable to owners of the Company
Group	the Company and its subsidiaries
HK\$	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

GLOSSARY

Jun Yang	Jun Yang Financial Holdings Limited
Listing Rules	the Rules Governing the Listing of Securities on 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
Nanshi Hospital	南陽南石醫院 (in English, for identification purpose only, Nanshi Hospital of Nanyang)
Nanshi Hospital Youtian Branch	南陽市官莊工區南石醫院 (in English, for identification purpose only, Nanyang City Guanzhuang Gongqu Nanshi Hospital)
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.)
Natural Glory	Natural Glory International Limited
Oasis Beauty	Oasis Beauty Limited
Profit Castle	Profit Castle Holdings Limited
RMB	Renminbi, the lawful currency of the PRC
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
Stand Forever	Stand Forever Corporate Consulting Limited
Stock Exchange	The Stock Exchange of Hong Kong Limited
Union	Union Medical Healthcare Limited
US\$	United States Dollars, the lawful currency of the United States of America