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
2020

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Jin Zhaogen
(Chief Executive Officer) (Note 1)
Ms. Zhao Xiangke
(Chief Financial Officer) (Note 2)
Mr. Chen Jinhao
(Chief Executive Officer) (Note 3)

Non-executive Directors

Mr. Zhao Hui *(Chairman)* (Note 4)
Mr. Hou Jun (Note 5)
Mr. Wan Yiqing *(Chairman)* (Note 6)
Ms. Fang Haiyan *(Deputy Chairperson)* (Note 7)

Independent Non-executive Directors

Mr. Ho Kwok Wah, George, *MH*
Ms. Li Mingqin
Mr. Yu Xuezhong

BOARD COMMITTEES

Audit Committee

Mr. Ho Kwok Wah, George, *MH (Chairman)*
Ms. Li Mingqin
Mr. Yu Xuezhong

Remuneration Committee

Mr. Ho Kwok Wah, George, *MH (Chairman)*
Mr. Jin Zhaogen (Note 1)
Ms. Li Mingqin
Mr. Yu Xuezhong
Mr. Chen Jinhao (Note 3)

Nomination Committee

Mr. Zhao Hui *(Chairman)* (Note 4)
Mr. Jin Zhaogen (Note 1)
Mr. Ho Kwok Wah, George, *MH*
Ms. Li Mingqin
Mr. Yu Xuezhong
Mr. Wan Yiqing *(Chairman)* (Note 6)
Mr. Chen Jinhao (Note 3)

COMPANY SECRETARY

Mr. Kwan Chung Man

AUDITORS

Moore Stephens CPA Limited
Certified Public Accountants

REGISTERED OFFICE

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
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 China (Hong Kong) Limited
Bank of Communications Co., Ltd.
China Construction Bank (Asia)
Corporation Limited
Chong Hing Bank Limited
CMB Wing Lung Bank Limited
Credit Suisse AG, Hong Kong Branch
Dah Sing Bank, Limited
Hang Seng Bank Limited
UBS AG, Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Management (Bermuda) Limited
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.townhealth.com

Notes:

1. On 26 March 2021, Mr. Jin Zhaogen was appointed as an executive Director, the Chief Executive Officer and a member of each of the Nomination Committee and the Remuneration Committee.

2. On 26 March 2021, Ms. Zhao Xiangke was appointed as an executive Director.

3. With effect from conclusion of the meeting of the Board held on 26 March 2021, Mr. Chen Jinhao resigned as an executive Director, the Chief Executive Officer and a member of each of the Nomination Committee and the Remuneration Committee.

4. On 25 May 2020, Mr. Zhao Hui was appointed as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.

5. On 25 May 2020, Mr. Hou Jun was appointed as a non-executive Director.

6. With effect from 25 May 2020, Mr. Wan Yiqing resigned as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.

7. With effect from 25 May 2020, Ms. Fang Haiyan resigned as a non-executive Director and the deputy chairperson of the Company.

CEO'S STATEMENT

Dear Shareholders,

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

The year of 2020 was a year shrouded with complicated and changeable situations. Countries in the world were shocked by the COVID-19 pandemic, economic development halted and the society exposed to severe challenges. The resurgence of the outbreak of the COVID-19 pandemic in Hong Kong forced many industries to suspend business and struck a heavy blow to employment and consumption. On top of that, visitors to Hong Kong decreased significantly, making the local economy even worse. In the time of hardship, the Group shouldered its responsibilities as a medical institution, followed the government's policies to prioritize the work of pandemic prevention and control, achieving remarkable results of "zero infection" in all hospitals and clinics managed by the Group in Hong Kong and Mainland China. Meanwhile, the Group also actively assists the government to carry out COVID-19 testing, and cooperates with the government recognised testing institutions to establish a COVID-19 Reverse Transcription-Polymerase Chain Reaction (RT-PCR) Test laboratory at the headquarter office building of the Group, which is one of the large-scale laboratories of this type in Hong Kong, thus making contribution to the pandemic prevention and control. The Group also actively assumes the social responsibility as a medical enterprise. In the early stage of the outbreak of the pandemic and when anti-epidemic materials were in short supply, the Group distributed masks to people in need in the society to provide citizens with adequate protection.

In terms of the daily management and operation, the Group met the challenges amid the tough business environment, allocated resources flexibly to satisfy market demands and provided citizens with high-quality and reassuring medical services. Meanwhile, the Group seized the trend that Mainland China effectively contained the pandemic and the economy recovered at a faster pace. It actively deepened and expanded its business in the Mainland's medical market, making preparation for business revitalization after the pandemic abates in the future.

For the business in Hong Kong, the Group, facing the severe challenge of the pandemic, proactively adjusted the operation and management strategy, improved the internal system, strictly controlled expenditures while broadening revenue sources. Regarding managed care business, Vio followed the general trend of digitalisation, comprehensively reviewed and upgraded the standard procedure and the data security system, so as to improve the operational efficiency of internal management system and enhance the data security management and confidentiality level. The upgraded IT infrastructure has significantly improved the operational efficiency of the Group's affiliated healthcare network.

Regarding the self-operated clinic chain business, the Group deployed and integrated the medical centre layout and business management strategy, and controlled operation cost. Meanwhile, the Group recruited more specialists amid the gloomy market for the departments of cardiology, ophthalmology, orthopaedics, paediatrics and gynaecology & obstetrics, with an aim to strengthen the specialty services. In addition, the ophthalmic day procedure centre in Jordan has obtained the license and approval for operation issued by the government and became a sustainable driving force for business development.

CEO'S STATEMENT

For the medical beauty business that was forced to suspend operation for a long period of time due to the restrictive measures imposed by the government, TBM made proactive plans to cope with challenges brought by the business environment, including developing online marketing and promotion, launching promotional activities, applying to landlords for rent reductions and submitting application for "Employment Support Scheme" and "Subsidy Scheme for Beauty Parlours" launched by the Hong Kong Government. Benefiting from the effective pandemic control measures and the economic recovery and growth in Mainland China, TBM opened new beauty centres in Guangzhou and Shanghai as scheduled in the Year, which consolidated the TBM's medical beauty network in first-tier and second-tier cities of Mainland China.

With respect to the business in Mainland China, the Group continued to expand the business scope, improve the supporting facilities and the service quality, and deepen the cooperation with China Life Group, providing a stimulant to the deployment of medical and healthcare market in Mainland China.

In terms of the hospital management and consulting services business, Nanyang Xiangrui, the Group's hospital management subsidiary, further expanded the business scope to cover medical technology, property services, home services and architecture decoration, offering more supportive services to Nanshi Hospital and comprehensively improving the management level and economic benefit of the hospital. During the Year, Nanshi Hospital, managed by Nanyang Xiangrui, made several achievements in enhancing software and hardware. The construction, decoration and equipment installation of the Surgery Building of Nanshi Hospital was basically completed, and it is expected that the building would be put into service in the first half of 2021. Nanshi Hospital also had a new rehabilitation branch and established Seniors' Care Centre and Family Service Centre to offer integrated services to citizens of Nanyang City. Nanshi Hospital made great efforts to improve the quality control indicators through formulating strict daily quantitative assessment on the quality of clinical and medical technology departments and proactively participating in the "Ten Major Indicators" Macro Supervision (「十大指標」宏觀監管), with a view to standardise the hospital management, improve the medical quality and strengthen the service quality.

In terms of the health management centres business, Town Health International Health Management Centre, located at China Life Tower, Jinan City, Shandong Province, recorded good performance in the Year. The centre realised internal improvement in staffing, system and service procedures, and implemented a series of measures to broaden revenue sources and reduce expenditures. Meanwhile, the centre further strengthened the cooperation with China Life Group. It organised several exclusive events for VIP customers of China Life Group and offered value-added medical services. In the course of the events, China Life Group secured insurance contracts valued tens of millions in RMB, and the centre also enlarged its customer base. In addition, the health management centre in Zhongshan City, Guangdong Province has obtained a medical institution practicing license in December 2020, and is expected to officially commence business in the first half of 2021.

For the high-end medical diagnostic and health check business, the Sixth Hospital's medical diagnostic centre, managed by the Company's subsidiary, Yikang, established an additional nucleic acid testing laboratory for testing of coronavirus after the outbreak of COVID-19 pandemic to assist the government in providing nucleic acid testing services.

CEO'S STATEMENT

Regarding the clinics business, Ganghe Clinic, located in the central area of Futian District, Shenzhen, has established a stable cooperative relationship with a gynecology professor and her medical team in Guangzhou, and the medical team, which has dispatched doctors for long-term consultations and established an endocrinology and reproduction medical specialty to provide high-end medical services for patients. In addition, Ganghe Clinic continuously provided exclusive medical services to VIP customers of CLIZ, which contributed to a larger high-class customer base.

Overall, the year of 2020 was challenging to the human kind and compelled people to re-develop plans and re-set objectives. Experiencing the COVID-19 pandemic, people will better recognise the importance of health and pay more attention to personal healthcare and hygiene. No matter in Hong Kong or Mainland China, demands for comprehensive and high-quality medical services will rise continuously. The Group will actively seize the market opportunity and advance courageously. With its extensive experience and brand advantage accumulated over the years, the Group will continue to provide citizens with reliable and high-quality medical services, and further consolidate its market share in Hong Kong. Meanwhile, the Group will accelerate its expansion in Mainland China by leveraging the long history, established brand, tremendous strength and broad customer base of China Life Group, and remain committed to creating sustainable returns for Shareholders. As a conscientious healthcare group shouldering corporate social responsibilities, the Group will also consistently repay the society by contributing its experience and strength.

Finally, I would like to take this opportunity to express my sincere gratitude to all Shareholders, customers and business partners for their firm support and my heartfelt thanks to the management, professional medical teams and employees for the close cooperation, the devotion to work and the selfless contribution to the Group.

Jin Zhaogen
Chief Executive Officer

26 March 2021

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 recorded a loss of approximately HK$258,450,000 (2019: profit of approximately HK$10,519,000). Such significant change from profit to loss was mainly attributable to (i) the adverse impact of the COVID-19 pandemic on the business operation of the Group during the Year, in particular, the number of outpatient visits has significantly decreased during the Year; (ii) the significant increase in allowance of expected credit loss recognised on promissory note; and (iii) the significant decrease in share of profits of associates for the Year notwithstanding that the Group recorded a significant increase in other income during the Year.

Adverse Impact of the COVID-19 Pandemic on Business Operation of the Group

The outbreak of the COVID-19 pandemic since January 2020 has significantly affected the business operation of the Group, causing decline in revenue of the Group for the Year. Details of impact of the COVID-19 pandemic on different business segments of the Group will be explained in subsequent paragraphs.

Allowance of Expected Credit Loss Recognised on the BB Promissory Note

The Group recorded an allowance of expected credit loss in respect of the BB Promissory Note of approximately HK$207,693,000 for the Year (2019: allowance of expected credit loss in respect of promissory note of approximately HK$4,544,000). The significant increase in allowance of expected credit loss in respect of promissory note was due to the recognition of an impairment loss in relation to the BB Promissory Note, details of which are set out in the announcements of the Company dated 30 December 2016, 17 March 2017 and 19 March 2021 and the circular of the Company dated 23 February 2017.

As at the date of this report, the outstanding principal amount of the BB Promissory Note is HK$330,000,000. Since the maturity date of the BB Promissory Note (i.e. 9 April 2020) (the "Maturity Date"), Profit Castle has paid interest accrued on the outstanding principal amount of the BB Promissory Note of approximately HK$10,400,000 and the outstanding interest accrued thereon up to the date of this report amounts to approximately HK$8,500,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

The Group understood from Dr. Ip and Profit Castle that due to the social movement in Hong Kong in the second half of 2019 and the widespread COVID-19 pandemic in 2020, the principal business of Bonjour Beauty International Limited (the "Target") and its subsidiaries, and the other companies owned by Dr. Ip were disrupted substantially, and could not pay back the principal and interest accrued on the BB Promissory Note as originally scheduled and agreed. Since the Maturity Date, the Group, Dr. Ip and Profit Castle had been in negotiation on the extension of the Maturity Date and the repayment schedule of the principal amount of the BB Promissory Note and the interest accrued thereon. The parties had considered various repayment plans, including extending the maturity date of the BB Promissory Note to 30 September 2023 with a plan of repayment of the outstanding principal amount by instalments, supported by further undertakings to be provided by Dr. Ip. At the same time, the Group had been monitoring and assessing the information associated with Dr. Ip's financial position, either provided by Dr. Ip/Profit Castle or obtained from public domain. However, the negotiation fell through in the absence of any viable repayment proposal from Dr. Ip and Profit Castle that is acceptable to the Group.

In light of the above and during the course of preparation of the consolidated financial statements of the Company, the Company had discussed with its auditors on the appropriate accounting treatment of the BB Promissory Note in its financial statements for the year ended 31 December 2020. The Company has engaged Ascent Partners Valuation Service Limited (the "Independent Valuer"), an independent professional valuer, to perform an independent valuation on the BB Promissory Note. Based on the valuation performed by the Independent Valuer, a credit loss of approximately HK$207,693,000 was recognised by the Group for the year ended 31 December 2020.

The amount of impairment of the BB Promissory Note of approximately HK$207,693,000 for the year ended 31 December 2020 was determined with reference to (i) the valuation of the expected credit loss of the BB Promissory Note as at 31 December 2020 (the "Valuation"); (ii) the valuation of 100% equity interest in the Target as at 31 December 2020 by adopting the income approach; and (iii) the valuation of 100% equity interest in the Target as at 31 December 2020 by adopting the market approach, all conducted by the Independent Valuer.

Valuation Approach and Methodology

The Valuation is determined through the construction of a provision matrix based on the historical observed default rates which is adjusted for forward-looking assessments in expected changes in credit risk. The expected credit loss is the product of expected default probability and the carrying value.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Assumptions and Notes to Valuation

The following assumptions, considered having significant sensitivity effects on the Valuation, have been evaluated and validated in arriving at the assessed values of the BB Promissory Note:

(a) the Independent Valuer has assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the underlying business of the Target; and

(b) the Independent Valuer has no reason to doubt the accuracy and fairness of the information made available to it on which the Independent Valuer has relied to a considerable extent in arriving at its opinion of value.

Valuation

The Independent Valuer adopted a scenario analysis based on the Company's decision to proceed to exercise its claims to the shares of the Target. If the Company takes legal action and intends to sell the shares of the Target, the value of 100% equity interest in the Target shall be determined by using the market approach. On the other hand, if the Company intends to operate the collateral by itself, the value of 100% equity interest of the Target shall be determined by using the income approach where the value of the Target is developed through the application of weighted average cost of capital ("WACC") to discount the free cash flows. The major parameters adopted are as follows: (i) the WACC, calculated by taking into account the relative weights of the Target's capital structure and also the cost of debt as well as the cost of equity, is 13.93%; and (ii) the average of inflation rates from 2011 to 2020 of Hong Kong per Bloomberg is employed as the terminal growth rate, which is 2.8%.

Having regard to the resources available to the Group and the Company's business plan, the Group considered that the probability of selling the shares of the Target shall be 70% while the probability of operating the Target shall be 30%. As such, the Independent Valuer has conducted valuation of the fair value of the Target as at 31 December 2020 by taking 30% of the value of 100% equity interest of the Target determined by using the income approach (i.e. approximately HK$167,000,000) and 70% of the value of 100% equity interest of the Target determined by using the market approach (i.e. approximately HK$154,600,000). The fair value of 100% equity interest in the Target as at 31 December 2020 is accordingly assessed at HK$158,320,000.

Based on the valuation of different scenarios of the Company's decision to proceed to exercise its claims to the shares of the Target, the total expected recovery from the BB Promissory Note is assessed at approximately HK$117,764,000. The fair value of the expected credit loss of the BB Promissory Note as at 31 December 2020, free from any encumbrances, is assessed at approximately HK$212,237,000.

Having considered, among other things, the methodologies, assumptions and inputs adopted by the Independent Valuer, the Board considers that the amount of the expected credit loss was fair and reasonable.

FINANCIAL REVIEW *(Continued)*

In addition, the Group has taken the following actions to recover the BB Promissory Note since the Maturity Date:

1. The Group has made requests for, and has received, interest of approximately HK$10,400,000 from Profit Castle since the Maturity Date. Interest will continue to accrue up to and including the date on which the outstanding principal amount of the BB Promissory Note is fully repaid.

2. Although the Group has been negotiating a repayment plan with Dr. Ip and Profit Castle, the Group has been simultaneously considering to take legal actions against them. In this regard:

   a. the Group has issued emails, and the Group's legal advisers has issued final demand letters to Dr. Ip and Profit Castle to demand repayment

   b. the Group has been considering various legal options to recover the BB Promissory Note and interest accrued thereon, including enforcing the share mortgage and the guarantee executed by Dr. Ip/Profit Castle in favour of the Group and commencing legal proceedings against them. The factors that the Group are considering include the recoverability of the BB Promissory Note through various types of legal proceedings, the procedures and time involved, the risks associated with those legal proceedings and the costs arising therefrom. The Group does not exclude any possibility to commence legal proceedings and has instructed its legal advisers to prepare the necessary documents for taking legal actions.

3. The Group has requested for and received certain accounts of the underlying beauty business from Dr. Ip/Profit Castle.

4. The Group has conducted public searches (including bankruptcy, winding-up, litigation and land searches) against relevant persons, entities and properties, in addition to engaging an independent agent to conduct asset tracing on Dr. Ip and the Independent Valuer to perform valuation on the issued shares of the Target/share mortgage in respect of the issued shares of the Target mortgaged in favour of the Group.

The Company will continue to seek legal advice and make further announcement(s) in respect of the BB Promissory Note as and when appropriate.

Share of Profits of Associates

The Group recorded share of profits of associates of approximately HK$7,466,000 for the Year (2019: share of profits of associates of approximately HK$37,422,000). Such significant decrease in share of profits of associates was mainly due to the outbreak of the COVID-19 pandemic which caused adverse impact on their business operations.

Other Income

The Group recorded other income of approximately HK$90,779,000 for the Year (2019: approximately HK$60,264,000). The increase in other income was mainly due to the recognition of government grants of approximately HK$29,646,000 in respect of COVID-19 related subsidies, of which are all related to "Employment Support Scheme" provided by the Hong Kong government.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Annual Business Review

In 2020, the outbreak of the COVID-19 pandemic posed a serious threat to public health. As a frontline institution of the medical system, it is an important goal for the Group to do its best to prevent from and fight against the pandemic. Starting from staff's protective equipment, cleaning and disinfection of clinics and hospitals, and notification mechanisms, the Group made concerted efforts in collaboration with its staff to fight the pandemic, achieving remarkable results of "zero infection" in both Hong Kong and Mainland China. Meanwhile, the Group also actively assists the government to carry out COVID-19 testing and cooperates with the government recognised testing institutions to establish a COVID-19 Reverse Transcription-Polymerase Chain Reaction (RT-PCR) test laboratory, which is one of the large-scale laboratories of this type in Hong Kong. The Group spares no effort to make contributions to enhance Hong Kong's nucleic acid testing capabilities and reduce the risk of wide spread of the pandemic in a long term.

Due to the continuous recurrence of the pandemic in Hong Kong, which has continually impacted the local economy, the process of economic recovery became slow and difficult. As the pandemic is not under control, the public's desire to go out declined, reducing the number of medical consultations, and the Group's healthcare business in Hong Kong was adversely affected. Facing the severe challenges posed by the outbreak of the pandemic, the Group flexibly adjusted its operation and management strategies, expanded revenue sources and reduced expenditures and strictly controlled costs.

In terms of Mainland China business, thanks to the continuous effective control of the pandemic and rapid economic recovery in Mainland China, the Group's business in Mainland China has gradually resumed in an orderly manner and finally achieved encouraging growth. At the same time, after several years of in-depth cooperation with China Life Group, the synergetic effects have become more significant, bringing greater value to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Resumption of Trading

As disclosed in the Resumption Announcement, the trading of the Shares on the Stock Exchange was permitted to recommence with effect from 9:00 a.m. on 1 March 2021.

As disclosed in previous announcements of the Company, the Company has been communicating with the SFC on the resumption application made by the Company under section 9 of the SMRL. At the request of the SFC, a reputable independent consultant (as agreed by the SFC) ("Consultant") has been engaged to conduct a review of the Company's internal control. Such review has been completed and a report ("IC Report") has been issued to the Company and the SFC. The SFC has considered the IC Report and other documents and information submitted by the Company, and the SFC has, by notice to the Stock Exchange and pursuant to section 9(3) of the SMLR, permitted the dealings in the Shares to recommence subject to the following conditions:

(1) the Company shall publish the Resumption Announcement;

(2) the Company undertakes:

   (a) to implement all the recommendations made by the Consultant in the IC Report by the target completion date with respect to each recommendation as set out in the IC Report;

   (b) to procure the Consultant to perform a follow-up review as at 31 October 2021 to assess whether the recommendations in the IC Report have been properly implemented by the Company;

   (c) to procure the Consultant to submit a report following the follow-up review to the Company and the SFC Executive for concurrent review; and

(3) the Company shall publish an announcement regarding the results of the follow-up review report.

As at the date of this report, the Company has fulfilled the first resumption condition by publishing the Resumption Announcement.

With reference to the second resumption condition, the Company will (i) implement all the recommendations made by the Consultant in the IC Report by the target completion date with respect to each recommendation as set out in the IC Report; (ii) procure the Consultant to perform a follow-up review as at 31 October 2021 to assess whether the Consultant's recommendations in the IC Report have been properly implemented by the Company; and (iii) procure the Consultant to submit a report following such follow-up review to the Company and the SFC for concurrent review. Further announcement will be made in respect of the follow-up review report as required under the third resumption condition.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Healthcare Service Network of the Group

As of 31 December 2020, the Group had 463 healthcare service points covering multiple practices, including 265 general practice service points, 80 specialist service points, 24 dental service points and 94 auxiliary service points. As of 31 December 2020, the Group employed 702 doctors, dentists and auxiliary service staff (including 399 general practitioners, 210 specialists, 35 dentists and 58 auxiliary service staff), all of whom provided healthcare services via the Group's network of self-operated and affiliated medical centres.

The Group's healthcare service network are as follows:

	As of 31 December 2020
Medical services	**345**
General practice services	265
Specialist services	80
Dental services	**24**
Auxiliary services	**94**
Physiotherapy services	52
Diagnostic imaging and laboratory testing services	26
Traditional Chinese medicine services	15
Health management services	1
Total:	**463**

The Group's self-operated medical centres are as follows:

	As of 31 December 2020
Medical services	**91**
General practice services	47
Specialist services	44
Dental services	**13**
Auxiliary services	**19**
Diagnostic imaging and laboratory testing services	11
Physiotherapy services	7
Health management services	1
Total:	**123**

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Business in Hong Kong

Managed Care – Vio

The year of 2020 witnessed the unprecedented arrival of the COVID-19 pandemic, which inevitably had a negative impact on the Group's medical network business. Despite transient period of zero local infection case in April 2020, the resurgence came in waves with a vengeance against each government's attempt to ease anti COVID-19 measures. Fear of the contagion led to a drop in service demand and frequency of clinic visits. The number of outpatient visits recorded a larger drop compared with that of the same period in 2019. A larger profit decline was recorded for general practice services while specialist services were less affected as demand for the latter is less elastic.

In response to the COVID-19 pandemic, Vio has strictly followed the COVID-19 prevention guidelines from the Centre for Health Protection and adopted a series of measures to protect the health of healthcare workers and clients, including temperature screening for everyone entering the medical centres, advising them to practise physical distancing and hand hygiene, and mandating health and travel declaration by clinic visitors so as to identify high risk or symptomatic individuals. Vio also provided frontline staff with adequate personal protective equipment, enhanced disinfection schedules of clinic facilities, banned staff from eating together in common rooms and advised staff to reduce social activities outside. Whenever an employee suspects that he/she may have been exposed to the virus, the Group will also conduct rapid World Health Organisation approved antigen test in-house while waiting for the more sensitive but slower Reverse Transcription-Polymerase Chain Reaction (RT-PCR) test to be reported. Through a series of effective pandemic prevention measures, none of Vio's frontline staff has been infected during the Year. Vio has also organised COVID-19 Health Talks for corporate clients, acted as their Corporate Medical Adviser and provided thousands of Polymerase Chain Reaction tests for their staff.

In 2020, Vio continued to upgrade its software and IT infrastructure with the addition of the e-voucher and e-approval modules to enhance operational efficiency and to strengthen system resilience and data security. The upgraded systems will gradually replace the error prone paper-based process, subject to acceptance by payors including insurers.

The revenue generated from the Group's medical network business in the Year amounted to approximately HK$419,380,000 (2019: approximately HK$477,251,000), and accounted for approximately 39.23% of the Group's revenue for the Year (2019: approximately 42.27%).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Self-Operated Clinic Chain

During the Year, the Group operated a total of 47 general practice medical centres, 44 specialist centres and 13 dental centres. Due to the impact of the COVID-19 outbreak on its business, the general practice services, specialist services and dental services of the Group in the self-operated clinic chain recorded various degrees of decline in attendance, revenue and net profit, turning the overall business from profit to loss, especially for the general practice services and pediatric specialties, which recorded a larger decline. Apart from that, a new cardiologist was recruited to join the cardiology team, whose joining brought a considerable revenue to the team. The cardiology diagnostic centre also performed well, with both revenue and net profit recorded growth.

Strictly managing the prevention and control of the pandemic, the Group purchased professional air purification equipment for the medical centres and provided personal protective equipment to frontline medical staff, to ensure that all medical centres have sufficient personal protective equipment such as surgical masks, face shields, protective clothing, head covers and gloves in stock. Once being notified that a patient is confirmed to have contracted the COVID-19 disease, the Group will immediately close the centre for monitoring disinfection and all staff will be tested for COVID-19 disease. The staff will not be allowed to return to work until their test results confirmed negative, thus achieving "zero infection" of medical staff. The Group has also conducted thorough cleansing for some long-established medical centres and retrained healthcare assistants' customer service skills to comprehensively improve the quality of services of the medical centres.

As a leading healthcare services group in Hong Kong, while expanding its business, the Group also shoulders the social responsibility as a healthcare enterprise and joins hands with the community to fight the pandemic. During the Year, the Group, supported by its extensive network of medical centres and in collaboration with government-recognised nucleic acid testing institutions, fully complied with the government's policies and launched the COVID-19 testing service at an affordable price, to meet the public's demand for COVID-19 testing. In addition, the Group worked together with non-governmental organisations and donated tens of thousands of surgical masks to children, students and community members in need, as well as patients who visited its medical centres for medical services and the centres' grassroots workers, such as cleaners and security guards during the Year.

To enhance its internal management, the Group introduced an internal information dissemination network system in which the Group's latest policies are announced to enable all medical staff to be timely updated, thus enhancing overall management efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

In order to respond to the market demand more flexibly, the Group deployed and integrated the medical centre layout and business management strategies by closing three general practice medical centres and one dental centre. It also relocated some of the centres to gain more space and increase hygiene level, and to save rental expenses. Staff allocation was also adjusted according to the number of patient visits in each centre to streamline the workforce. These measures were effective in controlling costs and increasing operational efficiency of the centres. On the other hand, to strengthen the specialist services, the Group has recruited one additional full-time specialist for each of cardiology, ophthalmology and orthopedics centres, and one additional visiting specialist for each of pediatrics and obstetrics and gynecology centres. In addition, official licensing has been granted for the operation of the ophthalmic day procedure centre in Jordan.

During the Year, the revenue generated from the general practice services, specialist services and dental services of the Group amounted to approximately HK$357,835,000 (2019: approximately HK$486,344,000), and accounted for approximately 33.47% of the Group's revenue for the Year (2019: approximately 43.08%).

Medical Beauty Business

During the Year, in response to the operation of the measures imposed by the Hong Kong government against the COVID-19 pandemic, the Group's medical beauty centres in Hong Kong were suspended for nearly 100 days. The mandatory quarantine measures and restrictions on inbound travel imposed by the Hong Kong government led to a sharp drop in the number of visitors to Hong Kong and made cross-border medical treatment and medical beauty service impossible, which have further put pressure on the demand for medical beauty business. Revenue generated from the business of TBM in the Hong Kong market inevitably dropped sharply as compared with the corresponding period last year. The business of TBM in Mainland China was also affected by the pandemic and its operation was suspended for 30 days. However, as the pandemic was under control in Mainland China, the business of TBM in Mainland China recovered quickly in the second half of the Year and recorded a revenue growth exceeding a double-digit percentage, leading to an increase in revenue of TBM in Mainland China throughout the Year.

In light of the business downturn in Hong Kong, TBM actively adopted a number of operational management and cost-cutting strategies to encounter challenges of the business environment. In terms of business development, TBM actively explored online marketing and promotion and offered preferential promotions to stimulate local consumption. In terms of cost control, TBM applied to landlords of its centres for rent reductions and submitted application for "Employment Support Scheme", a salary subsidy scheme, and "Subsidy Scheme for Beauty Parlours" launched by the Hong Kong government.

As China's pandemic prevention and control continues to improve, and with the support and promotion of a series of fiscal stimulus policies, China's economy has resumed growth. Driven by the release of previous backlog of consumer desires, TBM in Mainland China opened three new centres in Guangzhou and one in Shanghai as scheduled during the Year, which further strengthened the TBM medical beauty outlets in the first and second tier cities in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

During the Year, TBM employed 11 full-time or part-time doctors, and had 9, 8, 5 and 3 centres in Hong Kong, Shenzhen, Shanghai and Guangzhou, respectively. During the Year, TBM's revenue amounted to approximately HK$245,400,000 (2019: approximately HK$328,361,000).

Business in Mainland China

Hospital Management and Consulting Services Business in Mainland China

During the Year, Nanshi Hospital, managed by the Group's Nanyang Xiangrui, recorded good performance. In spite of the COVID-19 pandemic, total revenue of Nanshi Hospital recorded a single-digit growth as compared with the corresponding period last year and the overall revenue of Nanyang Xiangrui recorded a double-digit growth as compared with the corresponding period last year, benefiting from the significant increase in revenue from the newly acquired Yugangxiang and Nanyang Ruishi Ophthalmology Hospital.

Nanshi Hospital has spared no effort in pandemic prevention and control. Fever clinics and isolated observation wards were set up in the hospital to provide separate diagnosis and treatment area for patients with fever, and more than one million Renminbi was invested to expand the infectious disease department, which was constructed and put into use within a short period of time. Facing short supply of protective equipment, pandemic prevention and control materials were purchased from abroad to meet daily needs of the hospital, which enabled the hospital to record "zero infection" of medical staff and patients. In addition, Nanshi Hospital sent backbone doctors to six county-level hospitals to provide support, and deployed more than 300 medical staff to provide guidance on community prevention and control, thereby making positive contributions to the pandemic prevention and control efforts of Nanyang City and the promotion of cooperation of medical partnerships.

Nanshi Hospital accelerated the construction and decoration of the new surgical building, the progress of which being slightly affected by the pandemic, but the civil construction, decoration and equipment installation have been basically completed, which is aimed to be put into use in the first half of 2021.

In addition to the new rehabilitation branch, Nanshi Hospital has also established a nursing home for the elderly, hosting more than 1,000 elderly people and taking care of more than 100 elderly people throughout the Year, and a family service centre to provide rehabilitation services to more than 6,000 elderly people.

Not only upgrading its hardware facilities, Nanshi Hospital also actively enhanced the quality of medical care. Nanshi Hospital optimised daily quantitative assessment of the quality of clinical and medical technical departments; adopted authorised management of restricted medical technology operations; implemented the consultation system to improve level of diagnosis and treatment; participated in the "Ten Major Indicators" macro supervision, "three goods and one satisfaction" construction and "three rationalisations and one standard" assessment and other activities. These are to optimise various quality control management indicators, make hospital management more standardised and further strengthen service quality. The satisfaction rates of discharged patients, inpatients and outpatients with Nanshi Hospital were encouragingly above 93%, 95% and 91%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Nanshi Hospital is dedicated to social welfare and organises health promotion and education activities in Nanyang City every year, organising more than 200 events of free consultations and providing stroke screenings in excess of the quota, thereby benefiting more than 5,000 people.

Nanyang Xiangrui has continuously expanded its business scope and now has more than 10 companies in various fields, including medical technology, property services, housekeeping services and architectural decoration, which can provide more support services for hospital management business and enhance the hospital management level and economic efficiency comprehensively.

Health Management Centres Business

During the Year, Town Health International Health Management Centre, located at the China Life Centre in Jinan City, Shandong Province, was temporarily suspended because of the COVID-19 pandemic. Subsequently, as the health management centre resumed operation, its business has improved significantly. During the Year, the overall performance of the health management centre was terrific, serving more than 10,000 customer visits. Among them, health check service was the main source of revenue for the health management centre.

During the Year, the health management centre in Jinan strengthened internal management and construction. Internal improvements were made in terms of personnel, systems and formulation of service processes, and various measures to expand revenue sources and reduce expenditures were implemented. Meanwhile, the health management centre continued to strengthen its pandemic prevention and control efforts to achieve "zero infection" of medical staff and customers.

The health management centre in Jinan strengthened its cooperation with CLIS, actively cooperated with the development of CLIG's sales business, and provided special value-added healthcare services for VIP customers of China Life Group. In the meantime, the health management centre organised a total of 275 exclusive events for CLIS, involving about 3,000 participants. In the whole course of the events, CLIS secured insurance contracts with more than tens of millions of Renminbi. While such exclusive events helped China Life Group achieve good results of signing contracts, they also enlarged customer base of the health management centre. The health management centre and CLIS actively exerted synergistic effect to promote cooperation and development together.

In addition, the health management centre in Zhongshan, Guangdong Province has successfully obtained a medical institution practicing license in December 2020 and is expected to be officially opened in the first half of 2021.

High-end Medical Imaging Diagnostic and Health Check Business

During the Year, revenue generated from the Sixth Hospital's medical diagnostic centre managed by Yikang, a subsidiary of the Company, was stable. After the outbreak of COVID-19 pandemic, Yikang has set up an additional nucleic acid testing laboratory for the testing of coronavirus, providing Polymerase Chain Reaction tests to assist the government in providing nucleic acid testing services to identify and track infected people so as to protect public health. During the Year, Yikang also continued to pay attention to the pandemic prevention and control, and achieved "zero infection" of medical staff and customers.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(Continued)*

Clinics Business in Mainland China

Ganghe Clinic, located in the central area of Futian District, Shenzhen, mainly provides services in general medicine, surgery, gynecology and health management. Ganghe Clinic also offers to patients a distinctive program – lifecycle health management for women. Ganghe Clinic has established a stable cooperative relationship with Dr. Liang Xiaoyan, a renowned gynecologist in Guangzhou, and her medical team, which has dispatched doctors in Ganghe Clinic for long-term consultations and established an endocrinology and reproductive medical specialty to provide high-end medical services for patients. During the Year, Ganghe Clinic has established a stable customer base through word-of-mouth recommendations among patients. In addition, Ganghe Clinic has established a long-term and stable cooperative relationship with CLIZ. During the Year, Ganghe Clinic continuously provided services for VIP customers of CLIZ and expanding medical services covering specialist clinic, thereby expanding the scope of services of Ganghe Clinic.

Other investments

As at 31 December 2020, 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 contract-based medical schemes for integrated medical and healthcare check-up services. Based on the latest unaudited combined financial information for the year ended 31 December 2020 of HCMPS, it recorded a profit of approximately HK$15 million. As at 31 December 2020, the Group's investment in HCMPS constituted approximately 84.76% of the balance of equity instruments at fair value through other comprehensive income. During the Year, a fair value loss on the Group's investment in HCMPS of approximately HK$19,437,000 (2019: fair value loss of approximately HK$24,031,000) has been recognised in other comprehensive income. Although the performance of HCMPS was affected by the outbreak of the COVID-19 pandemic, 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' business in the long term.

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

OUTLOOK

The COVID-19 pandemic will last and continue to spread across the world, posing grave threat to the public health and making a heavy blow to the economy. However, the availability of vaccines and the activation of vaccination work are expected to contain the virus, which will boost the world's confidence about economic recovery. As the economy gradually recovers in 2021, it is expected that businesses of the Group will return to stable development. In the meantime, the Group will consistently and actively fulfil its social responsibilities as a medical enterprise and serve the society with all its might.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK *(Continued)*

Hong Kong

For the medical network business, Vio will deploy more resources towards upgrading both the software and the IT infrastructure, which will enhance management efficiency. In addition, Vio is planning to expand both the service scope and its network footprint by recruiting more specialists in some sub-specialties and more community clinics to join the network, so as to meet service demand for more specialised medical services, enhance patients' service experience and better serve the Hong Kong community.

With respect to the self-operated clinic chain business, the Group will closely monitor the development of COVID-19 pandemic and make deployment with prudence.

The first batch of COVID-19 vaccine arrived in Hong Kong in February 2021. The Group has participated in the government's COVID-19 Vaccination Programme. The Group has also provided appropriate support to operate vaccination centre, the vaccination programme in medical centres or the outreach vaccination service, making contribution to the Hong Kong society. With the experience of taking part in the Seasonal Influenza Vaccination Subsidy Scheme, the Group will make appropriate preparation and arrangement in terms of medical staff and medical facilities to provide the COVID-19 vaccination service at medical centres in various districts in Hong Kong in response to the government's request. Facing the resurgence of the outbreak of the COVID-19 pandemic, the Group will implement strict pandemic control measures as it has done and continuously strengthen the safety supervision in respect of pandemic control, so as to maintain a safe medical consultation environment.

The Group is committed to ensuring the compliance of regulatory requirements by all the healthcare service points. The Legislative Council passed the Private Healthcare Facilities Ordinance (Chapter 633 of the Laws of Hong Kong) on 15 November 2018, pursuant to which, four categories of private healthcare facilities, being hospital, day procedure centre, clinic and health services establishment, will be subject to supervision. The provisional timing of registration for day procedure centres and clinics is year 2020 and 2021 respectively. The strict policy will bring new opportunities to large healthcare groups. The Group will actively respond to the government's license application guidelines, and apply for formal licenses for its day procedure centres and general practice, specialty and dental centres to safeguard patients' safety and consumers' interest.

The Group will continue to improve the service quality, including upgrading the hardware of medical centres, establishing the Medical Advisory Committee, to further enhance the management of medical service quality. In the meantime, the Group will further strengthen the cost control, broaden sources of revenue and reduce expenditures, review the distribution of medical centres in all regions, and relocate or integrate centres whose tenancy is to expire or old centres. Furthermore, the Group will make greater efforts to develop its business potential, enhance cooperation with external business partners, and achieve win-win outcomes with the synergy produced.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK *(Continued)*

Regarding the medical beauty business, TBM is going to concentrate on medical services in Hong Kong. It will cooperate with Hong Kong Health Check and Medical Diagnostic Centre Limited in the future to establish a pain and physiotherapy centre, hair care centre and dental clinic in Jordan, providing "medical beauty + comprehensive health" one-stop healthcare services, generating synergy to create greater value for both parties, and providing Hong Kong customers with high-quality and diversified service experience. As the demand for medical beauty and the willingness to spend in Mainland China continue to rise, TBM's business in Mainland China shows a positive momentum. TBM will open one beauty centre each in Shanghai and Shenzhen in 2021, and will continue to pool resources on actively developing more beauty centres in China's first-tier and second-tier cities, to provide beauty care and medical beauty services. In addition, TBM will make better use of internet tools, enabling customers to make reservations and enquiries through the online system, thus strengthening the communication with customers and laying a good foundation for the sustained growth of TBM's business.

Mainland China

Benefiting from the effective pandemic control measures, China's overall economy and consumer confidence realise a rapid recovery. Meanwhile, citizens have better health awareness and increasing demands for health management including medical services, health check and medical beauty. Based on these, the Group is optimistic about the future of China's healthcare industry. It will continuously seize the policy opportunities arising from the country's action of deepening medical system reform, adjust the operation principle and strategy in due time, provide customers with high-quality one-stop medical services and vigorously develop the broad medical market in Mainland China.

In terms of the hospital management and consulting services business in Mainland China, Nanshi Hospital, managed by Nanyang Xiangrui, will continue to strengthen the pandemic prevention and control, reinforce the discipline construction of the seven strong specialty disciplines, improve the core competitiveness and further develop new cooperation patterns for medical partnerships. In addition, Nanshi Hospital will actively expand the rehabilitation branch and build it into a professional one. When the new building of Nanshi Hospital is put into service, the number of beds is expected to increase to 1,600 to 1,800 by the end of 2021, and the ward space occupied by patients will increase, with patients' satisfaction to be improved. The new building is equipped with intensive care unit, operating theatre and new facilities, which will significantly improve the environment and quality of medical services. Youtian Branch of Nanshi Hospital is preparing for the application to be a Grade II hospital, and will establish an inpatient care area of integrated treatment and convalesce. Nanyang Ruishi Ophthalmology Hospital continues to focus on building the leading optometry and refraction brand of Nanyang City. While providing Nanshi Hospital with high-quality management services, all business segments of Nanyang Xiangrui are making good preparation for offering services to hospitals of medical partnerships in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK *(Continued)*

With respect to the health management centres business, the Group will focus on the health management segment in the future, building the health risk assessment centre and developing exclusive health management service application. Through the application, the health management centre will provide customers with comprehensive health risk assessment and health management services, thereby attributing distinguishing features to the centre's medical services and improving the market competitiveness.

The health management centre will also develop the nutrition and exercise management segment to offer professional support related to nutrition aspects to the health management centre, thus shaping a nutrition and exercise centre, building the health management services segment in an all-round manner and providing customers with comprehensive one-stop health management services.

Meanwhile, with its sophisticated equipment including Low Dose Computed Tomography, the health management centre will collaborate with local hospitals to build the early screening and treatment centre for lung cancer, providing customers with lung cancer early screening services through Computed Tomography. The health management centre in Jinan has signed cooperation agreements with Qilu Hospital. When the screening results of customers show that there are suspected problems with the lung, the health management centre will refer customers to hospitals under the exclusive cooperation for treatment. As to the post-treatment lung function recovery, customers can choose to return to the health management centre for post-treatment recovery. The health management centre aims to offer customers closed-loop one-stop services from early screening and diagnosis of lung cancer, fast track to hospitals for high-quality treatment offered by experts, to subsequent post-treatment recovery.

Furthermore, the health management centre is devoted to improving the quality of sales services and customer services. The centre will establish the integrated customer service department, which will be responsible for front-end sales, customer reservations, preliminary medical consultation and customer feedback after the service, creating "one-stop" customer services.

For the high-end medical diagnostic and health check business, businesses of Yikang are expected to recover from the shock of COVID-19 pandemic in 2021 and gradually return to a stable state.

Regarding the clinics business in Mainland China, Ganghe Clinic will continue to closely cooperate with CLIZ. It will invite more specialists to offer medical services to VIP customers of China Life Group, to expand the medical service scope of Ganghe Clinic. In the future, the Group will also consider dispatching Hong Kong-based specialists to Ganghe Clinic to offer medical services, thus realising further medical resource sharing between Hong Kong and the Greater Bay Area.

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 by either party 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 of 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, operating results, financial condition, brand and reputation of the Group. The Group has developed a set of standard operation procedures for 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 45 to the consolidated financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

The Group adopts a prudent cash and financial management policy. As at 31 December 2020, the Group held bank balances and cash of approximately HK$1,070,835,000 (2019: HK$1,840,856,000) and fixed bank deposits of approximately HK$817,090,000 (2019: Nil). In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and substantial cash is generally deposited with banks in Hong Kong and denominated mostly in HK$. As at 31 December 2020, the Group had bank borrowing which represented a mortgage loan of approximately HK$16,623,000 (2019: HK$17,730,000) of which approximately HK$1,126,000 (2019: HK$1,062,000) are repayable within one year. As at 31 December 2020, the Group had no committed borrowing facilities. Details of bank borrowing of the Group are set out in note 35 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

As at 31 December 2020, the Group's net current assets amounted to approximately HK$1,926,151,000 (2019: HK$2,128,476,000) and the Group had a current ratio (defined as total current assets divided by total current liabilities) of 6.34 (2019: 7.42). As at 31 December 2020, the Group's gearing ratio (defined as total bank borrowing divided by equity attributable to owners of the Company) was 0.44% (2019: 0.44%). 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 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 2020, the Group had equity attributable to owners of the Company of approximately HK$3,810,481,000 (2019: HK$4,015,547,000).

HUMAN RESOURCES AND TRAINING SCHEME

As at 31 December 2020, the Group employed 1,164 staff (2019: 1,306 staff). Total employee costs for the Year, including directors' remuneration, amounted to approximately HK$581,958,000 (2019: HK$654,703,000). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no significant contingent liabilities (2019: Nil).

PLEDGE OF ASSETS

As at 31 December 2020, a leasehold land and building of approximately HK$42,925,000 (2019: HK$46,047,000) was pledged to secure the Group's mortgage loan.

CAPITAL COMMITMENTS

As at 31 December 2020, the Group did not have capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment (2019: Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Jin Zhaogen ("Mr. Jin"), aged 40, has been appointed as an executive Director and the Chief Executive Officer since 26 March 2021. Mr. Jin is also a member of each of the Nomination Committee and the Remuneration Committee. Mr. Jin is a director of a number of subsidiaries of the Company.

Mr. Jin has extensive experience in equity investment and management. From 2007 to 2011, Mr. Jin worked in the asset management department of CLIG with last position as senior supervisor. From 2011 to 2016, Mr. Jin worked in the direct investment department of China Life Investment Holding Company Limited (國壽投資控股有限公司) with last position as senior investment manager. Since October 2016, Mr. Jin has been a member of the investment committee, a member of the risk management committee and the director of the Risk and Compliance Department of CLPE and he has been a member of the management committee of CLPE since 2017. CLPE is a wholly-owned subsidiary of CLIG, a substantial Shareholder as at the date of this report. Mr. Jin graduated from the University of International Business and Economics (對外經濟貿易大學) in July 2002 with a bachelor's degree in economics. In July 2007, Mr. Jin obtained a master's degree in economics from the Institute of Finance of the People's Bank of China (中國人民銀行金融研究所).

Ms. Zhao Xiangke ("Ms. Zhao"), aged 35, has been appointed as an executive Director since 26 March 2021 and has been appointed as the chief financial officer of the Company since December 2019. Ms. Zhao is also a director of a number of subsidiaries of the Company. Ms. Zhao is a member of CPA Australia. Ms. Zhao joined CLPE since July 2018 and is currently an associate director of the Investment Management Department of CLPE. Ms. Zhao had worked in the audit department and financial advisory department of two international accounting firms, serving a number of listed companies and private enterprises, and has extensive experience in the provision of financial, auditing and advisory professional services. Ms. Zhao graduated from Renmin University of China (中國人民大學) with a bachelor's degree in economics in June 2008.

NON-EXECUTIVE DIRECTORS

Mr. Zhao Hui ("Mr. Zhao"), aged 51, has been appointed as a non-executive Director and the chairman of the Company since 25 May 2020. Mr. Zhao is also the chairman of the Nomination Committee. Mr. Zhao has extensive experience in the finance and insurance industry and is familiar with areas of work including investment, finance and insurance. Mr. Zhao is currently the assistant to the president of China Life Healthcare Investment Co., Ltd. (國壽健康產業投資有限公司). He worked as the general manager of the direct investment department of China Life Asset Management Co., Ltd. (中國人壽資產管理有限公司) from 2014 to 2020, and the general manager of the finance department of the same company from 2007 to 2014. Mr. Zhao obtained a bachelor's degree in Economics (majoring in Accounting) from Central Institute of Finance and Banking (now known as Central University of Finance and Economics) in June 1993, and completed the graduate program in World Economics and Politics (majoring in World Economics) from Graduate School of Chinese Academy of Social Sciences in July 1998.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Hou Jun ("Mr. Hou"), aged 43, has been appointed as a non-executive Director since 25 May 2020. Mr. Hou is currently the deputy general manager of the investment management department of CLIG. He had worked in various departments of CLIG including finance department, asset management department and investment management department from 2004 to 2016 and had been the assistant to the general manager of the investment management department of CLIG from 2016 to 2020. Mr. Hou obtained a bachelor's degree in Economics (majoring in Investment Economics) from Shanxi University of Finance and Economics in July 2000, and a master's degree in Economics (majoring in Finance) from Central University of Finance and Economics in June 2004. Mr. Hou is also a non-executive director of Sino-Ocean Group Holding Limited, whose shares are listed on the Main Board (Stock Code: 3377).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Kwok Wah, George ("Mr. Ho"), *MH*, aged 62, has been appointed as an independent non-executive Director since September 2004. Mr. Ho is also the chairman of each of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee. Mr. Ho is a Practising Certified Public Accountant in Hong Kong. He is a director of Yong Zheng CPA Limited, Certified Public Accountants and has extensive 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).

Ms. Li Mingqin ("Ms. Li"), aged 62, has been appointed as an independent non-executive Director since June 2015. Ms. Li is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee.

Ms. Li has extensive experience in the pharmaceutical industry. 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 Orthopaedic 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. 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 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Yu Xuezhong ("Mr. Yu"), aged 63, has been appointed as an independent non-executive Director since June 2015. Mr. Yu is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Yu has profound knowledge and extensive experience in teaching, scientific research and clinical experience in emergency medicine. 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 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.

SENIOR MANAGEMENT

Dr. Leung Kwok Ling, Ares ("**Dr. Leung**"), aged 60, joined the Group as a consultant of the Group in April 2020. He was subsequently appointed as the chief operating officer of the Company with effect from 29 June 2020. Dr. Leung is a director of a number of subsidiaries of the Company. Dr. Leung graduated from The University of Hong Kong with the degrees of Bachelor of Medicine and Bachelor of Surgery. He was fully registered as a medical practitioner in 1985. Dr. Leung is currently a member of the Hong Kong Dental Council, a member of the Committee on Complaints against Private Healthcare Facilities, a member of the Hospital Governing Committee of Haven of Hope Hospital, a board member of Haven of Hope Christian Service, and the chairman of the Medical Advisory Committee of Haven of Hope Sister Annie Skau Holistic Care Centre. Prior to joining the Group, Dr. Leung had been the Deputy Medical Director of Union Hospital, a member of the Management Board and Medical Advisory Committee of Union Hospital. Dr. Leung was also the president of the Hong Kong College of Obstetricians and Gynaecologists from 2013 to 2015.

Mr. Kwan Chung Man ("**Mr. Kwan**"), aged 55, has been appointed as the Company Secretary since December 2019. Mr. Kwan is a solicitor of Hong Kong. Mr. Kwan joined the Group in 2009 and is currently the group head of legal & company secretary of the Company. Prior to joining the Group, he had been a practising solicitor for more than 12 years in Hong Kong. He obtained a bachelor's degree in social sciences from The University of Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE AND REPORTING PERIOD

This Environmental, Social, and Governance ("ESG") Report is presented by Town Health International Medical Group Limited (hereinafter referred as the "Company", and together with its subsidiaries referred as the "Group"), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide contained in Appendix 27 to the Listing Rules.

The Group is principally engaged in the provision of Hong Kong medical services, Hong Kong managed care business, Mainland hospital management and medical services, provision of miscellaneous health related services and leasing of properties. This ESG report covered the 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 in Hong Kong with shareholding > 50%; and

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

The reporting period covered from 1 January 2020 to 31 December 2020 (the "Reporting Period"). The above business operations contributed to approximately 97% 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.

Reporting Principles

In the preparation of this ESG report, the Group has adhered to the following reporting principles:

Materiality: A description of the Group's materiality assessment process can be found in the section headed "Stakeholder Engagement and Materiality" in this ESG report. It outlines the way the Group identifies, prioritises and validates material issues, including how the Group takes key stakeholders' views into account.

Quantitative: The details of how the Group quantifies the ESG data in relation to emissions/energy consumption can be found in the respective section below.

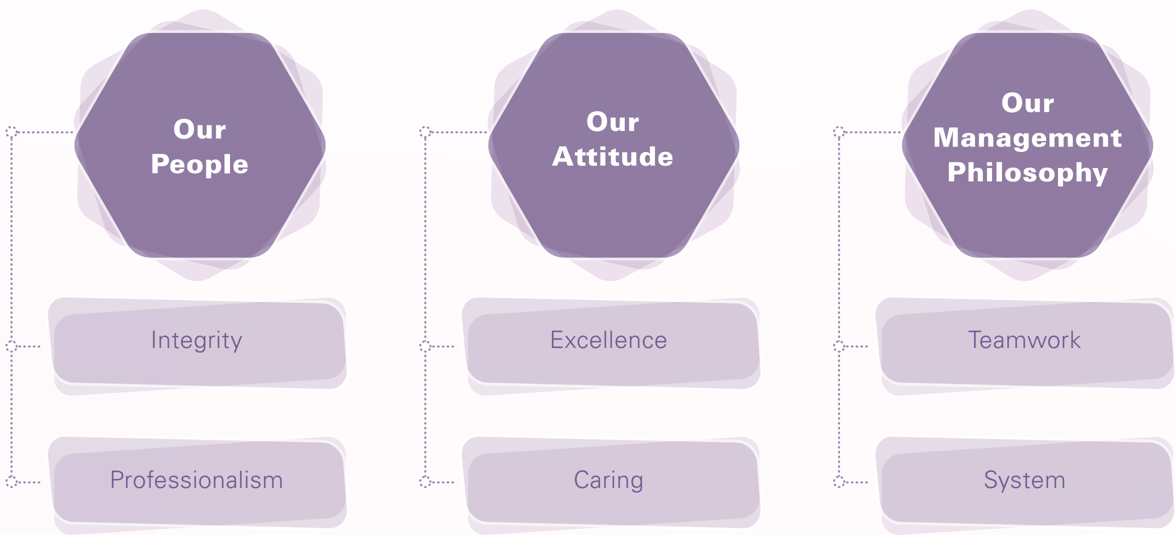
Consistency: Consistent methodologies are employed for a meaningful comparison, using year-on-year data.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 that its business operation contributes to significant consumption of natural resources and the waste it releases pose threat to public health and the environment if handled improperly. 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 treasures staff as its great assets. Promoting harmonious relationships and environment at workplace is of paramount importance to the Group. Not only does the Group provide attractive remuneration package, but it also maintains a safe working environment, builds positive cultures, provides equal opportunities, and respect its employees.

Serving the Community

The Group recognises the importance of serving the underprivileged community and nurturing 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.

Stakeholder Engagement and Materiality

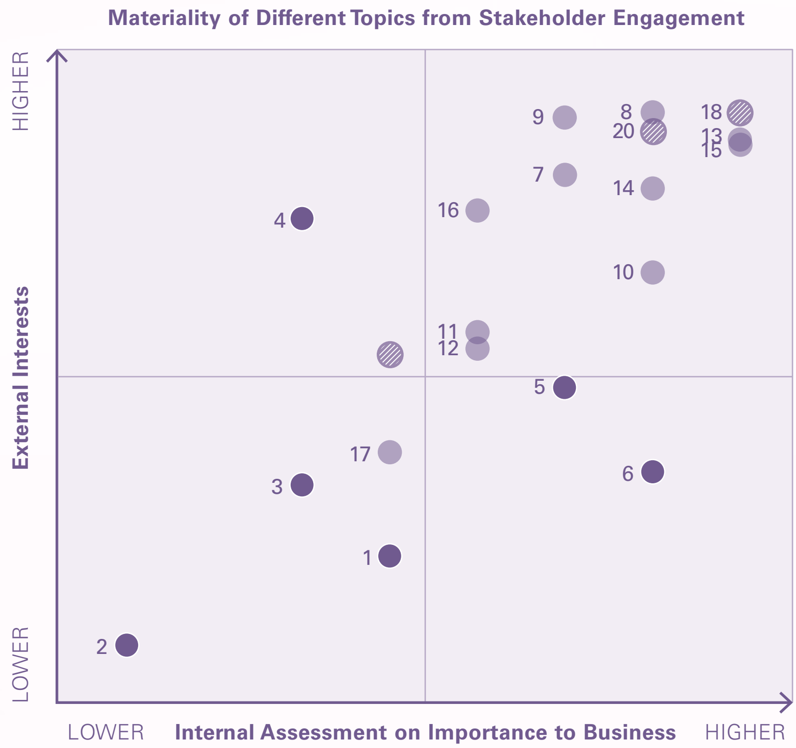
The Group values relationships with its employees, shareholders, investors, customers and suppliers. It believes that feedback from stakeholders helps to improve its business performance and bring insight to its future development. By communicating with stakeholders in a timely manner, the Group collects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

During the Reporting Period, 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. The Materiality Matrix below shows the result of our materiality assessment process:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE GROUP'S CORPORATE SOCIAL RESPONSIBILITY POLICY

(Continued)



Environmental		Social		Others	
1	Energy	7	Employment	18	Pharmaceuticals Handling
2	Water	8	Occupational Health and Safety	19	Medical Advertising
3	Air Emission	9	Development and Training	20	Safety and Hygiene in Medical Centres
4	Waste and Effluent	10	Labour Standards		
5	Other Raw Materials Consumption	11	Supply Chain Management		
6	Environmental Protection Measures	12	Intellectual Property		
		13	Data Protection		
		14	Customer Service		
		15	Product/Service Quality		
		16	Anti-corruption		
		17	Community Investment		

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE GROUP'S CORPORATE SOCIAL RESPONSIBILITY POLICY

(Continued)

According to the matrix, the five most material aspects to the Group are as follows:

- Pharmaceuticals Handling
- Data Protection
- Product/Service Quality
- Occupational Health and Safety
- 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.

A. ENVIRONMENTAL

To cope with the climate change challenge that the world is facing, the Group puts significant effort on environmental 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 is reviewed annually and delivered to staff through email. The Group mainly consumed electricity, water and paper, and generated clinical waste, expired medication waste and paper waste during the Reporting Period.

The Group strives to comply with all relevant environmental laws and regulations that are applicable to its business operation. Its 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 Reporting Period.

A1. Emissions

A1.1 Air Emissions

Petrol was used in private cars for business meetings and travels, which contributed to the emission of 0.27 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.

A. ENVIRONMENTAL *(Continued)*

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 mobile sources – Petrol	49.61	3%
Scope 2			
Energy Indirect Emission	Purchased electricity	1,769.67	96%
Scope 3			
Other Indirect Emission	Paper waste disposal at landfills	12.53	1%
	Electricity used for freshwater processing	2.72	
	Electricity used for sewage processing	1.28	
	Business air travel	3.19	
Total		1,839	100%

Note1: 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.

Note2: 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 1,839 tCO_2e, with emission intensity of 1.72 tCO_2e/million HKD, of total revenue, which included mainly carbon dioxide, methane, nitrous oxide and hydrofluorocarbons emissions, during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(Continued)*

A1.3. Hazardous Waste

The Group mainly involves in the provision of medical services, which generates clinical waste and expired medication from its operation. The Group complied 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 when handling and disposing of waste during the Reporting Period.

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. 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**

Different types of clinical waste are placed in appropriate types of containers which are then sealed by proprietary closure or by tape. All types of clinical waste are collected by licensed clinical waste collectors and the copies of trip tickets are kept for record. A total of 1.32 tonnes of clinical waste, representing an intensity of 1.24 kg/million HKD of total revenue, was generated during the Reporting Period.

Expired Medication

The group follows the "First In, First Out" method when storing and dispensing medicines to ensure that the oldest items are used first to prevent wastage. The medication inventory is checked by assigned senior health care assistants ("HCAs") every month in every individual medical centre. The products that past the expiration date or will expire in the next 60 days are kept in specific collection area and will be sent back to the headquarters' purchasing department for further handling, which will be returned either to the regulatory body or respective suppliers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(Continued)*

A1.4. Non-hazardous Waste

Non-hazardous waste from the Group's operation was mainly domestic waste and paper waste from office. A total of 2.61 tonnes of paper, with an intensity of 2.44 kg/million HKD of total revenue, was consumed for the office operation during the Reporting Period. Collection of non-hazardous waste is arranged by the property management companies of the premises.

A1.5. Measures to Mitigate Emissions

The Group keeps track of its fuel 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. The Group reduces its GHG emissions by reducing energy consumption whenever possible. Despite the implementation of the measures to mitigate emissions, the GHG emissions have increased by 2.96% mainly due to the increase in electricity consumption, as discussed in Section A2.1 and A2.2.

A1.6. Waste Reduction and Initiatives

The Group minimised radiology associated chemical waste by investing in digital radiology at the clinics to replace Silver Chloride coated plastic films. According to the memorandum regarding environmental protection practices, the Group encourages employees to implement the following initiatives:

- Printing double-sided;
- Adjusting margins and font size of documents, choosing multiple-page printing;
- Using the 'Print Preview' mode to ensure desired printing;
- Adopting electronic communication and document sharing to go paperless;
- Keeping soft copies of file documents rather than hard copies;
- Printing address on envelopes to reduce the use of labels;
- Folding and stapling internal non-confidential document to reduce the use of envelopes;
- Drying hands using handkerchiefs instead of tissue paper or dryer;
- Bringing personal mugs or cups to avoid use of disposable cups; and
- Compressing garbage to reduce the use of plastic bags.

Employees are also encouraged to reuse whenever possible, such as reusing envelopes, files, stationaries and tableware.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(Continued)*

A2. Use of Resources

The Group upholds and promotes the principle of effective use of resources. The Group monitors and reviews potential environmental impacts in its operations. The Group also promotes green office and operation environment, and minimise the environmental impacts of the Group. To improve the efficiency of the use of resources in business operations, the Group has implemented various resource conservation initiatives in operations and encouraged behavioural changes of employees. Please refer to Sections A2.2 and A2.4 of this report for detailed information on actions taken and policies implemented.

A2.1. Energy Consumption

The Group consumed a total of 3,365 Megawatt-hour ("MWh") for vehicles and electricity for its daily operation during the Reporting Period. The energy consumption intensity was 3.15 MWh/million HKD of total revenue. The energy consumption details are presented below.

Energy Consumption Sources	Use of Energy	Direct Consumption In 2020	Consumption (in MWh)
Petrol	For vehicles	18,652 L	165
Electricity	For daily operation	3,200,154 kWh	3,200
TOTAL			3,365

A2.2. Energy Use Efficiency Initiatives

Energy consumption has a direct influence on the environment and operational costs. Various measures have been implemented by the Group to encourage energy conservation. The Group chooses electrical appliances with high energy efficiency and 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;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(Continued)*

- 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.

Despite the implementation of energy efficiency incentives, the energy consumption has increased by 12%. It was mainly due to the Group's cooperation with the government recognised testing institutions. A COVID-19 RT-PCR Test laboratory, one of the large-scale laboratories of this type in Hong Kong, has been operating at the headquarter office building of the Group in Hong Kong. Another reason was the full operation of the Nanyang Ruishi Ophthalmology Hospital, which operated for the whole year during the Reporting Period while operated for only half a year in the year ended 31 December 2019.

A2.3. Water Consumption

6,406 m^3 of water was consumed by the Group during the Reporting Period, with water consumption intensity of 5.99 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 the Property Management Office of the buildings. Therefore, respective data was not available for collection. However, it is noteworthy that the water consumption from these medical centres was insignificant.

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:

- Cleaning containers only after the waste in containers has been disposed of;
- Controlling tap flow;
- Turning off tap while scrubbing with soap;
- Reporting any dripping taps or water leakage to relevant department promptly; and
- Using up all water in the bottle of water dispenser before exchange.

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

The water consumption has risen by 14.2% despite the water use efficiency initiatives, mainly due to the operation of the COVID-19 RT-PCR Test laboratory and Nanyang Ruishi Ophthalmology Hospital.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(Continued)*

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 during the Reporting Period were 1,916,300 pieces.

Type of Packaging Materials	Consumption in 2020 (pieces)	Consumption in 2019 (pieces)	Consumption in 2018 (pieces)
Pill pouches	1,638,500	3,004,500	3,358,000
Medicinal bottles	170,500	573,350	639,000
Plastic bags	40,000	820,000	727,000
Ointment jars	64,100	82,600	93,800
Ointment bottles	3,200	6,000	6,200
TOTAL	1,916,300	4,486,450	4,824,000

A3. The Environment and Natural Resources

A3.1. Significant Impacts of Activities on the Environment

The Group's operation does not cause significant adverse impacts on the environment. Healthcare activity inevitably generates waste, and the Group is committed to managing clinical waste properly in accordance with applicable laws and regulations.

The Group believes that promoting environmental protection and enhancing the environmental awareness could both reduce operating costs and create possible value to stakeholders of the Group. 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 initiative for waste reduction. Guidelines on "Green Office" are sent to all the office staff and saved in common drive for reference. The Group required its 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

During the Reporting Period, 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.

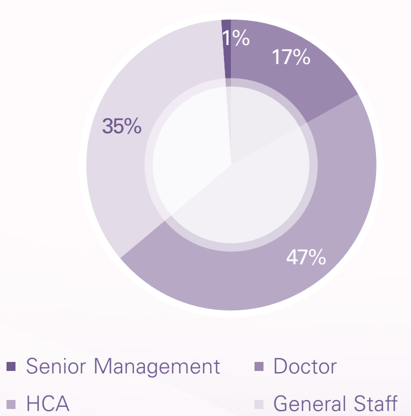
No non-compliance relating to compensation and dismissal, recruitment and promotion, working hours and rest periods, or other benefits and welfare were found during the Reporting Period.

The Remuneration Committee was formed and is responsible for formulating remuneration policies and recommending specific remuneration packages of all directors and senior management to the Board for approval. The Group has implemented policies on recruitment, promotion, remuneration, benefits, training, dismissal, equal opportunity and occupational health and safety.

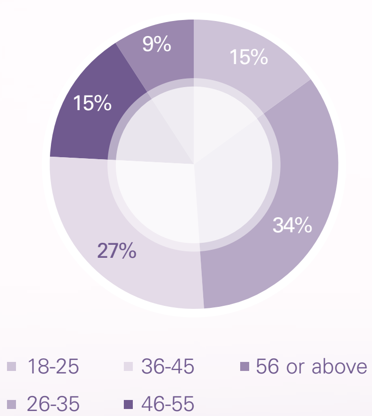
Total Workforce

The Group had a total of 1,056 employees as of 31 December 2020. Workforce distribution details are shown below.

Category



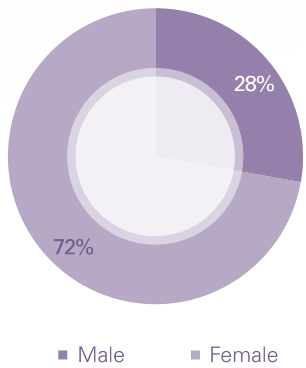
Age



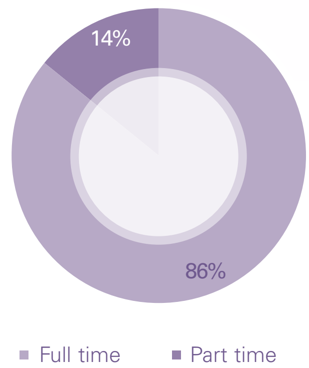
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(Continued)*

Gender



Employment Type



The difference of 108 between the above number of employees disclosed (1,056) and the total number of employees of the Group (1,164) represents the number of visiting doctors of the Group, personal data of whom was not collected.

Recruitment

There are various channels for recruitment, both internal and external, including but not limited to online job boards, referrals, headhunting agencies, internal recruitment, etc. The Human Resources Department is responsible for the collection of application materials, and conducts preliminary screening according to the job requirements of the position — Including personal basic information, work-related knowledge background, work skills, work experience, physical fitness, etc. All new employees are required to sign the "Labour Contract" and relevant legal documents.

Employee Benefits and Welfare

The Group offers competitive remuneration, promotion opportunities, and benefit packages to attract and retain talents. Working 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. To promote healthy work life, staff who have worked for 2 years or above, except contract and part-time staff, are provided with free annual health check.

B. SOCIAL *(Continued)*

Equal Opportunity

The Group is committed to providing equal opportunities throughout employment, including in the remuneration, recruitment, training and promotion of staff. It is committed to ensuring that no employee receives less favourable treatment or is unlawfully discriminated against on grounds of ethnic background, nationality, religion, colour, age, gender, sexual orientation, marital status, family status, disability, or pregnancy. The Group appreciates the importance of cultural diversity at workplace and respect every employee. During the Reporting Period, 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 Reporting Period, there was no non-compliance relating to equal opportunity, diversity, and anti-discrimination.

Communication with Employees

Effective communication is crucial for collaboration. In daily operation, staff communicate closely through channels including email, clinic office phone or text message. 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(Continued)*

Appraisal is conducted regularly to provide a means for discussing, planning and reviewing the performance of employees, from senior management to frontline staff. 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. The Group has also formulated the Salary Increment Guideline to manage the salary. The Group would adjust the ranking and salary of employees based on employees' appraisal, job responsibility and performance, and other factors. Gathering events are also regularly organised to promote healthy lifestyle and encourage interaction among staff.

B2. Employee Health and Safety

The Group values health and safety as of paramount importance and endeavours to provide safe working environment to all employees. During the Reporting Period, 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 must put on personal protective equipment ("PPE"), including protective gown, surgical masks, protective goggles and gloves when engaging in medical treatment and disinfection procedures. 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.

Training and Occupational Safety Guidelines are provided to new employees to instruct them the proper use of PPE for infection control, proper handling of sharp equipment and safe lifting technique to prevent workplace injury. Briefing, news, reminders and tips are regularly provided to various employees to raise their awareness, refresh their knowledge, and practice using treatment related equipment and machines. The Group also regularly reviews the employees' health and safety procedures to safeguard employees' well-being.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(Continued)*

During the pandemic in the Reporting Period, the Group ensures that employees have enough PPE to protect themselves. Employees entering the clinic shall measure their body temperature. Employees are also required to fill in a health declaration form to state that they do not have any symptoms of COVID-19 after work. Video conferencing software such as Zoom is for holding meetings to reduce close contact between employees.

The occupational health and safety data during the Reporting Period is shown below. The management will continue to put effort in strengthening the Group's occupational health and safety performance.

Occupational Health and Safety Data	2020	2019	2018
Work related fatality	0	0	0
Work injury cases >3 lost days	2	1	3
Work injury cases ≤3 lost days	5	9	9
Lost days due to work injury	10	45	61

B3. Development and Training

The Group acknowledges the importance of providing opportunities for training and development. The Group maintains the professional skills of the employees by providing opportunities for continuing professional development, education and training. Training programmes provided by the Group are customised to suit its business needs and to equip employees with practical knowledge and skills needed.

334 New Joiner Training (3+3+4 Weeks)

Every employee needs to attend the 334 New Joiner Training organised by the Group to be familiarised 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. During the Reporting Period, 39 employees had received training.

334 New Joiner Training for HCAs during the Reporting Period	No. of Headcount	No. of hours	Total hours
1st lesson	39	4	156
Examination	28	1.5	42
TOTAL			198

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(Continued)*

Basic Customer Service Training for Health Care Assistants

The Basic Customer Service Training enables HCAs to understand the rationale 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 better prepare HCAs to face future challenges.

B4. Labour Standards

The Group is committed to forbidding unlawful employment, including child and forced labour. Its 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 Reporting Period, 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 prevention of child and forced labour.

2. Operating Practices

B5. Supply Chain Management

Supply chain management is a crucial component of the Group's quality control. The Group is highly attentive to the reputation and reliability of its pharmaceutical product suppliers. Although it does not have specific policy for the management of the environmental and social risks of its supply chain, it evaluates how its suppliers deal with social and environmental issues and ensures that suppliers and its business partners comply with local and international standards on pharmaceutical products. Quality and safety of the products are ensured through certifications and qualifications from its suppliers.

To manage pharmaceutical purchasing and medication inventory accurately and efficiently in both the 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 the registration system. Stock inventory review is also carried out by senior HCAs in every clinic office every month to further confirm the data.

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(Continued)*

B6. Product Responsibility

The Group is committed to providing high-quality medical service. It ensures quality of service by the provision of qualified and trained professionals. It has registered trademark and it respects third-party intellectual property rights. During the Reporting Period, 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 with the Dangerous Drugs Ordinance, Chapter 134 of the Laws of Hong Kong with clear traceable records during the Reporting Period.

In addition, the Group observes the principle of "3 checks and 8 rights" to keep our patients safe.

3 Checks	8 Rights
1. Check of the container label before taking container from the shelf.	1. Right date
2. Check of the container label against the prescription during actual dispensing.	2. Right patient
3. Check of the container label before putting the container away.	3. Right drug
	4. Right dose
	5. Right route
	6. Right frequency
	7. Right container
	8. Right doctor

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(Continued)*

Medical Advertisement

During the Reporting Period, 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. Information on its advertisement is reviewed before publication to ensure that the advertisement has no misleading information. Patients can choose whether to receive updated healthcare news and promotions.

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. New employees are trained and examined on the knowledge and practice of safety and hygiene as administrative controls of hazards. The Group also hired a cleaning contractor to maintain cleanliness and hygiene of all clinic offices. All cleaning procedures, guidelines and quality requirements are 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 employs the "Award and Penalty System", under which both staff and medical 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(Continued)*

Complains

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 with the Group's guidelines on clinic complaints. All personal data submitted will only be used for the purposes which are directly related to the complaint. The Group commits to acknowledges receipt of complaints and issue substantive reply within the day and within 15 working days for safety related and non-safety related issues respectively. Record of complaints is maintained to monitor the progress of complains and make improvements. Some medical centres have complied with the requirements of ISO 9001:2008 Quality Management System.

Data Protection and Privacy

The Group register and collect patients/customers' personal data according to the Group's Standard Registration Procedures. Security measures are in place to ensure adequate protection and confidentiality of all corporate data and information. Directors and all staff shall not access any confidential information of the Group or personal data of customers without authorisation. Authorised personnel who have access to or are in control of such information, including information in the company's computer system and in clinics, shall 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 logbook, data privacy policies and data access request forms. The Group ensures that the data handler is explicitly informed of the purpose for data use and the classes of persons to whom the data may be transferred. If there is any loss of documents containing personal data, the Group would report to the office of the Privacy Commissioner for Personal Data and register with the Hong Kong Police Force. During the Reporting Period, 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

B. SOCIAL *(Continued)*

B7. Anti-corruption

Integrity and honesty are of paramount importance when it comes to gaining trust and reputation from stakeholders of the Group. The Group commits to managing all business without undue 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 the regulatory body, patients, suppliers, or people with business relationship with the Group;

- 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; and

- In cases of suspected corruption or other criminal offences, a report should be made to the appropriate authority.

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 Reporting Period, the Group complied 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 Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(Continued)*

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 Reporting Period, the Group encourages employees to actively participate in community service.

Activities	Details
Donation to support HKUMed COVID-19 Research & Response Fund	Donated HK$8,000 to the University of Hong Kong to support the research on COVID-19 pandemic.
LKS Faculty of Medicine – Student Support Grant for 2020-2021	Donated HK$200,000 to the University of Hong Kong to support students of the Faculty of Medicine.
The Variety Butterfly Program	Donated HK$10,000 to the Egive For You Charity Foundation.
Town Health Group Mask Donation (First Round)	Sharing the public's pressing need of children's masks, the Group launched the "Mask Donation Campaign". The first batch of 20,000 children's masks had been sent to the groups of children and adolescents in urgent need, including children in 56 children's homes in Hong Kong, public housing and low-income families, patient organisations, paediatric patients and single parent organisations, etc., benefited up to 4,300 people.
Town Health Group Mask Donation (Second Round)	Primary schools in Hong Kong resumed classes in June 2020. In view of the low supply of children's masks and the high prices, many families felt pressured. The Group launched the second round of "Mask Donation Campaign", distributing 10,000 children's masks to students in need, working with schools and parents to protect the health of students. The beneficiary schools include: The Church of Christ in China Kei Wa Primary School, Sau Ming Primary School, Chi Hong Primary School, C.U.H.K. F.A.A. Thomas Cheung School, St. Matthew's Lutheran School.

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 50, 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 7 to 25 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

The Group's extensive healthcare service network allows the Group to offer its customers quality healthcare services. 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.

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 29 to 50 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 the Dental Council of Hong Kong which were established under Medical Registration Ordinance (Chapter 161 of the Laws of Hong Kong) and Dentists Registration Ordinance (Chapter 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 with 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 Laws 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)*

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 29 to 50 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 page 86 of this annual report.

DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2019: Nil) to the Shareholders.

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 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 214 of this annual report.

DONATIONS

Charitable donations made by the Group during the Year amounted to approximately HK$218,000.

SUBSIDIARIES

Details of the Company's principal subsidiaries are set out in note 50 to the consolidated financial statements.

INVESTMENT PROPERTIES

The Group has revalued all of the investment properties it held as at 31 December 2020 using the fair value of the investment properties as at 31 December 2020. The net decrease in fair value of investment properties, which was debited to the consolidated statement of profit or loss and other comprehensive income, amounted to approximately HK$47,566,000.

Details of movements in the investment properties of the Group are set out in note 16 to the consolidated financial statements. Further details of the Group's major properties are set out on page 213 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the Year in the property, plant and equipment of the Group are set out in note 17 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 2019	605
Net proceeds utilised during the Year	0
Total amount of net proceeds utilised as at 31 December 2020	
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	13
Developing One Pass, the "one-stop, IT O2O platform" of the Group	18
	275

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 CLIG

On 5 January 2015, the Company entered into an investment agreement with CLIG, pursuant to which CLIG has agreed to subscribe for 1,785,098,644 Shares. Upon completion of the CLG Subscription which took place on 29 May 2015, 1,785,098,644 Shares were allotted and issued to CLIG at HK$0.98 per Share. The net proceeds from the issue of Shares to CLIG 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 2019	1,008
Net proceeds utilised during the Year	
Developing health management centres in Hong Kong and the PRC	12
Total amount of net proceeds utilised as at 31 December 2020	
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	6
Developing health check business in the PRC	23
Developing health management centres in Hong Kong and the PRC	81
	750

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

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.

PROMISSORY NOTES

Pursuant to the WL Promissory Note in the principal amount of HK$203,705,000 issued by the purchaser in the Disposal, a third party individual, in favour of TH (BVI), being the vendor in the Disposal and a wholly-owned subsidiary of the Company, with interest at the rate of 5% per annum accrued on the outstanding principal sum of the WL Promissory Note shall be repaid on a quarterly basis, and the repayment obligation of the Purchaser under the WL Promissory Note is secured by a share mortgage over the entire issued share capital of Wise Lead executed by the Purchaser in favour of TH (BVI).

The Purchaser failed to repay the interest on the principal amount (i.e. HK$2,511,431.51) accrued from 1 January 2019 up to 31 March 2019 and the Purchaser failed to respond to the Group's legal demand letter dated 9 April 2019 which demanded the Purchaser to repay the principal amount and all outstanding interest accrued thereon on or before 23 April 2019.

As such, on 6 May 2019, TH (BVI) initiated legal proceedings in the Court of First Instance of the High Court of Hong Kong against the Purchaser in respect of all outstanding sums owing by the Purchaser to TH (BVI) under the WL Promissory Note by the issuance of a writ of summons endorsed with an indorsement of claim with an action number HCA 801/2019.

According to such writ of summons, TH (BVI) claims against the Purchaser for, among other things, repayment of the principal amount and accrued interest on the WL Promissory Note at the rate of 5% per annum for the period from 1 January 2019 to the date of judgment, together with interest and costs.

The above legal proceedings in Hong Kong was discontinued by TH (BVI) on 6 December 2019. Instead, on 12 December 2019, TH (BVI) initiated legal proceedings in the Hangzhou Intermediate People's Court of the PRC against, among other, the Purchaser in respect of the Purchaser's default in repaying the principal amount and all outstanding interest accrued thereon.

Further details of the WL Promissory Note are set out in the announcements of the Company dated 4 November 2016, 12 April 2019, 10 May 2019 and note 26 to the consolidated financial statements.

Details of the BB Promissory Note are set out in the paragraph headed "Allowance of Expected Credit Loss Recognised on the BB Promissory Note" in the section headed "Financial Review" in the Management Discussion and Analysis of this annual report and note 26 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 shareholders of the Group are set out on pages 89 and 90 of this annual report and in note 49 to the consolidated financial statements.

The Company's reserves available for distribution to shareholders as at 31 December 2020, comprised share premium, capital redemption reserve, contributed surplus, distributable reserve and accumulated profits of approximately HK$4,005,270,000 (2019: approximately HK$4,001,431,000).

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:

Mr. Jin Zhaogen *(Chief Executive Officer)* (Note 1)
Ms. Zhao Xiangke *(Chief Financial Officer)* (Note 2)
Mr. Chen Jinhao *(Chief Executive Officer)* (Note 3)

Non-executive Directors:

Mr. Zhao Hui *(Chairman)* (Note 4)
Mr. Hou Jun (Note 5)
Mr. Wan Yiqing *(Chairman)* (Note 6)
Ms. Fang Haiyan *(Deputy Chairperson)* (Note 7)

Independent non-executive Directors:

Mr. Ho Kwok Wah, George, *MH*
Ms. Li Mingqin
Mr. Yu Xuezhong

Notes:

1. On 26 March 2021, Mr. Jin Zhaogen was appointed as an executive Director, the Chief Executive Officer and a member of each of the Nomination Committee and the Remuneration Committee.

2. On 26 March 2021, Ms. Zhao Xiangke was appointed as an executive Director.

3. With effect from conclusion of the meeting of the Board held on 26 March 2021, Mr. Chen Jinhao resigned as an executive Director, the Chief Executive Officer and a member of each of the Nomination Committee and the Remuneration Committee.

4. On 25 May 2020, Mr. Zhao Hui was appointed as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.

5. On 25 May 2020, Mr. Hou Jun was appointed as a non-executive Director.

6. With effect from 25 May 2020, Mr. Wan Yiqing resigned as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.

7. With effect from 25 May 2020, Ms. Fang Haiyan resigned as a non-executive Director and the deputy chairperson of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICES CONTRACTS

Mr. Jin Zhaogen and Ms. Zhao Xiangke have been appointed as executive Directors for a term from 26 March 2021 to 25 March 2024.

Mr. Zhao Hui and Mr. Hou Jun have been appointed as non-executive Directors for a term from 25 May 2020 to 31 December 2021.

Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin and Mr. Yu Xuezhong have been appointed as independent non-executive Directors for a term from 2 December 2019 to 31 December 2021.

As at 31 December 2020 and up to the date of this annual report, 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 26 to 28 of this annual report.

There was no 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 2020, 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) 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.

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

As at 31 December 2020, 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	Total number of Shares held	Approximate % of shareholding of the Company (Note 1)
CLIG	Beneficial owner	1,785,098,644	1,785,098,644	23.72%
Broad Idea	Beneficial owner	1,418,576,764 (Note 2)	1,418,576,764	18.85%
Dr. Cho	Interest of a controlled corporation	1,418,576,764 (Note 2)	1,418,576,764	18.85%
Dr. Choi	Interest of a controlled corporation Beneficial owner	1,418,576,764 (Note 2) 2,200,000	1,420,776,764	18.88%

(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%

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

Notes:

1. The total number of Shares as at 31 December 2020 (that was, 7,526,134,452 Shares) has been used for the calculation of the approximate percentage.

2. Such 1,418,576,764 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 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.

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 2020, 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 revenue attributable to the Group's largest customer and the five largest customers were approximately 22% and 47% of the Group's total revenue respectively. The Group's largest supplier and five largest suppliers accounted for approximately 11% and 32% of the Group's total purchases respectively.

As far as the Directors are aware, none of the Directors, their close associates (as defined in the Listing Rules) 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 business of the Group, which competes or is likely to compete, either directly or indirectly, with the business 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 64 to 76 of this annual report.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of significant related party transactions undertaken by the Group during the Year in the ordinary course of business are set out in note 47 to the consolidated financial statements. Save for the transactions contemplated under the transactions with each of CLIO, CLIS, CLIC and CLPI, none of the significant related party transactions set out in note 47 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 transactions with each of CLIO, CLIS, CLIC and CLPI, 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.

REPORT OF THE DIRECTORS

EVENT AFTER REPORTING REPORT

On 19 February 2021, the Company entered into (1) the CLIO Framework Agreement with CLIO in respect of (i) the provision of the Medical Related Services by the Group to CLIO and its Branches or their respective staff and clients; and (ii) the procurement of the CLIO Products by the Group from CLIO and its Branches; (2) the CLIS Framework Agreement with CLIS in respect of (i) the provision of the Medical & Healthcare Services by the Group to CLIS and its Branches or their respective staff and clients; and (ii) the procurement of the CLIS Products by the Group from CLIS and its Branches; and (3) the CLPS Framework Agreement with CLPS in respect of (i) the provision of the Medical & Healthcare Services by the Group to CLPS and its Branches or their respective staff and clients; and (ii) the procurement of the CLPS Products by the Group from CLPS and its Branches.

As at the date of the Framework Agreements, (i) CLIO is a wholly-owned subsidiary of CLIG; (ii) CLIS is a branch of CLIC and CLIG is a controlling shareholder of CLIC; (iii) CLPS is a branch of CLPI and CLIG is a controlling shareholder of CLPI; and (iv) CLIG holds approximately 23.72% of the Shares and is a substantial shareholder and thus connected person of the Company. As such, each of CLIO (being a subsidiary of CLIG), CLIS (being a branch of CLIC) and CLPS (being a branch of CLPI) is also a connected person of the Company and the transactions contemplated under each of the Framework Agreements constitute continuing connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules.

Further details of the Framework Agreements are set out in the announcement of the Company dated 19 February 2021.

EMOLUMENT POLICY

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.

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.

REPORT OF THE DIRECTORS

AUDITORS

Moore Stephens CPA Limited was the auditors of the Group with effect from 15 February 2018. Moore Stephens CPA Limited was re-appointed as the auditors of the Company in the AGMs held on 29 June 2018, 27 June 2019 and 29 June 2020.

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

Jin Zhaogen
Chief Executive Officer

26 March 2021

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 a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code. 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 seven members, two of which are executive Directors, namely Mr. Jin Zhaogen who is the Chief Executive Officer and Ms. Zhao Xiangke. Two members are non-executive Directors, namely Mr. Zhao Hui who is the chairman of the Company and Mr. Hou Jun. The remaining members are independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin and Mr. Yu Xuezhong. The biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 26 to 28 of this annual report.

During the Year, Mr. Chen Jinhao was an executive Director and the Chief Executive Officer, Mr. Wan Yiqing was a non-executive Director and the chairman of the Company and Ms. Fang Haiyan was a non-executive Director and a deputy chairperson of the Company.

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.

During the Year, the Board has adopted the terms of reference of the Board which set out the role and responsibilities of the Board, powers of the Board, and the practice of the Board in respect of corporate governance matters.

The Board held 14 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 and the Senior Management Team 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES *(Continued)*

During the Year, the Company adopted the approval authority of senior management of the Company which sets out the matters that are authorized to be approved by the Senior Management Team.

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

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

The Company has adopted a nomination policy. 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 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES *(Continued)*

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.

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 Nomination 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 Nomination 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES *(Continued)*

(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.

Board diversity policy

The Board has 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 Mr. Chen Jinhao, Mr. Zhao Hui, Mr. Hou Jun, Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin and Mr. Yu Xuezhong 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.

Chairman and Chief Executive Officer

From 1 January 2020 to 24 May 2020, Mr. Wan Yiqing was the chairman of the Company. From 25 May 2020 to 31 December 2020 and as at the date of this annual report, Mr. Zhao Hui was the chairman of the Company. From 1 January 2020 to 31 December 2020 and up to conclusion of the meeting of the Board held on 26 March 2021, Mr. Chen Jinhao was the Chief Executive Officer. As at the date of this annual report, Mr. Jin Zhaogen is the Chief Executive Officer. The chairman of the Company and the Chief Executive Officer have segregated and clearly defined roles. The chairman of the Company 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 three 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES *(Continued)*

Term of appointment of non-executive Directors

Mr. Zhao Hui and Mr. Hou Jun, each a non-executive Director, have been appointed for a term from 25 May 2020 to 31 December 2021.

Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin and Mr. Yu Xuezhong, each an independent non-executive Director, have been appointed for a term from 2 December 2019 to 31 December 2021.

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. During the Year, the Remuneration Committee has reviewed its term of reference. The principal duties of the Remuneration Committee are to formulate the Company's remuneration policy and recommend remuneration packages of the Directors and senior management to the Board for approval. The Company's remuneration policy is to provide a competitive level of remuneration in accordance with current market conditions to attract and motivate the Directors and staff for their contribution.

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

During the Year and up to conclusion of the meeting of the Board held on 26 March 2021, the Remuneration Committee comprised three independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin, Mr. Yu Xuezhong and one executive Director, namely Mr. Chen Jinhao.

As at the date of this annual report, the Remuneration Committee comprised three independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin, Mr. Yu Xuezhong and one executive Director, namely Mr. Jin Zhaogen.

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 three 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 appointment letter of Mr. Zhao Hui and Mr. Hou Jun and the terms thereof were also reviewed and approved by the Remuneration Committee during the Year.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES *(Continued)*

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. During the Year, the Nomination Committee had reviewed its term of reference.

From 1 January 2020 to 24 May 2020, the Nomination Committee comprised three independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin, and Mr. Yu Xuezhong and one non-executive Director, namely Mr. Wan Yiqing and one executive Director, namely Mr. Chen Jinhao.

From 25 May 2020 to 31 December 2020 and up to conclusion of the meeting of the Board held on 26 March 2021, the Nomination Committee comprised three independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin and Mr. Yu Xuezhong; one non-executive Director, namely Mr. Zhao Hui and one executive Director, namely Mr. Chen Jinhao.

As at the date of this annual report, the Nomination Committee comprised three independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin and Mr. Yu Xuezhong; one non-executive Director, namely Mr. Zhao Hui and one executive Director, namely Mr. Jin Zhaogen.

From 1 January 2020 to 24 May 2020, Mr. Wan Yiqing was the chairman of the Nomination Committee. From 25 May 2020 to 31 December 2020 and as at the date of this annual report, Mr. Zhao Hui 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 67 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 three 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

CORPORATE GOVERNANCE PRACTICES *(Continued)*

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. During the Year, the Audit Committee had reviewed its term of reference. The principal duties of the Audit Committee are to review the Company's annual results and accounts and interim results and to provide advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Group's financial reporting, risk management and internal control procedures.

During the Year and as at the date of this annual report, the Audit Committee comprised three independent non-executive Directors namely Mr. Ho Kwok Wah, George, *MH*, Ms. Li Mingqin and Mr. Yu Xuezhong. 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 nine meetings during the Year and three 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. The Audit Committee also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

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

CORPORATE GOVERNANCE PRACTICES *(Continued)*

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 Director					
Mr. Chen Jinhao	1/1	14/14	N/A	3/3	3/3
Non-executive Directors					
Mr. Zhao Hui (Note 1)	1/1	8/9	N/A	N/A	1/1
Mr. Hou Jun (Note 2)	1/1	9/9	N/A	N/A	N/A
Mr. Wan Yiqing (Note 3)	0/0	3/5	N/A	N/A	1/2
Ms. Fang Haiyan (Note 4)	0/0	5/5	N/A	N/A	N/A
Independent non-executive Directors					
Mr. Ho Kwok Wah, George, *MH*	1/1	14/14	9/9	3/3	3/3
Ms. Li Mingqin	1/1	14/14	9/9	3/3	3/3
Mr. Yu Xuezhong	1/1	14/14	9/9	3/3	3/3

Notes:

1. On 25 May 2020, Mr. Zhao Hui was appointed as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.

2. On 25 May 2020, Mr. Hou Jun was appointed as a non-executive Director.

3. With effect from 25 May 2020, Mr. Wan Yiqing resigned as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.

4. With effect from 25 May 2020, Ms. Fang Haiyan resigned as a non-executive Director and the deputy chairperson of the Company.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES *(Continued)*

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 77 to 85 of this annual report.

Risk management and internal control

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 assess 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;

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES *(Continued)*

(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.

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 provider 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 Executive Officer 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 adopted an inside information policy during the Year to ensure that inside information is handled and disseminated properly and in accordance with the applicable laws and regulations. Each of the directors, officers and relevant employees of the Group must promptly bring any inside information and/or any potential or suspected inside information events to the attention of the Company Secretary and/or the relevant head of department/business unit of the Group, who shall notify the Senior Management Team accordingly for taking the appropriate prompt action. Based on the information obtained from internal reporting, the Senior Management Team assesses whether any of the information constitutes inside information which needs to be released to the public with the advice of internal legal team. The Senior Management Team will notify the Board accordingly if and when necessary or appropriate. Should public disclosure be required, the Board will determine the scope and the timing of disclosure. If and when appropriate, the Senior Management Team and/or 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

CORPORATE GOVERNANCE PRACTICES *(Continued)*

Dividend Policy

The Company has adopted a dividend policy. 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

CORPORATE GOVERNANCE PRACTICES *(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
HK$1,000,001 to HK$2,000,000	2

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$3,662,000. 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$767,000.

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 corporate information of the Group are also available on the Company's website (www.townhealth.com). The Board has established a shareholders' communication policy of the Company. During the Year, the Board has reviewed the shareholder's communication policy of the Company.

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 as 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 of 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.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS *(Continued)*

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

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

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

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

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

7. The requisition will be verified with the Company's branch share registrar and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to (i) include the resolution in the agenda for the annual general meeting; or (ii) convene a special general meeting by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. On the contrary, if the requisition has been verified as not in order, the Shareholders concerned will be advised of this outcome and accordingly, (i) the proposed resolution will not be 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 54, 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*
   Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available.

   The Company will not normally deal with verbal or anonymous enquiries. Shareholders and the investment community may send written enquiries to the Company, for the attention of the Board or Company Secretary, by email: company.secretary@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 8181 for any assistance.

INDEPENDENT AUDITOR'S REPORT

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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
(Incorporated in the Cayman Islands and continued 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 86 to 212, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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
(Incorporated in the Cayman Islands and continued 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 arising on acquisition of subsidiaries and medical practices 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 2020 were HK$485,834,000 and HK$334,769,000, respectively (2019: HK$483,354,000 and HK$336,352,000), respectively. Goodwill and intangible assets have been allocated to the respective CGUs. Impairment assessment was performed by the management through comparing the recoverable amounts of the CGUs with the carrying amounts of the CGUs that include goodwill and intangible assets. The recoverable amount is the higher of value in use or fair value less costs of disposal. In determining the value in use, the management estimates based on discounted cash flows taking into account key assumptions including discount rate, future growth rate and expected gross margin.	Our procedures in relation to the impairment assessment of goodwill and intangible assets included: • Discussed with management how they performed the impairment assessment of goodwill and intangible assets, including the process of allocating goodwill and intangible assets to the appropriate 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
(Incorporated in the Cayman Islands and continued 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$535,570,000 as at 31 December 2020 (2019: HK$567,416,000), with a fair value loss for the year ended 31 December 2020 recorded in consolidated profit or loss of HK$47,566,000 (fair value loss for the year ended 31 December 2019: HK$51,529,000). In determining the fair value of investment properties, the key inputs including price per square feet, reversionary rate and monthly rent with certain unobservable inputs that require significant management judgement by management and independent professional valuer (the "Valuer"), 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
(Incorporated in the Cayman Islands and continued 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$308,768,000 as at 31 December 2020 (2019: HK$319,528,000). 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 2020.	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 assumptions 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
(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the property, plant and equipment and the right-of-use assets	
We identified the impairment assessment of the property, plant and equipment ("PPE") and right-of-use assets ("ROU assets") as a key audit matter due to inherent estimation uncertainty pertaining to the assumptions and estimations is required to assess the recoverable amounts of these assets. As disclosed in notes 4, 17 and 18 to the consolidated financial statements, the carrying amount of the PPE and the ROU assets, are HK$382,812,000 and HK$114,323,000 as at 31 December 2020, net of accumulated depreciation and impairment loss of HK$267,622,000 and HK$193,358,000 respectively. For the purpose of assessing impairment of these assets, the recoverable amounts of these assets have been determined by the management of the Group by value in use calculations of clinics using the discounted cash flow forecasts based on management's expectations of the market development and the past performance, where the key input parameters include revenue growth and gross profit margins. Based on management's assessment, impairment losses on the PPE and the ROU assets of HK$4,187,000 and HK$3,653,000 respectively have been recognised in profit or loss during the year ended 31 December 2020.	Our procedures in relation to the impairment assessment of the PPE and the ROU assets included: • Obtained an understanding of the management's process and basis adopted in the impairment assessment of the PPE and the ROU assets; • Evaluated the assumptions and estimates used in the value in use calculations of the recoverable value using forecasts in determining whether there are any impairment losses to be recognised based on the management's estimate of revenue growth and gross profit margins with reference to the past performance of the relevant clinics, management's expectations on the market development and the future operating plans of the Group; and • Performed sensitivity analysis of key assumptions and considered the resulting impact on the impairment of the PPE and the ROU assets and whether there were any indicators of management bias.

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

Key Audit Matters *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Assessment of loss allowance for expected credit losses ("ECL") on promissory note	
We identified the assessment of loss allowance for ECL on promissory note as a key audit matter due to significant judgments by management and high degree of estimation uncertainty involved. As disclosed in notes 4 and 26 to the consolidated financial statements, the carrying amounts of promissory note as at 31 December 2020 are HK\$117,763,000 and provision of ECL of HK\$207,693,000 are recorded in profit or loss for the year ended 31 December 2020 (2019: HK\$4,544,000). The Group has applied a lifetime expected credit loss model determining the ECL to be recognised in respect of the promissory note during and as at the end of the year because the directors of the Company consider there has been significant increase in credit risk associated with the promissory note due to default on repayment since April 2020. When determining the amount of ECL to be recognised as at the end of the reporting period, the management considered the risk of a default occurring on the promissory note as at the reporting date, taking into account both quantitative and qualitative information that is reasonable and supportable, including historical experience (including credit history and current credit worthiness of the promissory note issuer) and forward-looking information (including current market conditions) that is available without undue cost or effort. The Group also reviews the amount and timing of future cash flows, guarantees, value of the collateral received from the borrower in measuring the ECL.	Our procedures in relation to the evaluation of the assessment of ECL of promissory note included: • Obtained an understanding of management's process for credit risk assessment and assessment of ECL for the promissory note; • Understood key controls over the way in which management estimates the ECL of the promissory note, which relates to management's identification of events that triggered the provision for ECL of the promissory note and estimation of the amount of provision; • Inspected the promissory note agreement entered into between the Group and the promissory note issuer, and other relevant information relating to the promissory note issuer as assessed by the Group; • Assessed the reasonableness of the Group's ECL model by challenging management's basis and judgment used in determining the inputs and assumptions applied in the ECL model, including probability of default, loss given default, the Group's historical loss experience, forward-looking information and recoverable amount on the collaterals by discounted cash flows taking into account key assumptions including discount rate, future growth rate and expected gross margin, with the assistance of our internal specialists; • Tested the mathematical accuracy of the calculation of ECL; • Examined the valuation of the fair value of collateral; and • Evaluated the disclosures to the consolidated financial statements regarding the Group's exposure to the credit risk on promissory note.

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
(Incorporated in the Cayman Islands and continued 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
(Incorporated in the Cayman Islands and continued 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
(Incorporated in the Cayman Islands and continued 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, actions taken to eliminate threats of safeguards applied.

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, 26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000 (Restated)
Revenue	5	**1,069,045**	1,128,932
Cost of sales		**(784,465)**	(752,568)
Gross profit		**284,580**	376,364
Other income	7	**90,779**	60,264
Administrative expenses		**(333,289)**	(352,071)
Other gains and losses, net	8	**(66,134)**	(72,004)
Allowance of expected credit loss recognised on promissory note	26	**(207,693)**	(4,544)
Finance costs	9	**(5,279)**	(6,117)
Share of results of associates		**7,466**	37,422
Share of results of joint ventures		**(3,285)**	(541)
(Loss) profit before tax		**(232,855)**	38,773
Income tax expenses	12	**(25,595)**	(28,254)
(Loss) profit for the year	13	**(258,450)**	10,519
Other comprehensive income (expense) for the year			
Items that will not be reclassified to profit or loss:			
Fair value change in equity instruments at fair value through other comprehensive income		**(18,421)**	(25,581)
Fair value change in revaluation of properties upon transfer from "property, plant and equipment" to "investment properties"		**49,574**	12,048
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on the translation of foreign operations		**59,777**	(16,635)
Share of other comprehensive income (expense) of associates and joint ventures		**896**	(399)
		91,826	(30,567)
Total comprehensive expense for the year		**(166,624)**	(20,048)
(Loss) profit for the year attributable to:			
Owners of the Company		**(281,038)**	(8,414)
Non-controlling interests		**22,588**	18,933
		(258,450)	10,519
Total comprehensive expense attributable to:			
Owners of the Company		**(205,447)**	(34,917)
Non-controlling interests		**38,823**	14,869
		(166,624)	(20,048)
Loss per share (HK cent(s)) – Basic and diluted	15	**(3.73)**	(0.11)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Investment properties	16	**535,570**	567,416
Property, plant and equipment	17	**382,812**	361,941
Right-of-use assets	18	**114,323**	124,081
Loans receivable	19	**3,271**	4,216
Goodwill	20	**485,834**	483,354
Intangible assets	21	**334,769**	336,352
Interests in associates	22	**308,768**	319,528
Interests in joint ventures	23	**19,892**	22,005
Equity instruments at fair value through other comprehensive income	25	**39,609**	59,609
Fixed bank deposits	31	**71,258**	–
		2,296,106	2,278,502
CURRENT ASSETS			
Inventories	27	**34,522**	24,589
Trade and other receivables	28	**306,485**	219,724
Financial assets at fair value through profit or loss	24	**6,774**	6,411
Loans receivable	19	**876**	41,137
Promissory notes	26	**117,763**	325,456
Amounts due from associates	29	**1,421**	1,164
Tax recoverable		**2,025**	732
Fixed bank deposits	31	**745,832**	–
Bank balances and cash	31	**1,070,835**	1,840,856
		2,286,533	2,460,069
CURRENT LIABILITIES			
Trade and other payables	32	**206,865**	165,990
Contract liabilities	33	**2,557**	3,570
Amount due to an investee	34	**298**	300
Amounts due to non-controlling interests	30	**41,715**	42,971
Bank borrowing	35	**16,623**	17,730
Lease liabilities	36	**68,551**	67,027
Tax payable		**23,773**	34,005
		360,382	331,593
NET CURRENT ASSETS		**1,926,151**	2,128,476
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,222,257**	4,406,978

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT LIABILITIES			
Lease liabilities	36	**54,709**	62,772
Deferred tax liabilities	37	**41,416**	41,195
		96,125	103,967
		4,126,132	4,303,011
CAPITAL AND RESERVES			
Share capital	38	**75,261**	75,261
Reserves		**3,735,220**	3,940,286
Equity attributable to owners of the Company		**3,810,481**	4,015,547
Non-controlling interests		**315,651**	287,464
Total equity		**4,126,132**	4,303,011

The consolidated financial statements on pages 86 to 212 were approved and authorised for issue by the board of directors of the Company on 26 March 2021 and are signed on its behalf by:

Mr. Zhao Hui
DIRECTOR

Mr. Jin Zhaogen
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company												
	Share capital-ordinary shares HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000 (Note i)	Capital reserve HK$'000 (Note ii)	Distributable reserve HK$'000 (Note iii)	Other reserves HK$'000 (Note iv)	Property revaluation reserve HK$'000	Investment revaluation reserves HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2019	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
Adjustment	–	–	–	–	–	–	–	–	–	(6,284)	(6,284)	(699)	(6,983)
At 1 January 2019 (restated)	75,261	3,341,639	9,020	10,033	62,677	(94,709)	33,609	(33,004)	(28,778)	689,239	4,064,987	272,128	4,337,115
Profit for the year	–	–	–	–	–	–	–	–	–	(8,414)	(8,414)	18,933	10,519
Exchange difference arising on translation to foreign operations	–	–	–	–	–	–	–	–	(12,571)	–	(12,571)	(4,064)	(16,635)
Share of other comprehensive expense of associates and joint ventures	–	–	–	–	–	–	–	–	(399)	–	(399)	–	(399)
Fair value change in equity instruments at fair value through other comprehensive income ("FVTOCI")	–	–	–	–	–	–	–	(25,581)	–	–	(25,581)	–	(25,581)
Fair value change in revaluation of properties upon transfer to investment properties	–	–	–	–	–	–	12,048	–	–	–	12,048	–	12,048
Other comprehensive (expense) income for the year	–	–	–	–	–	–	12,048	(25,581)	(12,970)	–	(26,503)	(4,064)	(30,567)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	12,048	(25,581)	(12,970)	(8,414)	(34,917)	14,869	(20,048)
Transfer of reserve	–	–	–	–	–	5,043	–	–	–	(5,043)	–	–	–
Acquisition of additional interests in subsidiaries (Note 40b)	–	–	–	–	–	2,471	–	–	–	–	2,471	(2,471)	–
Disposal of and partial disposal of subsidiaries (Note 41b)	–	–	–	–	–	1,821	–	–	–	–	1,821	5,851	7,672
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	10,962	10,962
Dividend declared	–	–	–	–	–	–	–	–	–	(18,815)	(18,815)	–	(18,815)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(13,875)	(13,875)
At 31 December 2019	75,261	3,341,639	9,020	10,033	62,677	(85,374)	45,657	(58,585)	(41,748)	656,967	4,015,547	287,464	4,303,011
Loss for the year	–	–	–	–	–	–	–	–	–	(281,038)	(281,038)	22,588	(258,450)
Exchange difference arising on translation to foreign operations	–	–	–	–	–	–	–	–	43,542	–	43,542	16,235	59,777
Share of other comprehensive income of associates and joint ventures	–	–	–	–	–	–	–	–	896	–	896	–	896
Fair value change in equity instruments at FVTOCI	–	–	–	–	–	–	–	(18,421)	–	–	(18,421)	–	(18,421)
Fair value change in revaluation of properties upon transfer to investment properties	–	–	–	–	–	–	49,574	–	–	–	49,574	–	49,574
Disposal of equity instruments at FVTOCI	–	–	–	–	–	–	–	836	–	(836)	–	–	–
Other comprehensive (expense) income for the year	–	–	–	–	–	–	49,574	(17,585)	44,438	(836)	75,591	16,235	91,826
Total comprehensive (expense) income for the year	–	–	–	–	–	–	49,574	(17,585)	44,438	(281,874)	(205,447)	38,823	(166,624)
Transfer of reserve	–	–	–	–	–	4,695	–	–	–	(4,695)	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	478	478
Acquisition of additional interests in subsidiaries (Note 40b)	–	–	–	–	–	(276)	–	–	–	–	(276)	(1,345)	(1,621)
Disposal of subsidiaries (Note 41a)	–	–	–	–	–	28	–	–	–	(28)	–	(337)	(337)
Transaction with non-controlling interests	–	–	–	–	–	657	–	–	–	–	657	(657)	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(8,775)	(8,775)
At 31 December 2020	**75,261**	**3,341,639**	**9,020**	**10,033**	**62,677**	**(80,270)**	**95,231**	**(76,170)**	**2,690**	**370,370**	**3,810,481**	**315,651**	**4,126,132**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

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 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 mainly represented:

(a) 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 2020, approximately HK$4,695,000 (2019: HK$5,043,000) was transferred and the carrying amount of the PRC statutory reserves as at 31 December 2020 is approximately HK$18,276,000 (2019: HK$13,581,000).

(b) other reserves of Group include the change in net assets attributable to the Group in relation to changes in ownership interest in subsidiaries without losing of control in prior year. Movements arising from acquisition of additional interest of subsidiaries and partial disposal of subsidiaries without losing control during the year are stated in notes 40 and 41.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
OPERATING ACTIVITIES			
(Loss) profit for the year		**(258,450)**	10,519
Adjustments for:			
Income tax		**25,595**	28,254
Interest income	7	**(44,670)**	(46,994)
Finance costs	9	**5,279**	6,117
Amortisation of intangible assets	21	**10,401**	10,426
Depreciation of right-of-use assets	18	**76,667**	78,217
Depreciation of property, plant and equipment	17	**46,912**	46,517
Dividend income from equity instruments at FVTOCI	7	**(270)**	(4,058)
Fair value changes on investment properties	8	**47,566**	51,529
Allowance of expected credit loss recognised on promissory note		**207,693**	4,544
Impairment loss recognised on goodwill	8	**15,022**	991
Reversal of allowance of expected credit loss recognised on amounts due from associates	8	**(6,000)**	–
Impairment loss recognised on property, plant and equipment	8	**4,187**	–
Impairment loss recognised on right-of-use assets	8	**3,653**	–
Loss on disposal/written off of property, plant and equipment	8	**1,699**	9,651
Loss on written off of right-of-use assets	13	**–**	346
Share of results of associates		**(7,466)**	(37,422)
Share of results of joint ventures		**3,285**	541
Loss on disposal of a subsidiary	8	**370**	9,606
Fair value changes on financial assets at fair value through profit or loss ("FVTPL")	8	**(363)**	227
Operating cash inflow before movements in working capital		**131,110**	169,011
Increase in inventories		**(9,972)**	(424)
(Increase) decrease in trade and other receivables		**(86,932)**	44,481
Increase in trade and other payables		**42,759**	29,605
Decrease in contract liabilities		**(1,013)**	(2,953)
Cash generated from operations		**75,952**	239,720
Income tax paid		**(36,898)**	(23,971)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**39,054**	215,749

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
INVESTING ACTIVITIES			
Redemption proceeds of financial assets at FVTPL		–	62,390
Proceeds of disposal of equity instruments at FVTOCI	25	1,579	–
Repayment of loans receivable		41,490	883
Interest received		44,670	46,994
Dividend received from associates		17,950	16,540
Dividend received from equity instruments at FVTOCI		270	4,058
Repayment from associates		5,743	1,811
Proceeds from disposal of property, plant and equipment		1,552	1,973
Acquisition of a subsidiary	40a	(2,950)	–
Net proceeds (to) from disposal of a subsidiary	41a	(771)	1,101
Advances of loans receivable		–	(40,271)
Purchase of property, plant and equipment	17	(35,304)	(55,033)
Capital injection in a joint venture		–	(20,440)
Advance to an investee		(2)	(5)
Increase in fixed bank deposits		(817,090)	–
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES		(742,863)	20,001
FINANCING ACTIVITIES			
Partial acquisition of a subsidiary	40b	(1,621)	–
Net proceeds from partial disposal of subsidiaries	41	–	4,800
Repayment to non-controlling interests		(1,256)	(4,714)
Capital contribution from non-controlling interests		–	10,962
Repayment of bank borrowing		(1,107)	(1,026)
Repayment of lease liabilities		(75,645)	(78,882)
Interest paid on lease liabilities		(4,707)	(5,368)
Dividend paid to non-controlling interests		(8,775)	(32,690)
Interest paid on bank borrowing		(572)	(749)
NET CASH USED IN FINANCING ACTIVITIES		(93,683)	(107,667)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(797,492)	128,083
CASH AND CASH EQUIVALENTS AT 1 JANUARY		1,840,856	1,720,425
EFFECT OF FOREIGN EXCHANGE RATES CHANGES		27,471	(7,652)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing bank balances and cash	31	1,070,835	1,840,856

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL

The Company is registered in Bermuda as an exempted company under the laws of Bermuda.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited ("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 for the years ended 31 December 2017, 2018 and 2019, the Securities and Futures Commission ("SFC") has on 27 November 2017 issued a direction to suspend trading in the shares of the Company with effect from 27 November 2017 ("Suspension") 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.

On 18 December 2017, the Company announced that in view of the Suspension, the board of directors ("Board") of the Company has established an independent board committee ("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 on appropriate action 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 2020

1. GENERAL *(Continued)*

As at the date of approval for issuance of the consolidated financial statements for the financial 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 direction issued by the SFC has been completed and reported to the IBC. After reviewing the findings and conclusion of the independent forensic accountant ("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 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. After reviewing the findings and conclusion of the independent forensic accountant report ("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 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.

As disclosed in the announcement of the Company dated 31 October 2019, the Board resolved on 31 October 2019, among other things, to call each director to resign and each resigning director shall be eligible to put himself/herself forward for re-election at the special general meeting of the Company convened and held on 2 December 2019.

The Board proposes for a change of its composition as the Board believes that reorganisation of the Board would enable the Company to move forward and to develop a new development strategy for the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL *(Continued)*

On 10 January 2020, the Company announced that it received a letter from the Stock Exchange dated 7 January 2020 ("Letter") stating that:

(i) the Stock Exchange's guidance letter states that the Stock Exchange would discuss with the SFC before exercising its right to delist an issuer suspended under Section 8 of the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) ("SMLR"); and

(ii) after consultation with the SFC, the Stock Exchange confirms that the Stock Exchange will, until further notice, withhold exercising its right to delist the Company under Rule 6.01A(2)(b)(i) of the Listing Rules should trading in the Company's securities remain suspended on 31 January 2020.

The Letter further states that the above is without prejudice to the Stock Exchange exercising its right under Rule 6.01A of the Listing Rules at a later stage when the Stock Exchange considers appropriate. The Stock Exchange also reserves all its rights under the Listing Rules. In particular, the Company is reminded of its obligation to procure a resumption of trading as soon as possible.

On 29 April 2020, 31 July 2020, 30 October 2020 and 2 February 2021, the Company has announced that the Company has continued communicating with the SFC on the resumption application made by the Company to the SFC under Section 9 of the SMLR.

On 26 February 2021, the Company announced that, as disclosed in previous announcements of the Company, the Company has been communicating with the SFC on the resumption application made by the Company under Section 9 of the SMLR. At the request of the SFC, a reputable independent consultant (as agreed by the SFC) ("Consultant") has been engaged to conduct a review of the Company's internal control. Such review has now been completed and a report ("IC Report") has been issued to the Company and the SFC. The Board confirms that the Company is now being managed by new Board members and senior management who are free from the control of or influence from Dr. Cho Kwai Chee, a former non-executive director retired on 29 June 2018 and Dr. Hui Ka Wah, Ronnie, a former executive director resigned on 2 December 2019, in their conduct of the Company's businesses and operations. The Company has been informed that the SFC has considered the IC Report and other documents and information submitted by the Company, and the SFC has, by notice to the Stock Exchange and pursuant to Section 9(3) of the SMLR, permitted the dealings in the shares of the Company to recommence subject to the following conditions (collectively, "Resumption Conditions"):

(i) the Company shall publish the announcement relating to resumption of trading;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL *(Continued)*

(ii) the Company undertakes: (a) to implement all the recommendations made by the Consultant in the IC Report by the target completion date with respect to each recommendation as set out in the IC Report; (b) to procure the Consultant to perform a follow-up review as at 31 October 2021 to assess whether the recommendations in the IC Report have been properly implemented by the Company; (c) to procure the Consultant to submit a report following the follow-up review to the Company and the SFC Executive for concurrent review; and

(iii) the Company shall publish an announcement regarding the results of the follow-up review report.

The Company fulfilled the first Resumption Condition by publishing the announcement dated 26 February 2021.

With reference to the second Resumption Condition, the Company will (i) implement all the recommendations made by the Consultant in the IC Report by the target completion date with respect to each recommendation as set out in the IC Report; (ii) procure the Consultant to perform a follow-up review as at 31 October 2021 to assess whether the Consultant's recommendations in the IC Report have been properly implemented by the Company; and (iii) procure the Consultant to submit a report following such follow-up review to the Company and the SFC for concurrent review. Further announcement will be made in respect of the follow-up review report as required under the third Resumption Condition. The SFC has permitted dealings in the shares of the Company to recommence from 09:00 a.m. on 1 March 2021.

Trading in the shares of the Company on the Stock Exchange resumed with effect from 9:00 a.m. on 1 March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, in the preparation of the consolidated financial statements for the year ended 31 December 2020, the Group has early applied the Amendments to HKFRS 16 COVID-19-Related Rent Concessions, which are mandatorily effective for annual reporting periods beginning on or after 1 June 2020.

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

Impacts on early application of Amendment to HKFRS 16 COVID-19-Related Rent Concessions

The Group has applied the amendment for the first time in the current year. Rent concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 "Leases" if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

The Group has derecognised the part of lease liabilities that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of HK$8,251,000 which has been recognised as variable lease payments in profit or loss for the current year.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[4]
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	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of consolidated financial statements

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

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

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

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 accounted for in accordance with HKFRS 16 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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Basis of preparation of consolidated financial statements *(Continued)*

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

For financial instruments and investment properties which are transacted at fair value and a valuation technique that uses unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equal the transaction price.

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.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Significant accounting policies

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.

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 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Basis of consolidation *(Continued)*

Changes in the Group's interests in existing subsidiaries

Changes in the Group's 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 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 HKFRS 9 "Financial Instruments" ("HKFRS 9"), when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the concentration test is not met, or if the entity elects not to apply the test, the entity shall then perform the assessment as to whether the set of activities and assets meets the definition of a business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Business combinations or asset acquisitions *(Continued)*

Asset acquisitions

In the case where the acquisition of an asset or a group of assets does not constitute a business, the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets in HKAS 38 Intangible Assets) and liabilities assumed. The cost of the acquisition shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

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);

- 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; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Business combinations or asset acquisitions *(Continued)*

Business combinations (Continued)

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 amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured 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 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. 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 retrospectively 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 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND 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 group 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Interests in associates and joint ventures *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Interests in associates and joint ventures *(Continued)*

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, 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 of 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 or 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 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 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Revenue from contracts with customers

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 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Revenue from contracts with customers *(Continued)*

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Leases *(Continued)*

The Group as a lessee (Continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability, at the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities, other than adjustments to lease liabilities resulting from COVID-19-related rent concessions in which the Group applied practical expedient.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Leases *(Continued)*

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Leases *(Continued)*

Lease modifications (Continued)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

COVID-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Leases *(Continued)*

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Property, plant and equipment

Property, plant and equipment including leasehold land 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 value, adjusted to exclude any prepaid or accrued operating lease income. 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 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND 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.

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. In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash generating unit or group of cash-generating units.

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND 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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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.

Borrowing costs

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "Other income".

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Taxation

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

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Taxation *(Continued)*

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. 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 "FVTPL") 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 FVTPL are recognised immediately in profit or loss.

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.

Dividend income which are derived from the Group's ordinary course of business are presented as revenue.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Financial instruments *(Continued)*

Financial assets

Classification and subsequent measurement of financial assets

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 fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

(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 other comprehensive income 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.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") on financial assets (including, trade and other receivables, loans receivable, amounts due from associates and promissory notes). 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, 12-month ("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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

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 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (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. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- 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 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Financial instruments *(Continued)*

Financial assets (Continued)

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of a financial assets classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserves is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserves is not reclassified to profit or loss, but is transferred to accumulated profits.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Financial liabilities (including trade and other payables, amount(s) due to an investee/non-controlling interests, bank borrowing and lease liabilities) are subsequently measured at amortised cost, using the effective interest method.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 policies

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.

Indefinite useful life of an intangible asset

As disclosed in note 21 to the consolidated financial statements, the trade name. Dr. Vio & Partners of HK$167,087,000 (2019: HK$167,087,000) of the Group has no definite useful 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

Critical judgments in applying accounting policies *(Continued)*

Determination on lease term of contracts with renewal options

The Group applies judgment to determine the lease term for lease contracts in which it is a lessee that include renewal option, specifically, the leases relating to medical centres. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. Leases are considered no longer enforceable when the Group as the lessee and the relevant lessors both have the right to terminate the lease without permission from the other party with no more than an insignificant contractual penalty.

The assessment of whether the Group is reasonably certain to exercise renewal options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised. Re-assessment is performed upon the occurrence of either a significant event or a significant change in circumstances that is within the control of lessee and that affects the assessment.

When assessing reasonable certainty, the Group considers all relevant facts and circumstances including economic incentives for exercising or not exercising the options. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);
- the extent of leasehold improvements undertaken by Group;
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs).

There are no new contracts entered into by the Group during the year ended 31 December 2020 that contain renewal options, and thus, no exercise of the renewal option during the year ended 31 December 2020 (2019: 7 contracts contained renewal options which the management considered it was reasonably certain to exercise resulted in an additional amount of HK$37,945,000 of right-of-use assets and lease liabilities recognised).

Principal versus agent consideration (agent)

The Group is considered as an agent for its contracts with customers relating to the sales of medical equipment as the Group did not obtain the control over medical equipment before passing on to customers taking into consideration indicators such as the Group is not primarily responsible for fulfilling the promise and not exposed to inventory risk. When the Group satisfies the performance obligation, the Group recognises a commission revenue in the amount which amounted to an average rate of 18.41% (2019: 19.42%) of the gross amount of consideration.

During the year ended 31 December 2020, the Group recognised the commission as revenue relating to sales of medical equipment and consumables with the group being an agent amounted to HK$2,783,000 (2019: HK$27,177,000).

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

Key sources of estimation uncertainty

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

Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill and intangible assets have 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 2020, the carrying amount of goodwill and intangible assets are HK$485,834,000 and HK$334,769,000 (net of accumulated impairment loss of goodwill and intangible assets of HK$223,621,000 and HK$nil respectively) (2019: HK$483,354,000 and HK$336,352,000 respectively (net of accumulated impairment loss of goodwill and intangible assets of HK$208,599,000 and HK$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.

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. Whilst the Group considers valuations of the Group's investment properties are the best estimates, the ongoing COVID-19 pandemic has resulted in greater market volatility depending on how the COVID-19 pandemic may progress and evolve, which have led to higher degree of uncertainties in respect of the valuations in the current year. 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 2020, the carrying amount of investment properties is HK$535,570,000 (2019: HK$567,416,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

Key sources of estimation uncertainty *(Continued)*

Fair value measurement of financial instruments

As disclosed in notes 25 and 45 to the consolidated financial statements, the Group's financial assets comprise of unquoted equity instruments of HK$39,609,000 as at 31 December 2020 (2019: HK$59,609,000) 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.

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 2020, the carrying amount of interests in associates amounted to HK$308,768,000 (2019: HK$319,528,000) net of accumulated impairment loss of HK$27,000,000 (2019: HK$27,000,000), As at 31 December 2020, the carrying amount of interests in joint ventures amounted to HK$19,892,000 (2019: HK$22,005,000). No impairment was recognised on interests in associates and joint ventures for the years ended 31 December 2020 and 2019.

Allowance of expected credit loss on loans receivable

The Group measures the loss allowance on loans receivable based on an expected credit loss model. The allowance for ECL on the loans receivable are calculated based on loss rates which are reference to the default rates from international credit rating agencies and historical data, adjusted for forward-looking futures specific to the debtors and the economic environment. Specifically, a credit loss is the present value of the difference between (i) the contractual cash flows that are due to an entity under the contract and (ii) the cash flows that the entity expects to receive. Such assessment involves a high degree of estimation and uncertainty. When the actual future cash flows are less or more than expected, a material ECLs or material reversal of ECLs may arise, accordingly. As at 31 December 2020, the carrying amount of loans receivable amounted to HK$4,147,000 (2019: HK$45,353,000). No expected credit loss has been recognised for the years ended 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

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

Key sources of estimation uncertainty *(Continued)*

Allowance of expected credit loss on promissory notes

The Group measures the loss allowance on promissory notes based on an expected credit loss model. The allowance for ECL on promissory notes are calculated based on loss rates which are reference to the default rates from historical data, adjusted for forward-looking futures specific to the debtors, the economic environment, aged status and likelihood of collection, credit-worthiness and financial information available for the promissory note issuers. If the financial condition of the promissory note issuers were to deteriorate, impairment may be required.

As disclosed in note 26(ii) to the consolidated financial statements, Profit Castle Holdings Limited ("Profit Castle"), the issuer of promissory note with principal amount of HK$330,000,000, failed to repay the principal of HK$330,000,000 on 9 April 2020 and interest accrued thereon of HK$4,936,000 for the period from 1 October 2020 to 31 December 2020. The management considered such promissory note is credit impaired. During the year ended 31 December 2020, Profit Castle paid interest of HK$14,864,000 (2019: HK$19,800,000). Profit Castle paid interest of HK$1,000,000 subsequent to 31 December 2020. As the promissory note is credit-impaired, HK$15,864,000 (2019: HK$19,854,000) has been recognised for interest income for the year ended 31 December 2020.

The management performed the assessment and considered expected credit loss allowance of HK$207,693,000 (2019: HK$4,544,000) has been recognised in profit or loss during the year ended 31 December 2020. As at 31 December 2020, the carrying amount of such promissory note issued by Profit Castle of HK$117,763,000, net of accumulated allowance of expected credit loss of HK$212,237,000 (2019: promissory note of HK$325,456,000, net of accumulated allowance of expected credit loss of HK$4,544,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

Key sources of estimation uncertainty *(Continued)*

Impairment on the property, plant and equipment and the right-of-use assets

Property, plant and equipment and right-of-use assets are carried at cost less accumulated depreciation and accumulated impairment losses, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the value in use including cash flow projections with appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belong. Changing the assumptions and estimates, including the percentage change in revenue growth and gross profit margins in the cash flow projections, could affect the recoverable amount. Furthermore, the cash flows projections, growth rate and discount rate are subject to greater uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions in the Group's operations. As at 31 December 2020, the carrying amounts of the property, plant and equipment and the right-of-use assets are HK$382,812,000 and HK$114,323,000, net of accumulated depreciation and impairment loss of HK$267,622,000 and HK$193,358,000 respectively (2019: property, plant and equipment and right-of-use assets of HK$361,941,000 and HK$124,081,000, net of accumulated depreciation and impairment loss of HK$253,220,000 and HK$145,235,000 respectively).

The recoverable amounts of the property, plant and equipment and the right-of-use assets have been determined by the management of the Group by value in use calculation of the medical centres to which these assets belong. The value in use calculation uses the discounted cash flow forecasts ("Forecasts") based on management's expectations on the market development and the past performance, where the key input parameters include revenue growth and gross profit margins. The Group estimates the recoverable amount of the property, plant and equipment and the right-of-use assets of each medical centre individually.

During the year ended 31 December 2020, impairment losses on the property, plant and equipment and the right-of-use assets of HK$4,187,000 and HK$3,653,000 respectively (2019: impairment losses on the property, plant and equipment and the right-of-use assets of HK$nil), were recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 of revenue from contracts with the customers are as follows:

	2020 HK$'000	2019 HK$'000
Revenue recognised under HKFRS 15		
Hong Kong medical services		
– Medical services	**304,195**	425,064
– Dental services	**53,640**	61,280
	357,835	486,344
Hong Kong managed care business	**419,380**	477,251
Mainland hospital management and medical services	**270,088**	139,754
Others		
– Miscellaneous healthcare related services	**9,227**	10,121
	1,056,530	1,113,470
Revenue recognised under other accounting standard		
Others		
– Rental income	**12,515**	15,462
Total	**1,069,045**	1,128,932

	2020 HK$'000	2019 HK$'000
Revenue recognised under HKFRS 15		
Timing of revenue recognition		
At point in time	**965,936**	999,722
Over time	**90,594**	113,748
	1,056,530	1,113,470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

5. REVENUE *(Continued)*

Revenue from Hong Kong medical services including provision of medical and dental services, majority of Hong Kong managed care business, Mainland medical services including selling healthcare and pharmaceutical products and provision of medical and dental services and miscellaneous healthcare related services are recognised at a point in time when the related medical services are rendered to the customer. Payment of the transaction price is due immediately at the point the customer obtains the related medical services.

Mainland hospital management services has 180 days credit term upon the services provided, and they are recognised on over time basis which the transaction price is fixed on the agreement for such services.

Revenue for the services recognised on gross basis and net basis for the years ended 31 December 2020 and 2019 are as follows:

	2020	2019
	HK$'000	HK$'000
Gross basis	**1,053,747**	1,086,293
Net basis	**2,783**	27,177
Total revenue	**1,056,530**	1,113,470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

6. SEGMENT INFORMATION

During the year ended 31 December 2019, there were four reportable and operating segments, which were based on the different types of major businesses. This is also the basis upon which the Group is organised and managed. During the year ended 31 December 2020, the chief operating decision maker, being the chief executive officer ("CEO"), reassessed the current business units of the Group.

Specifically, the Group's operating and reportable segments for the year ended 31 December 2020 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 services and related services
- Others – Provision of miscellaneous healthcare related services and leasing of properties

As such, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

6. SEGMENT INFORMATION *(Continued)*

Segment revenues and results

For the year ended 31 December 2020

	Hong Kong medical services HK$'000	Hong Kong managed care business HK$'000	Mainland hospital management and medical services HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Revenue						
External sales	357,835	419,380	270,088	21,742	–	1,069,045
Inter-segment sales	36,385	–	–	–	(36,385)	–
	394,220	419,380	270,088	21,742	(36,385)	1,069,045
Segment results	(47,810)	29,424	19,149	(203,766)	–	(203,003)
Finance costs						(572)
Unallocated other income						9,650
Unallocated corporate expenses						(38,930)
Loss before tax						(232,855)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

6. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

For the year ended 31 December 2019 (Restated)

	Hong Kong medical services HK$'000	Hong Kong managed care business HK$'000	Mainland hospital management and medical services HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Revenue						
External sales	486,344	477,251	139,754	25,583	–	1,128,932
Inter-segment sales	48,138	–	–	–	(48,138)	–
	534,482	477,251	139,754	25,583	(48,138)	1,128,932
Segment results	22,335	45,812	31,359	(10,064)	–	89,442
Unallocated other income						6,386
Finance costs						(749)
Unallocated other gains and losses						(4,682)
Unallocated corporate expenses						(51,624)
Profit before tax						38,773

The accounting policies of the reporting segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of central administration costs, directors' remuneration, certain 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 2020

6. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2020

	Hong Kong medical services HK$'000	Hong Kong managed care business HK$'000	Mainland hospital management and medical services HK$'000	Others HK$'000	Total for segments HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit (loss):							
Interest income	–	–	–	(44,670)	(44,670)	–	(44,670)
Dividend income	(270)	–	–	–	(270)	–	(270)
Fair value changes on investment properties	–	–	–	47,566	47,566	–	47,566
Share of results of associates	(5,677)	–	329	(2,118)	(7,466)	–	(7,466)
Share of results of joint ventures	–	–	3,245	40	3,285	–	3,285
Depreciation of property, plant and equipment	14,709	3,645	12,771	14,562	45,687	1,225	46,912
Depreciation of right-of-use assets	59,602	10,444	6,621	–	76,667	–	76,667
Amortisation of intangible assets	–	7,251	3,150	–	10,401	–	10,401
Loss on disposal/written off of property, plant and equipment	31	–	–	1,668	1,699	–	1,699
Loss on disposal of a subsidiary	–	–	370	–	370	–	370
Impairment loss on goodwill	–	6,736	8,286	–	15,022	–	15,022
Impairment loss on property, plant and equipment	4,187	–	–	–	4,187	–	4,187
Impairment loss on right-of-use assets	3,653	–	–	–	3,653	–	3,653
Allowance of expected credit loss on promissory note	–	–	–	207,693	207,693	–	207,693
Finance costs	3,041	940	726	–	4,707	572	5,279
Amounts included in the information regularly provided to the CEO:							
Additions to property, plant and equipment	8,094	2,597	12,917	11,696	35,304	–	35,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

6. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2019 (Restated)

	Hong Kong medical services HK$'000	Hong Kong managed care business HK$'000	Mainland hospital management and medical services HK$'000	Others HK$'000	Total for segments HK$'000	Unallocated HK$'000	Total HK$'000
Amounts included in the measure of segment profit:							
Interest income	–	–	–	(46,994)	(46,994)	–	(46,994)
Dividend income	(4,058)	–	–	–	(4,058)	–	(4,058)
Fair value change on investment properties	–	–	–	51,529	51,529	–	51,529
Share of results of associates	(10,797)	–	259	(26,884)	(37,422)	–	(37,422)
Share of results of joint ventures	–	–	515	26	541	–	541
Depreciation of property, plant and equipment	19,397	6,536	7,449	10,088	43,470	3,047	46,517
Depreciation of right-of-use assets	60,754	10,160	4,827	2,476	78,217	–	78,217
Amortisation of intangible assets	–	7,251	3,175	–	10,426	–	10,426
Loss on disposal/written off of property, plant and equipment	348	–	–	9,303	9,651	–	9,651
Loss on written off of right-of-use assets	–	–	–	346	346	–	346
Loss on disposal of a subsidiary	9,606	–	–	–	9,606	–	9,606
Impairment loss on goodwill	991	–	–	–	991	–	991
Allowance of expected credit loss on promissory note	–	–	–	4,544	4,544	–	4,544
Finance costs	3,404	1,013	764	187	5,368	749	6,117
Amounts included in the information regularly provided to the CEO:							
Additions to property, plant and equipment	6,651	3,122	44,801	459	55,033	–	55,033

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

6. SEGMENT INFORMATION *(Continued)*

Geographical information

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

	2020 HK$'000	2019 HK$'000
Other regions of the PRC	**270,088**	139,754
Hong Kong	**798,957**	989,178
	1,069,045	1,128,932

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

	Carrying amount of non-current assets	
	2020 HK$'000	2019 HK$'000
Other regions of the PRC	**641,726**	565,024
Hong Kong	**1,611,500**	1,649,653
Non-current assets (Note)	**2,253,226**	2,214,677

Note: Non-current assets shown above exclude loans receivable and equity instruments at fair value through other comprehensive income.

Information about a major customer

The major customer which contributed more than 10% of the total revenue for the years ended 31 December 2020 and 2019 are listed as below:

	2020	2019
Customer A	**22%**	N/A

Note: The percentage of contribution is not applicable for Customer A in 2019 as it contributed less than 10% in the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

7. OTHER INCOME

	2020 HK$'000	2019 HK$'000
Interest income:		
– Bank balances and fixed bank deposits	**27,247**	26,433
– Promissory note	**15,864**	19,800
– Loans receivable	**1,310**	193
– Amounts due from associates	**249**	568
	44,670	46,994
Dividend income from equity instruments at FVTOCI:		
– Relating to investments held at the end of the reporting period	**270**	4,058
Rental income	**3,560**	4,569
Employment Support Scheme income (Note)	**29,646**	–
Rental concessions	**8,251**	–
Sundry income	**4,382**	4,643
	90,779	60,264

Note: During the year ended 31 December 2020, the Group recognised government grants of approximately HK$29,646,000 (2019: nil) in respect of Coronavirus Disease 2019 ("COVID-19")-related subsidies, of which are all related to Employment Support Scheme provided by the Hong Kong government under which the Group is required (1) not to implement redundancies from June 2020 to November 2020; and (2) to spend all the wage subsidies on paying wages to its employees. There is no unfulfilled condition or contingency relating to these grants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

8. OTHER GAINS AND LOSSES, NET

	2020 HK$'000	2019 HK$'000
Fair value changes on investment properties (note 16)	**(47,566)**	(51,529)
Fair value changes on financial assets at FVTPL	**363**	(227)
Loss on disposal of a subsidiary (note 41)	**(370)**	(9,606)
Loss on disposal/written off of property, plant and equipment	**(1,699)**	(9,651)
Impairment loss recognised on goodwill	**(15,022)**	(991)
Impairment loss recognised on property, plant and equipment	**(4,187)**	–
Impairment loss recognised on right-of-use assets	**(3,653)**	–
Reversal of allowance of expected credit loss recognised on amounts due from associates	**6,000**	–
	(66,134)	(72,004)

9. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Interest on bank borrowing	**572**	749
Interest on lease liabilities	**4,707**	5,368
	5,279	6,117

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

During both years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

Details of emoluments of individual executives, 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 2020

	Fees HK$'000	Salaries and other benefits HK$'000	Performance bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive director					
Mr. Chen Jinhao *(Chief Executive Officer)*	–	–	–	–	–
	–	–	–	–	–
Non-executive directors					
Ms. Fang Haiyan *(Resigned on 25 May 2020)*	–	–	–	–	–
Mr. Wan Yiqing *(Resigned on 25 May 2020)*	–	–	–	–	–
Mr. Hou Jun *(Appointed on 25 May 2020)*	–	–	–	–	–
Mr. Zhao Hui *(Appointed on 25 May 2020)*	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors					
Mr. Ho Kwok Wah, George, *MH*	168	–	–	–	168
Mr. Yu Xuezhong	168	–	–	–	168
Ms. Li Mingqin	168	–	–	–	168
	504	–	–	–	504
Total	504	–	–	–	504

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

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

For the year ended 31 December 2019

	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					
Mr. Chen Jinhao *(Chief Executive Officer) (Re-designated from a non-executive director to an executive director on 2 December 2019)*	–	–	–	–	–
Miss Choi Ka Yee, Crystal *(Resigned on 2 December 2019)*	–	773	–	17	790
Dr. Hui Ka Wah, Ronnie, *JP* *(Chief Executive Officer) (Resigned on 2 December 2019)*	–	4,625	375	17	5,017
Mr. Lee Chik Yuet *(Resigned on 2 December 2019)*	–	2,757	230	7	2,994
Mr. Wong Seung Ming *(Resigned on 1 December 2019)*	–	1,470	122	16	1,608
Dr. Chan Wing Lok, Brian *(Resigned on 2 December 2019)*	–	1,527	127	17	1,671
	–	11,152	854	74	12,080
Non-executive directors					
Dr. Choi Chee Ming, *GBS, JP* *(Resigned on 1 December 2019)*	–	–	–	–	–
Ms. Fang Haiyan	–	–	–	–	–
Mr. Wan Yiqing *(Appointed on 2 December 2019)*	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors					
Mr. Ho Kwok Wah, George, *MH*	156	–	–	–	156
Mr. Yu Xuezhong	156	–	–	–	156
Ms. Li Mingqin	156	–	–	–	156
Mr. Wang John Hong-chiun *(Retired on 27 June 2019)*	77	–	–	–	77
Mr. Yu Kai Fung Jackie *(Resigned on 2 December 2019)*	144	–	–	–	144
Mr. Wong Sai Kit *(Resigned on 2 December 2019)*	144	–	–	–	144
	833	–	–	–	833
Total	833	11,152	854	74	12,913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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 officer nor any of the directors of the Company waived any emoluments in the years ended 31 December 2020 and 2019.

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, none (2019: one) of them was an executive director of the Company whose emolument is included in note 10 above. The emoluments of the five (2019: four) individuals were as follows:

	2020 **HK$'000**	2019 HK$'000
Salaries and other allowances	**10,989**	10,583
Performance bonus (Note)	**4,215**	9,919
Retirement benefits scheme contributions	**63**	54
	15,267	20,556

Their emoluments were within the following bands:

	2020 **Number of employees**	2019 Number of employees
HK$2,000,001 – HK$2,500,000	**2**	–
HK$2,500,001 – HK$3,000,000	**2**	–
HK$3,000,001 – HK$3,500,000	**–**	1
HK$4,500,001 – HK$5,000,000	**–**	1
HK$5,000,001 – HK$5,500,000	**1**	1
HK$7,000,001 – HK$7,500,000	**–**	1
	5	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

11. EMPLOYEES' EMOLUMENTS *(Continued)*

During the year ended 31 December 2020, no emoluments were paid by the Group to the five highest paid individuals, including none (2019: 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.

12. INCOME TAX EXPENSES

	2020 HK$'000	2019 HK$'000
Tax charge comprises:		
Current tax		
– Hong Kong Profits Tax	**10,256**	14,957
– PRC Enterprise Income Tax	**18,123**	16,749
	28,379	31,706
Overprovision in prior years		
– Overprovision of Hong Kong Profits Tax	**(800)**	(876)
	27,579	30,830
Deferred tax		
– Current year (note 37)	**(1,984)**	(2,576)
	25,595	28,254

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 ("Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

12. INCOME TAX EXPENSES *(Continued)*

Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

	2020 **HK$'000**	2019 HK$'000
(Loss) profit before tax	**(232,855)**	38,773
Tax at the domestic income tax rate of 16.5% (2019: 16.5%)	**(38,421)**	6,397
Tax effect of expenses not deductible for tax purpose	**46,316**	13,436
Tax effect of income not taxable for tax purpose	**(13,296)**	(8,424)
Tax effect of tax losses and other deductible temporary differences not recognised	**30,206**	19,977
Tax effect of share of results of associates	**(1,232)**	(6,174)
Tax effect of share of results of joint ventures	**542**	89
Tax effect of utilisation of tax losses and other deductible temporary differences previously not recognised	**(407)**	(1,245)
Overprovision in prior years	**(800)**	(876)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**2,687**	5,074
Income tax expenses for the year	**25,595**	28,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

13. (LOSS) PROFIT FOR THE YEAR

	2020 HK$'000	2019 HK$'000
(Loss) profit for the year has been arrived at after charging:		
Staff costs		
– Directors' remuneration (Note 10)	**504**	12,913
– Other staff's salaries	**523,351**	552,350
– Other staff's bonus	**49,272**	79,600
– Other staff's other benefits	**532**	945
– Other staff's retirement benefits scheme contributions	**8,299**	8,895
	581,958	654,703
Less: Staff costs recognised in administrative expenses	**(111,576)**	(118,661)
Staff costs recognised in cost of sales	**470,382**	536,042
Auditors' remuneration	**3,662**	3,662
Cost of inventories recognised in cost of sales:		
– Pharmaceutical supplies	**163,952**	122,390
– Others inventories	**3,189**	2,984
	167,141	125,374
Depreciation of property, plant and equipment recognised in administrative expenses	**39,524**	41,767
Depreciation of property, plant and equipment recognised in cost of sales	**7,388**	4,750
Total depreciation of property, plant and equipment (Note 17)	**46,912**	46,517
Loss on disposal/written off of property, plant and equipment	**1,699**	9,651
Depreciation of right-of-use assets (Note 18)	**76,667**	78,217
Loss on written off of right-of-use assets	**–**	346
Amortisation of intangible assets, recognised in administrative expenses		
– customer relationship	**7,251**	7,251
– management services right and consulting services contracts	**3,150**	3,175
Total amortisation of intangible assets (Note 21)	**10,401**	10,426
and after crediting:		
Gross rental income from investment properties	**12,515**	15,462
Less: Direct operating expenses of properties that generated rental income	**(1,211)**	(1,272)
Net rental income from investment properties	**11,304**	14,190

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

14. DIVIDENDS

	2020 HK$'000	2019 HK$'000
Dividends recognised as distribution during the year – Final dividend of HK0.25 cent per ordinary share for the year ended 31 December 2018	–	18,815

On 28 March 2019, the directors of the Company recommended the payment of a final dividend of HK0.25 cent per share for the year ended 31 December 2018. The board of directors of the Company does not recommend the payment of a final dividend for the years ended 31 December 2019 and 2020.

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Loss for the purposes of basic and diluted loss per share

	2020 HK$'000	2019 HK$'000
Loss for the year attributable to owners of the Company	(281,038)	(8,414)

Number of shares

	2020	2019
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	7,526,134,452	7,526,134,452

The denominators used are the same as those detailed above for both basic and diluted loss per share. Diluted loss per share for both 2020 and 2019 were presented as the same as basic loss per share as there were no potential ordinary shares in issue for both 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2019	606,566
Decrease in fair value recognised in profit or loss	(51,529)
Transfer from property, plant and equipment	12,379
At 31 December 2019	567,416
Decrease in fair value recognised in profit or loss	(47,566)
Transfer from property, plant and equipment	63,338
Transfer to property, plant and equipment	(47,618)
At 31 December 2020	**535,570**

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 2020 and 31 December 2019 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.

During the year ended 31 December 2020, the use of one premise situated in Hong Kong which was previously self-used premise has been changed to leased out for rental income and two premises situated in Hong Kong which were previously leased out for rental income have been changed to self-used premises (2019: two premises situated in Hong Kong which were previously self-used premises have been changed to leased out for rental income). The investment property with fair value of HK$63,338,000 has been transferred from leasehold land and buildings and the investment properties with fair value of HK$47,618,000 have been transferred to property, plant and equipment (2019: the investment properties with fair value of HK$12,379,000 have been transferred from leasehold land and buildings).

Accordingly, at the date of the properties being transferred from leasehold land and buildings to investment properties, the difference between fair value and the carrying amount of the properties at the date of transfer of HK$49,574,000 was recognised in property revaluation reserve. At the date of property transfer from investment properties to property, plant and equipment, the fair value loss of HK$671,000 of investment properties was recognised in profit or loss included in other gains and losses.

16. INVESTMENT PROPERTIES *(Continued)*

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 2020 and 2019. 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 2020 and 31 December 2019 are as follows:

	Fair value as at 31 December 2020 HK$'000 (Level 3)	Fair value as at 31 December 2019 HK$'000 (Level 3)
Property units located in Hong Kong	**535,570**	567,416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

16. 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 2020 HK$'000	2019 HK$'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	**261,375**	194,900	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$6,852 to HK$7,425 (2019: from HK4,617 to HK$8,973) per square feet	An increase in the price per square feet will increase significantly the fair value.
Property 2 – Commercial Property in Tsuen Wan	**19,100**	19,600	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$113,601 (2019: HK$116,667) per square feet	A slight decrease in the price per square feet will decrease significantly the fair value.
Property 3 – Commercial Property in Mongkok	**15,800**	18,700	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 of location and other individual factors such as age and location of the property, of HK$130,442 (2019: HK$154,545) per square feet	A slight decrease in the price per square feet will decrease significantly the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. INVESTMENT PROPERTIES *(Continued)*

Investment properties held by the Group	Fair value at 31 December 2020 HK$'000	Fair value at 31 December 2019 HK$'000	Fair value hierarchy	Valuation technique(s) & key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Property 4 – Commercial Property in Shatin	**8,800**	8,950	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$30,666 (2019: HK$31,130) per square feet	A slight decrease in the price per square feet will decrease significantly the fair value.
Property 5 – Commercial Property in Yau Ma Tei	**7,735**	8,890	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$15,848 (2019: HK$18,207) per square feet	A slight decrease in the price per square feet will decrease significantly the fair value.
Property 6 – Commercial Property in Jordan	**31,200**	32,600	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 the location and other individual factors such as shape of the property, of HK$33,496 (2019: HK$35,053) per square feet	A slight decrease in the price per square feet will decrease significantly the fair value.
Property 7 – Commercial Property in Tsim Sha Tsui	**49,100**	60,600	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$14,121 (2019: HK$17,413) per square feet	A slight decrease in the price per square feet will decrease significantly the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. INVESTMENT PROPERTIES *(Continued)*

Investment properties held by the Group	Fair value at 31 December 2020 HK$'000	Fair value at 31 December 2019 HK$'000	Fair value hierarchy	Valuation technique(s) & key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Property 8 – Commercial Property in Tsim Sha Tsui	**49,400**	60,600	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$14,193 (2019: HK$17,413) per square feet	A slight decrease in the price per square feet will decrease significantly the fair value.
Property 9 – Commercial Property in Tsim Sha Tsui	**49,600**	60,600	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$14,264 (2019: HK$17,413) per square feet	A slight decrease in the price per square feet will decrease significantly the fair value.
Property 10 – Commercial Property in Shatin	**31,000**	40,800	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$52,042 (2019:HK$68,456) per square feet	A slight decrease in the price per square feet will decrease significantly the fair value.
Property 11 – Commercial Property in Kwun Tung	**–**	10,488	Level 3	Direct comparison method The key input is price per square feet	For 2019, 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$14,344 per square feet	A slight decrease in price per square feet will decrease significantly in fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

16. INVESTMENT PROPERTIES *(Continued)*

Investment properties held by the Group	Fair value at 31 December 2020 HK$'000	Fair value at 31 December 2019 HK$'000	Fair value hierarchy	Valuation technique(s) & key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Property 12 – Commercial Property in Shatin	**860**	910	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$860,000 (2019: HK$910,000) per unit	A slight decrease in the price per unit will decrease significantly the fair value.
Property 13 – Commercial Property in Tai Po	**–**	37,800	Level 3	Direct comparison method The key input is price per square feet	For 2019, 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$39,375 per square feet	A slight decrease in price per square feet will decrease significantly in fair value.
Property 14 – Commercial Property in Shatin	**8,500**	8,878	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$4,273 (2019: HK$4,399) per square feet	A slight decrease in price per square feet will decrease significantly in fair value.
Property 15 – Commercial Property in Shatin	**3,100**	3,100	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 the location and other individual factors such as age and location of the property, of HK$4,498 (2019: HK$4,460) per square feet	A slight decrease in price per square feet will decrease significantly in fair value.
	535,570	567,416				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

17. 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 2019	337,910	161,143	8,910	3,813	87,849	599,625
Additions	–	9,455	3,868	–	41,710	55,033
Exchange realignment	(1,100)	(190)	(109)	(16)	(647)	(2,062)
Transfer to investment properties	(722)	–	–	–	–	(722)
Disposal of subsidiaries	–	(6,503)	(482)	–	(7,263)	(14,248)
Disposals/written off	–	(13,068)	(163)	–	(9,234)	(22,465)
At 31 December 2019	336,088	150,837	12,024	3,797	112,415	615,161
Additions	–	11,948	504	817	22,035	35,304
Acquisition of subsidiary	–	453	238	703	364	1,758
Exchange realignment	3,836	691	437	148	2,853	7,965
Transfer from investment properties	47,618	–	–	–	–	47,618
Transfer to investment property	(15,644)	(6,399)	–	–	–	(22,043)
Disposal of subsidiaries	–	(1,854)	(152)	–	(2,655)	(4,661)
Disposals/written off	–	(4,380)	(23)	–	(17,207)	(21,610)
Impairment	–	(9,058)	–	–	–	(9,058)
At 31 December 2020	**371,898**	**142,238**	**13,028**	**5,465**	**117,805**	**650,434**
ACCUMULATED DEPRECIATION						
At 1 January 2019	61,199	119,724	4,908	3,350	33,065	222,246
Charge for the year	14,411	16,017	802	221	15,066	46,517
Exchange realignment	(40)	(54)	(21)	(14)	(88)	(217)
Transfer to investment properties	(391)	–	–	–	–	(391)
Eliminated on disposal of subsidiaries	–	(2,872)	(76)	–	(1,146)	(4,094)
Eliminated on disposals/written off	–	(8,120)	(53)	–	(2,668)	(10,841)
At 31 December 2019	75,179	124,695	5,560	3,557	44,229	253,220
Charge for the year	16,965	11,708	963	328	16,948	46,912
Exchange realignment	304	250	103	58	565	1,280
Transfer to investment property	(8,279)	–	–	–	–	(8,279)
Eliminated on disposal of subsidiaries	–	(891)	(84)	–	(1,306)	(2,281)
Eliminated on disposals/written off	–	(4,372)	(13)	–	(13,974)	(18,359)
Impairment	–	(4,871)	–	–	–	(4,871)
At 31 December 2020	**84,169**	**126,519**	**6,529**	**3,943**	**46,462**	**267,622**
CARRYING VALUES						
At 31 December 2020	**287,729**	**15,719**	**6,499**	**1,522**	**71,343**	**382,812**
At 31 December 2019	260,909	26,142	6,464	240	68,186	361,941

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.

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

As a result of the changes in the current economic environment due to the COVID-19 pandemic, the Group is experiencing negative conditions of decreased revenues, that indicate that the relevant property, plant and equipment may be impaired. As at 31 December 2020, the Group performed impairment testing and the recoverable amounts of the leasehold improvements of seven cash-generating-units which represented by 7 medical centres (the "7 CGUs") are smaller than the carrying amounts of the CGU. Impairment losses of approximately HK$4,187,000 and HK$3,653,000 have been recognised on the leasehold improvement under property, plant and equipment and right-of-use assets related to the 7 CGUs (2019: HK$nil).

The recoverable amount of cash-generating unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on forecasts approved by the management of the Group covering the remaining lease term period with a pre-tax discount rate of 15% per annum as at 31 December 2020. The revenue growth and gross profit margin used is with reference to the market development and past performance of the clinic. Based on the result of the assessment, management of the Group determined that the recoverable amount of certain cash-generating units are lower than the corresponding carrying amounts. The impairment amount has been allocated to each category of the property, plant and equipment and the right-of-use assets such that the carrying amount of each category of asset is not reduced below the highest of its value in use, its fair value less cost of disposal and zero.

18. RIGHT-OF-USE ASSETS

	2020 **HK$'000**	2019 HK$'000
Carrying amount	**114,323**	124,081
Depreciation charge	**76,667**	78,217
Total cash outflow for leases	**80,352**	84,250
Additions to right-of-use assets	**31,044**	52,770

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

18. RIGHT-OF-USE ASSETS *(Continued)*

For both years, the Group leases medical centre premises for its operations. Lease contracts which effective interest rates ranged from 2.39% to 4.75% (2019: 3.31% to 4.75%) are entered into for fixed term of 22 months to 8 years (2019: 24 months to 8 years), but may have extension and termination options included. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is beyond its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

During the year ended 31 December 2020, lessors of retail shops provided rent concessions to the Group through rent reductions ranging from 5% to 75% over one to eight months. These rent concessions occurred as a direct consequence of the COVID-19 pandemic and met all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. During the year, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of HK$8,251,000 were recognised as negative variable lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

19. LOANS RECEIVABLE

	2020 HK$'000	2019 HK$'000
Fixed-rate loans receivable (unsecured)	**4,147**	45,353
Analysed for reporting purposes as:		
Non-current portion	**3,271**	4,216
Current portion	**876**	41,137
	4,147	45,353

As at 31 December 2020, loans receivable of HK$3,271,000 (2019: HK$4,216,000) bearing fixed-rate interests ranged from 1% to 2% (2019: 1% to 5%) are due for repayment from 2 to 24 years (2019: 3 to 25 years) and included in non-current assets.

As at 31 December 2020, loans receivable of HK$876,000 (2019: HK$866,000) bearing fixed-rate interests ranged from 1% to 2% (2019: 1% to 5%) are due within one year from the end of the reporting period and included in current assets.

As at 31 December 2019, loans receivable of HK$40,271,000 bearing fixed-rate interest at 6% was due within 1 year and included in current assets. 南陽南石醫院 (Nanshi Hospital of Nanyang) ("Nanshi Hospital") has entered into management agreements with 南陽祥瑞醫院管理諮詢有限公司 (Nanyang Xiangrui Hospital Management Advisory Co., Ltd) ("Nanyang Xiangrui"), a subsidiary of the Company, paying management and consulting services fees to Nanyang Xiangrui. The amounts are fully settled during the year ended 31 December 2020.

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.

As at 31 December 2019, management of the Group considered that a loan receivable of HK$3,559,000 which have been fully impaired in previous years are irrecoverable and written off during the year ended 31 December 2019.

Management believes that no further allowance for expected credit loss 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 reputation and good history of repayment of interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

20. GOODWILL

	HK$'000
COST	
At 1 January 2019	696,717
Exchange realignment	(4,764)
At 31 December 2019	691,953
Additions	1,242
Exchange realignment	16,260
At 31 December 2020	**709,455**
IMPAIRMENT	
At 1 January 2019	207,608
Impairment loss recognised during the year	991
At 31 December 2019	208,599
Impairment loss recognised during the year	15,022
At 31 December 2020	**223,621**
CARRYING VALUES	
At 31 December 2020	**485,834**
At 31 December 2019	483,354

20. GOODWILL *(Continued)*

For the purposes of impairment testing, goodwill have been allocated to groups of individual cash generating units ("CGUs") in 3 (2019: 3) divisions of the Group, namely, Hong Kong medical services, Hong Kong managed care business and Mainland hospital management and medical services. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2020 and 31 December 2019 allocated to these units are as follows:

	2020	2019
	HK$'000	HK$'000
Hong Kong medical services ("Division A"):		
Town Health Medical & Dental Services Limited ("Town Health M&D")	**5,675**	5,675
Hong Kong Traumatology and Orthopaedics Institute Limited ("Hong Kong T&O")	**3,544**	3,544
	9,219	9,219
Hong Kong managed care business ("Division B"):		
Dr. Vio & Partners Limited ("Vio")	**198,199**	204,935
Mainland hospital management and medical services ("Division C"):		
Nanyang Xiangrui	**278,416**	269,200
	485,834	483,354

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 the CGUs in Hong Kong medical services division 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:

	2020	2019
Growth rate	**0.61% – 4.9%**	0% to 5%
Pre-tax discount rate	**15.00%**	15.00%

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.

For the impairment testing, goodwill, property, plant and equipment and right-of-use assets that generate cash flows together with the related goodwill are also included in Division A for the purpose of impairment testing.

During the year ended 31 December 2020, the management determined that there is no impairment on Division A (2019: HK$991,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

20. GOODWILL *(Continued)*

Division B

For the impairment testing, goodwill, trade name (Note 21) and customers relationship (Note 21), property, plant and equipment and right-of-use assets that generate cash flows together with the related goodwill are also included in Division B for the purpose of impairment testing.

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 at a pre-tax discount rate of 15.66% (2019: 15.59%). The cash flows beyond the five-year period are extrapolated using a growth rate of 2.80% (2019: 3.14%) per annum, which was determined after taking into consideration the economic conditions of the market. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include a budgeted sales and gross margin and other related expenses, such estimation was based on historical performance of Division B.

The aggregated recoverable amount of the group of CGU in Division B was calculated based on value in use method that is lower than the carrying value of the net assets of Division B. Accordingly, an impairment loss on goodwill of HK$6,736,000 (2019: HK$nil) was recognised in profit or loss for the year ended 31 December 2020 on Division B.

Division C

For the impairment testing, goodwill, management service right and consulting services contracts (Note 21), property, plant and equipment and right-of-use assets that generate cash flows together with the related goodwill are also included in Division C for the purpose of impairment testing.

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 18.36% (2019: 19.70%). Cash flows after the five-year period were extrapolated using a growth rate of 2.51% (2019: 2.23%) per annum, which was determined after taking into consideration the economic conditions of the market. Other key assumptions for the value in use calculations related 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.

The aggregated recoverable amount of the group of CGU in Division C was calculated based on value in use method that is lower than the carrying value of the net assets of Division C. Accordingly, an impairment loss on goodwill of HK$8,286,000 (2019: HK$nil) was recognised in profit or loss for the year ended 31 December 2020 on Division C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

21. INTANGIBLE ASSETS

	Customer relationship HK$'000	Trade name HK$'000	Management service right and consulting services contracts HK$'000	Total HK$'000
COST				
At 1 January 2019	72,512	167,087	153,975	393,574
Exchange realignment	–	–	(2,677)	(2,677)
At 31 December 2019	72,512	167,087	151,298	390,897
Exchange realignment	–	–	9,335	9,335
At 31 December 2020	**72,512**	**167,087**	**160,633**	**400,232**
AMORTISATION				
At 1 January 2019	32,505	–	11,705	44,210
Charge for the year	7,251	–	3,175	10,426
Exchange realignment	–	–	(91)	(91)
At 31 December 2019	39,756	–	14,789	54,545
Charge for the year	7,251	–	3,150	10,401
Exchange realignment	–	–	517	517
At 31 December 2020	**47,007**	**–**	**18,456**	**65,463**
CARRYING VALUES				
At 31 December 2020	**25,505**	**167,087**	**142,177**	**334,769**
At 31 December 2019	32,756	167,087	136,509	336,352

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.

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

The trade name has no definite useful 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

21. INTANGIBLE ASSETS *(Continued)*

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.

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.

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.

22. INTERESTS IN ASSOCIATES

	2020 **HK$'000**	2019 HK$'000
Cost of investments in associates	**277,375**	277,375
Share of post-acquisition profit and other comprehensive income, net of dividend received	**31,393**	42,153
	308,768	319,528

Notes:

1) **Auspicious Idea Corporate Development Limited ("Auspicious Idea")**

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, 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 ("Global Excel"), a then indirect wholly-owned subsidiary of the Company.

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 ("Sales Shares") 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$71,409,000 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 is an independent third party which is not related to the Group or its related parties as at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. INTERESTS IN ASSOCIATES *(Continued)*

1) Auspicious Idea Corporate Development Limited *(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, 2018 and 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, 2018 and 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 for the years ended 31 December 2017 to, 2018 and 2019 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 Put Option is exercisable by Natural Glory within six months from the day of confirmation of the total consolidated net profits for the years ended 31 December 2017, 2018 and 2019 as shown in the audited consolidated financial reports.

The management of the Group has performed a review of the Audited Profits 1 for the year ended 31 December 2019. The Audited Profits for 2019 is HK$49,254,000, which is higher than the Targeted Profit Requirement 1 by HK$7,158,000. The aggregate of the consolidated net profits of Auspicious Idea for the years ended 31 December 2017, 2018 and 2019 are HK$110,972,000 which are higher than the Targeted Profit Requirement 1 of HK$108,000,000.

As at 31 December 2019, the profit guarantee and put option of the Targeted Profit Requirement 1 was expired and a fair value loss of HK$3,691,000 was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

22. INTERESTS IN ASSOCIATES *(Continued)*

2) Western Aurora Limited ("Western Aurora")

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, 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 of Western Aurora and shall provide all the medical consultation and related healthcare services to patients of the medical centres and charges for consultancy services fee. If the audited consolidated revenue and/or the audited consolidated net profit after taxation of Western Aurora is less than the target revenue and target profit after taxation for each of the relevant year, Western Aurora shall be entitled to deduct the consultancy services fee paid to the Consultant 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 years ended 31 December 2020 and 2019. The audited consolidated revenue and the audited consolidated net profit after taxation are HK$108,126,000 and HK$12,990,000 (2019:HK$114,464,000 and HK$14,527,000) 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 2020 and 2019.

As at 31 December 2020, the directors of the Company took into consideration of the discounted cash flow calculation of Western Aurora and the revenue and profit targets for the years ended 2020 and 2019 were 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 five years ending 31 December 2024 would meet the target requirements and accordingly, the target requirement at fair value through profit or loss amounted to HK$nil.

In the opinion of the directors of the Company, the vendor is an independent third party which is not related to the Group or its related parties as at the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

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
					2020	2019	**2020**	2019	
Auspicious Idea	Incorporated	British Virgin Islands	Hong Kong	Ordinary	**50% (Note)**	50% (Note)	**50%**	50%	Investment holding and its subsidiaries engaged in provision of beauty and cosmetic medical services in Hong Kong and the PRC
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
Luck Key Investment Limited ("Luck Key")	Incorporated	British Virgin Islands	Hong Kong	Ordinary	**33.51%**	33.51%	**20%**	20%	Investment holding and its subsidiaries engaged in provision of medical diagnostic and health care 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.

These associates are strategic for the Group's investment in industry of cosmetic and medical beauty services, medical diagnostic services and ophthalmic medical services.

Note: The Group is entitled to appoint up to two out of four directors to the board of directors of Auspicious Idea and has appointed one out of two directors to the board as at 31 December 2020 (2019: entitled to appoint up to two out of four directors to the board and has appointed one out of two directors to the board). 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 but no control over Auspicious Idea.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

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

	2020 HK$'000	2019 HK$'000
Current assets	**223,138**	201,800
Non-current assets	**99,974**	121,952
Current liabilities	**(216,558)**	(195,010)

	2020 HK$'000	2019 HK$'000
Revenue	**245,400**	328,361
Profit attributable to owners	**2,108**	51,326
(Loss) profit and total comprehensive (expense) income for the year	**(2,188)**	51,310
Dividend distributed by the associate to the Group during the year	**(10,000)**	–

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:

	2020 HK$'000	2019 HK$'000
Net assets of Auspicious Idea	**106,554**	128,742
Non-controlling interests	**6,301**	3,160
Net assets of Auspicious Idea attributable to owners	**112,855**	131,902
Proportion of the Group's ownership interest in Auspicious Idea	**50%**	50%
Net assets of the Group's interest in Auspicious Idea	**56,428**	65,951
Effects of fair value adjustments on intangible assets	**16,110**	19,374
Goodwill	**71,409**	71,409
Carrying amount of the Group's interest in Auspicious Idea	**143,947**	156,734

(b) Western Aurora

	2020 HK$'000	2019 HK$'000
Current assets	**44,511**	43,443
Non-current assets	**8,458**	12,105
Current liabilities	**(12,586)**	(12,507)
Non-current liabilities	**(602)**	(1,250)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

22. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates *(Continued)*

(b) Western Aurora (Continued)

	2020 **HK$'000**	2019 HK$'000
Revenue	**108,126**	114,464
Profit for the year	**12,990**	14,527
Dividend distributed by the associate to the Group during the year	**(7,200)**	(9,600)

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

	2020 **HK$'000**	2019 HK$'000
Net assets of Western Aurora	**39,781**	41,791
Proportion of the Group's ownership interest in Western Aurora	**48%**	48%
Net assets of the Group's interest in Western Aurora	**19,095**	20,060
Effects of fair value adjustments on intangible assets	**15,545**	15,546
Goodwill	**45,168**	45,168
Carrying amount of the Group's interest in Western Aurora	**79,808**	80,774

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

22. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates *(Continued)*

(c) Luck Key

	2020 HK$'000	2019 HK$'000
Current assets	**107,266**	76,785
Non-current assets	**185,251**	127,464
Current liabilities	**(123,096)**	(48,985)

	2020 HK$'000	2019 HK$'000
Revenue	**196,294**	210,155
Profit for the year attributable to owners	**13,936**	12,780
Profit and total comprehensive income for the year	**14,157**	13,148

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

	2020 HK$'000	2019 HK$'000
Net assets of Luck Key	**169,421**	155,264
Non-controlling interests	**(376)**	(155)
Net assets of Luck Key attributable to owners	**169,045**	155,109
Proportion of the Group's ownership interest in Luck Key	**33.51%**	33.51%
Carrying amount of the Group's interest in Luck Key	**56,647**	51,977

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

22. INTERESTS IN ASSOCIATES *(Continued)*

Aggregate information of associates that are not individually material

	2020 **HK$'000**	2019 HK$'000
The Group's share of (loss) profit for the year	**(1,229)**	3,768
The Group's share of other comprehensive income (expense) for the year	**302**	(52)
The Group's share of (loss) profit and other comprehensive (expense) income for the year	**(927)**	3,716
Aggregate carrying amount of the Group's interests in these associates	**28,366**	30,043
Aggregate dividend distributed by the associates to the Group during the year	**(750)**	(6,940)

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:

	2020 **HK$'000**	2019 HK$'000
Unrecognised share of losses of associates for the year	**(2,703)**	(1,847)
Accumulated unrecognised share of losses of associates	**(21,866)**	(19,163)

23. INTERESTS IN JOINT VENTURES

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

	2020 **HK$'000**	2019 HK$'000
Cost of unlisted investments in joint ventures	**63,922**	63,922
Share of post-acquisition loss and other comprehensive expenses, net of dividend received	**(44,873)**	(41,588)
Exchange adjustment	**843**	(329)
	19,892	22,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

23. INTERESTS IN JOINT VENTURES *(Continued)*

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

Name of company	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Attributable proportion of nominal value of issued/registered capital held by the Group		Proportion of voting power held by the Company		Principal activities
					2020	2019	**2020**	2019	
中山市尚峰宜康醫療管理有限公司 (Zhongshan City Shangfeng Yikang Medical Management Co. Ltd.) ("Zhongshan Shangfeng")	Incorporated	PRC	PRC	Ordinary	**50%**	50%	**50%**	50%	Provision for hospital management and related services in PRC
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:

(a) Zhongshan Shangfeng

	2020 HK$'000	2019 HK$'000
Current assets	**14,587**	41,513
Non-current assets	**25,159**	2,256
Current liabilities	**(188)**	(65)

	2020 HK$'000	2019 HK$'000
Revenue	**–**	–
Loss for the year	**(6,490)**	(1,030)
Other comprehensive income (expense) for the year	**2,344**	(672)
Loss and total comprehensive expense for the year	**(4,146)**	(1,702)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

23. INTERESTS IN JOINT VENTURES *(Continued)*

(a) Zhongshan Shangfeng *(Continued)*

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

	2020 **HK$'000**	2019 HK$'000
Net assets of Zhongshan Shangfeng	**39,558**	43,704
Proportion of Group's ownership interest in Zhongshan Shangfeng	**50%**	50%
Carrying amount of Group's interest in Zhongshan Shangfeng	**19,779**	21,852

(b) Sky View

	2020 **HK$'000**	2019 HK$'000
Current assets	**222**	300

	2020 **HK$'000**	2019 HK$'000
Revenue	**–**	–
Loss and total comprehensive expense for the year	**(78)**	(51)

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

	2020 **HK$'000**	2019 HK$'000
Net assets of Sky View	**222**	300
Proportion of Group's ownership interest in Sky View	**51%**	51%
Carrying amount of Group's interest in Sky View	**113**	153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

24. FINCANCIAL ASSETS AT FAIR VALUE THROUGH PROFT OR LOSS

	2020 HK$'000	2019 HK$'000
Financial assets mandatorily at FVTPL:		
Listed equity securities in Hong Kong	**6,774**	6,411

Note:

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 2020, fair value gain on listed securities of HK$363,000 (2019: fair value loss of HK$1,394,000) was recognised in profit or loss.

25. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020 HK$'000	2019 HK$'000
Unlisted investments:		
– Equity securities	**39,609**	59,609

Note:

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 for realising their performance potential in the long run.

Included in the equity instruments at FVTOCI mainly represents by HCMPS Healthcare Holdings Limited ("HCMPS") amounted to HK$33,573,000 (2019:HK$53,010,000). The Group held 17.67% of 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 fair value of this unlisted equity securities is determined using cash flow projection with the assistance of Ascent Partners Valuation Service Limited. During the year ended 31 December 2020, a fair value loss of HK$19,437,000 (2019: fair value loss of HK$24,031,000) of HCMPS was recognised in investment revaluation reserves.

During the year ended 31 December 2020, an investment, Union Crown International Limited, has been liquidated and at a consideration of approximately HK$1,579,000. Total fair value gain of approximately HK$440,000 was accounted in other comprehensive income, the previously recognised change in fair value of HK$836,000 has been transferred to accumulated profits upon the date of disposal.

As at 31 December 2020, fair value loss of HK$18,421,000 (2019: fair value loss of HK$25,581,000) of the above unlisted investment was accounted for in other comprehensive income.

In the opinion of the directors of the Company, the investees are independent third parties, none of which is related to the Group or its related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

26. PROMISSORY NOTES

	Notes	2020 HK$'000	2019 HK$'000
Mr. Dai Hai Dong	(i)	–	–
Profit Castle Holdings Limited	(ii)	**117,763**	325,456
		117,763	325,456

Notes:

(i) As at 31 December 2020 and 2019, a promissory note with a principal amount of HK$203,705,000 is outstanding, which carries interest of 5% per annum and matured in November 2019. The promissory note was issued by the purchaser, Mr. Dai Hai Dong ("Mr. Dai"), 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 and reassessed the recoverable amount of the promissory note and expected credit loss allowance of HK$203,705,000 was recognised in consolidated profit or loss during the year ended 31 December 2017 to fully write down the carrying amount of the promissory note.

In 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 that the status of the hospital and clinics remained unchanged. The directors of the Company considered the recoverability of the promissory note was still remote.

On 12 April 2019, the Group announced Mr. Dai failed to repay the interest accrued from 1 January 2019 and considered that the recoverability of the promissory note was remote. On 6 May 2019, the Group initiated legal proceedings in the Court of First Instance of the High Court of Hong Kong against Mr. Dai in respect of all outstanding sums owing by him under the promissory note by the issuance of a writ of summons endorsed with an indorsement of claim. Further details are set out in Company's announcements dated 4 November 2016, 12 April 2019 and 10 May 2019. On the date of maturity in November 2019, the legal proceedings were still in process. Accordingly, an allowance for ECL recognised in the prior year was not reversed for the years ended 31 December 2020 and 2019 as the management of the Group considered that the recoverability of the promissory note was remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

26. PROMISSORY NOTES *(Continued)*

(ii) A promissory note with an outstanding principal amount of HK$330,000,000, which carries interest of 6% per annum and matured on 9 April 2020 (the "Maturity Date"), was issued by Profit Castle, a company incorporated in the British Virgin Islands with limited liability and owned as to 50% by Dr. Ip Chun Heng, Wilson ("Dr. Ip") and 50% by his spouse, as part of the consideration of the acquisition of the Group's interests in Bonjour Beauty International Limited ("Bonjour Beauty") and its subsidiaries. The promissory note is covered by personal guarantee provided by Dr. Ip and if there is any default, the Group has the right to apply to the court for realising the collateral of the shares of Bonjour Beauty. 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.

Since the Maturity Date, the Group had been in negotiation with Dr. Ip and Profit Castle on the extension of the maturity date of the promissory note and the repayment schedule of the principal amount of the promissory note and interest accrued thereon. However, such negotiation fell through in the absence of any viable repayment proposal from Dr. Ip and Profit Castle that is acceptable to the Group. As at 31 December 2020, the promissory note became 263 days past due, Dr. Ip and Profit Castle failed to pay the principal amount of HK$330,000,000 while Profit Castle paid the interest accrued thereon from 1 January 2020 to 30 September 2020 of HK$14,864,000 and subsequent to the reporting period and up to the date of these consolidated financial statements were authorised for issue, Profit Castle further paid interest of HK$1,000,000. The management of the Group considered that the credit risk of the promissory note has been significantly increased accordingly.

Having considered the facts and circumstances, the Group has instructed its legal advisor to issue a final demand letter to each of Profit Castle and Dr. Ip. The Group is preparing to take legal actions against Profit Castle and/or Dr. Ip in respect of, among other things, their default in repayment of the outstanding principal amount of the promissory note and all outstanding interest accrued thereon. The management of the Group considered various settlement options, which include settling the promissory note by selling or taking over the collateral.

As at 31 December 2020, the Group engaged an independent valuer, Ascent Partners Valuation Service Limited ("Independent Valuer"), to assess the expected credit loss of the promissory note. The Independent Valuer adopted scenario analysis based on the Group's decision to proceed to exercise its claims to the shares of Bonjour Beauty. The enterprise value of Bonjour Beauty is determined by using combination of income and market approach. Based on the valuation of different scenarios of the Group's decision to proceed to exercise its claims to the shares of Bonjour Beauty, the recoverable amount of the promissory note is HK$117,763,000, net of accumulated allowance of expected credit loss of HK$212,237,000 (2019: recoverable amount of the promissory note is HK$325,456,000, net of accumulated allowance of expected credit loss of HK$4,544,000). An allowance of expected credit loss of HK$207,693,000 (2019: HK$4,544,000) was recognised during the year ended 31 December 2020.

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 2020

27. INVENTORIES

	2020 HK$'000	2019 HK$'000
Pharmaceutical supplies	**32,255**	23,554
Healthcare equipment	**1,223**	80
Dental materials and supplies	**1,044**	955
	34,522	24,589

28. TRADE AND OTHER RECEIVABLES

	2020 HK$'000	2019 HK$'000
Trade receivables (Note i)	**230,705**	119,890
Deposits	**39,689**	39,884
Other receivables (Note ii)	**19,562**	52,924
Prepayments (Note iii)	**16,529**	7,026
	306,485	219,724

Notes:

(i) 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 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:

	2020 HK$'000	2019 HK$'000
0 – 60 days	**164,099**	113,244
61 – 120 days	**45,982**	4,806
121 – 180 days	**18,992**	1,336
Over 181 days	**1,632**	504
	230,705	119,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

28. TRADE AND OTHER RECEIVABLES *(Continued)*

These receivables are related 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 2020 and 2019, no trade receivables are past due at the end of the reporting period for which the Group has not provided an allowance for expected credit 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.

(ii) As at 31 December 2020, the Group's other receivables mainly included receivables of interest income from promissory note of HK$1,000,000 and receivables from customers arising from purchase of medical equipment of HK$13,155,000 (2019: receivables of interest income from promissory note of HK$4,936,000, receivables from redemption of Heemin Capital Global Enhanced Yield Bond Fund ("Heemin Bond Funds") of HK$6,948,000 and receivables from customers arising from purchase of medical equipment of HK$22,342,000). During the year ended 31 December 2020, the receivables from redemption of Heemin Bond Funds and receivables from customers arising from purchase of medical equipment were fully settled.

Included in other receivables, HK$13,155,000 (2019: HK$22,342,000) is with an average credit period of 180 days and the remaining are repayable on demand, unsecured and interest-free. As at 31 December 2020, no other receivables has been past due (2019: HK$nil).

(iii) As at 31 December 2020, prepayments mainly included prepayments of purchase of property, plant and equipment of HK$4,480,000 and prepayments to suppliers for medical equipment of HK$3,072,000 (2019: prepayments to suppliers for medical equipment of HK$1,538,000).

29. AMOUNTS DUE FROM ASSOCIATES

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

At 31 December 2020, the balances of amounts due from associates are net of accumulated allowance of HK$4,557,000 (2019: HK$10,557,000) due to the amounts were credit-impaired as at those dates. During the year ended 31 December 2020, allowance of expected credit loss of HK$6,000,000 (2019: HK$nil) has been reversed due to the settlement during the year. The directors of the Company considered the carrying amounts of remaining amounts due from associates approximate their fair values as at 31 December 2020 and 2019.

30. AMOUNTS DUE 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 as at 31 December 2020 and 2019.

31. BANK BALANCES AND CASH AND FIXED BANK DEPOSITS

Bank balances and cash comprise cash held by the Group and bank balances that carry interests at market rate which ranged from 0.001% to 0.75% (2019: 0.001% to 0.75%) per annum and have original maturity of three months or less.

The bank deposits carry fixed interest rates ranged from 0.7% to 3.2% per annum and have original maturity of over three months, of which HK$71,258,000 will be matured in three years and included in non-current assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

32. TRADE AND OTHER PAYABLES

	2020 HK$'000	2019 HK$'000
Trade payables (Note i)	**103,601**	36,061
Other payables (Note ii)	**19,223**	44,127
Deposits received	**4,674**	5,821
Accruals (Note iii)	**79,367**	79,981
	206,865	165,990

Notes:

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

	2020 HK$'000	2019 HK$'000
0 – 60 days	**65,509**	28,420
61 – 120 days	**24,149**	6,588
Over 121 days	**13,943**	1,053
	103,601	36,061

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

(ii) Included in the Group's other payables as at 31 December 2020 were amounts due to suppliers for acting as an agent for payment of medical equipment of HK$5,584,000 (2019: HK$31,593,000) to suppliers with an average credit period of 60 to 120 days.

(iii) Included in the balance of accruals are the provision of consultancy services payable to affiliated doctors and specialists of HK$33,252,000 (2019: HK$35,445,000) and accrued staff costs of HK$10,472,000 (2019: HK$18,833,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

33. CONTRACT LIABILITIES

	2020 HK$'000	2019 HK$'000
Receipts in advance of medical services	**2,557**	3,570

All contract liabilities are expected to be recognised as income within one year.

Movements in contract liabilities are as follows:

	2020 HK$'000	2019 HK$'000
At 1 January	**3,570**	11,885
Revenue recognised during the year	**(5,291)**	(7,928)
Receipts in advance during the year	**4,278**	4,975
Disposal of subsidiaries during the year (Note 41)	**–**	(5,362)
At 31 December	**2,557**	3,570

34. AMOUNT DUE TO AN INVESTEE

At 31 December 2020 and 2019, the amount due to an investee was non-trade nature, unsecured, interest-free and repayable in demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

35. BANK BORROWING

	2020 HK$'000	2019 HK$'000
Secured:		
Mortgage loan	**16,623**	17,730

The bank borrowing is repayable as follows:

	2020 HK$'000	2019 HK$'000
On demand and within one year	**1,126**	1,062
In more than one year but not more than two years	**1,151**	1,108
In more than two years but not more than three years	**1,198**	1,155
In more than three years but not more than four years	**1,247**	1,203
In more than four years but not more than five years	**1,300**	1,251
Over five years	**10,601**	11,951
	16,623	17,730
Less: Amounts due within one year shown under current liabilities	**(1,126)**	(1,062)
Carrying amount of bank borrowing that is not repayable within one year from the end of reporting period but contain a repayment on demand clause (shown under current liabilities)	**(15,497)**	(16,668)
	–	–

As at 31 December 2020, the bank borrowing of the Group carried variable interest rates at Hong Kong Interbank Offered Rate ("HIBOR")+2.25% per annum (2019: variable interest rate at HIBOR+2.25% per annum).

The Group's mortgage loan is secured by the Group's leasehold land and building with carrying value of HK$42,925,000 (2019: HK$46,047,000) 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 2020

36. LEASE LIABILITIES

	2020 HK$'000	2019 HK$'000
Lease liabilities payable:		
Within one year	**68,551**	67,027
Within a period of more than one year but not more than two years	**40,330**	41,879
Within a period of more than two years but not more than five years	**14,379**	20,893
	123,260	129,799
Less: Amounts for settlement with 12 months shown under current liabilities	**(68,551)**	(67,027)
Amount due for settlement after 12 months shown under non-current liabilities	**54,709**	62,772

The weighted average incremental borrowing rates applied to lease liabilities range from 2.39% to 4.75% (2019: 3.31% to 4.75%).

The maturity analysis of lease liabilities is disclosed in note 45(b) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 HK$'000	Fair value adjustments on business combinations HK$'000	Total HK$'000
At 1 January 2019	585	43,833	44,418
Credit to profit or loss	(585)	(1,991)	(2,576)
Exchange realignment	–	(647)	(647)
At 31 December 2019	–	41,195	41,195
Credit to profit or loss	–	(1,984)	(1,984)
Exchange realignment	–	2,205	2,205
At 31 December 2020	**–**	**41,416**	**41,416**

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 2020, the Group has unused tax losses of HK$702,785,000 (2019: HK$580,150,000) 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.

Under the prevailing PRC income tax law and its relevant regulations, foreign corporate investors are levied PRC dividend withholding tax at 10%, unless reduced by tax treaties/arrangements, on dividends declared by PRC-resident enterprises for profits earned subsequent to 1 January 2008.

As at 31 December 2020, no deferred tax liabilities have been provided for in the consolidated financial statements in respect of the temporary differences attributable to the undistributed accumulated profits irrespective of HK$86,165,000 (2019: HK$77,617,000) 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.

38. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2019, 31 December 2019 and 2020	30,000,000,000	300,000
Issued and fully paid:		
At 1 January 2019, 31 December 2019 and 2020	7,526,134,452	75,261

39. 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 subject 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.

During the year ended 31 December 2020, the total cost charged to the consolidated statement of comprehensive income approximately of HK$8,299,000 (2019: HK$8,969,000) represents contributions payable to the above schemes by the Group during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of subsidiaries

For the year ended 31 December 2020

On 6 May 2020, Nanyang Xiangrui, a 60.2% owned subsidiary of the Company, entered into sale and purchase agreements with 河南豫康祥商貿有限公司 (Henan Yukangxiang Commercial Limited) to purchase 80% equity interests in 雲南豫港祥醫藥有限公司 (Yunnan Yugangxiang Medical Limited) ("Yugangxiang") at consideration of HK$3,154,000 (equivalent to RMB2,874,000). Yugangxiang is engaged in trading of medicines in the PRC. The transaction was completed on 13 May 2020.

The fair value of the identifiable assets and liabilities of Yugangxiang at the date of acquisition is as follows:

	13 May 2020 HK$'000
Property, plant and equipment	1,758
Inventories	2
Trade and other receivables	425
Tax recoverable	1
Bank balances and cash	204
	2,390
Cash consideration	3,154
Less: 80% net assets value	(1,912)
Goodwill	1,242
Net cash outflow arising on acquisition:	
Cash consideration paid	3,154
Less: bank balances and cash acquired	(204)
	2,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

40. ACQUISITION OF SUBSIDIARIES

(b) Acquisition of additional interests in subsidiaries

For the year ended 31 December 2020

(a) On 30 December 2020, Town Health Healthcare Services Limited, a subsidiary of the Company entered into sale and purchase agreement with Dr. Kwok Siu Kong to purchase additional 30% equity interests in Sure Choice Limited ("Sure Choice") at a consideration of HK$39,000. Sure Choice became a 100% owned subsidiary of the Group. The carrying amount of net liabilities attributable to the 30% equity interests in Sure Choice on the date of acquisition was HK$79,000. The Group recognised an increase in non-controlling interest of HK$79,000 in total and decrease in equity attributable to owners of the Company of approximately HK$118,000 upon acquisition.

(b) On 28 December 2020, Nanyang Xiangrui, a 60.2% owned subsidiary of the Company entered into sale and purchase agreement with 北京中視視覺健康管理有限公司 (Beijing Zhongshi Visual Health Management Co. Ltd.) to purchase additional 10% equity interests in 南陽瑞視眼科醫院有限公司 (Nanyang Ruishi Opthalmology Hospital Co. Ltd.) ("Ruishi Opthalmology") at a consideration of HK$1,582,000 (equivalent to RMB1,331,000). Ruishi Opthalmology became a 36.72% indirectly owned subsidiary to the Group. The carrying amount of net assets attributable to the 6.02% equity interest in Ruishi Opthalmology on the date of acquisition was HK$1,424,000. The Group recognised a decrease in non-controlling interest of HK$1,424,000 in total and decrease in equity attributable to owners of the Company of approximately HK$158,000 upon acquisition.

For the year ended 31 December 2019

(a) On 25 January 2019, Town Health Traumatology and Orthopaedics Institute Limited, a subsidiary of the Company entered into sale and purchase agreement with Dr. Leung Hin Shuen to purchase additional 10% equity interests in Nice Rich Holdings Limited ("Nice Rich") at a consideration of HK$1 and purchase additional 10% equity interests in Nice Rich from Dr. Assad Hussain at a consideration of HK$1. Nice Rich became an 80% owned subsidiary to the Group. The carrying amount of net assets attributable to the 20% equity interests in Nice Rich on the date of acquisition was HK$2,534,000. The Group recognised a decrease in non-controlling interest of HK$2,534,000 in total and increase in equity attributable to owners of the Company of approximately HK$2,534,000 upon acquisition.

(b) On 11 January 2019, Simple Rich Holdings Limited, a wholly-owned subsidiary of the Company entered into sale and purchase agreement with Rolaner International Limited to purchase additional 49% equity interests in Magic Step International Limited ("Magic Step") at consideration of HK$49. Upon acquisition, Magic Step became a wholly-owned subsidiary to the Group. The carrying amount of net liabilities attributable to 49% equity interests in Magic Step at the date of acquisition was HK$63,000. The Group recognised an increase in non-controlling interest of HK$63,000 and decrease in equity attributable to owners of the Company of approximately HK$63,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

41. DISPOSAL OF SUBSIDIARIES

(a) Disposal of subsidiaries with loss of control

For the year ended 31 December 2020

On 5 June 2020, the Group entered into a sale and purchase agreement with Regency Gain International Limited, to dispose of its 79% interests in TH Shanghai Medical Management Group Limited ("TH Shanghai") with its subsidiaries and to assign the amounts owed by TH Shanghai to the Group for an aggregate cash consideration of approximately HK$218,000 (equivalent to RMB200,000).

The aggregate amounts of the assets and liabilities attributable to TH Shanghai and its subsidiaries being disposed of as at the date of disposal on 5 June 2020 were approximately HK$925,000. Including the bank balances of approximately HK$989,000, resulting a net cash outflow of HK$771,000. Accordingly, the Group recognised a decrease in non-controlling interest of approximately HK$337,000 and a loss on disposal of HK$370,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

41. DISPOSAL OF SUBSIDIARIES *(Continued)*

(a) Disposal of subsidiaries with loss of control *(Continued)*

For the year ended 31 December 2019

On 28 June 2019, the Group entered into a sale and purchase agreement with an associate, Auspicious Idea, to dispose of its 75% interests in Premium Rich International Limited ("Premium Rich") and to assign the amounts owed by Premium Rich to the Group for an aggregate cash consideration of HK$2,000,000.

The aggregate amounts of the assets and liabilities attributable to Premium Rich and its subsidiaries being disposed of as at the date of disposal on 28 June 2019 were as follows:

	28 June 2019 HK$'000
Property, plant and equipment	10,154
Right-of-use assets	6,963
Inventories	1,460
Trade and other receivables	4,909
Amounts due from related parties	197
Bank balances and cash	899
Amounts due to shareholders	(20,223)
Trade and other payables	(2,589)
Contract liabilities	(5,362)
Lease liabilities	(7,897)
Net liabilities disposed of	(11,489)
Consideration received or receivable	2,000
Net liabilities disposed of	11,489
Non-controlling interests	(2,872)
Amounts due to shareholders assigned to purchaser by the Group	(20,223)
Loss on disposal	(9,606)
Net cash inflow arising on disposal:	
Cash consideration	2,000
Bank balances and cash disposal of	(899)
	1,101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

41. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

For the year ended 31 December 2019

On 1 January 2019, the Group disposed of 7.65% interests in Hong Kong T&O to two independent third parties at a consideration of HK$4,800,000. The carrying amount of the net assets attributable to 7.65% equity interest of Hong Kong T&O on the respective dates of disposal were approximately HK$2,979,000. Accordingly, the Group recognised an increase in non-controlling interest of approximately HK$2,979,000 and a decrease in equity attributable to owners of the Company of HK$1,821,000.

42. OPERATING LEASES

The Group as lessor

During the year ended 31 December 2020, the Group had property rental income of approximately HK$16,075,000 (2019: HK$20,031,000).

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:

	2020 **HK$'000**	2019 HK$'000
Within one year	**15,582**	13,655
In the second to fifth year inclusive	**7,115**	4,538
	22,697	18,193

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

43. PLEDGE OF ASSETS

As at 31 December 2020, property, plant and equipment of the Group with carrying value of approximately HK$42,925,000 (2019: HK$46,047,000) were pledged to secure general banking facilities granted to the Group.

44. 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.

45. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2020 **HK$'000**	2019 HK$'000
Financial assets		
Financial assets at FVTPL	**6,774**	6,411
Equity instruments at FVTOCI	**39,609**	59,609
Financial assets at amortised cost (including cash and cash equivalents)	**2,190,168**	2,385,643
Financial liabilities		
Amortised cost	**309,394**	276,809

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

(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 foreign currency risk, 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.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Other than Hong Kong, the Group's operations are mainly in the PRC and certain bank balances, receivables, payables and other loans of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors the related foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of monetary assets and monetary liabilities that are denominated in a currency other than functional currencies of entities at the end of the respective reporting periods are as follows:

	Assets		Liabilities	
	2020	2019	**2020**	2019
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi ("RMB")	**645,590**	530,491	**96,791**	53,646
United Stated Dollars	**2,718**	12,862	**–**	–

The Group is mainly exposed to the currency risk of RMB against HK$.

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Foreign currency risk (Continued)

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes interest-bearing and interest-free borrowings as well as bank balances and cash. A positive (negative) number indicates an increase (a decrease) in post-tax loss where the RMB strengthens against the relevant currency. If there is 5% increase in RMB against the relevant foreign currencies, the decrease in the post-tax loss is shown as below:

	2020	2019
	HK$'000	HK$'000
If HK$ weakens against RMB	**22,912**	19,908
If HK$ strengthens against RMB	**(22,912)**	(19,908)

In the opinion of the directors, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Market risk

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risks.

(i) Interest rate risk management

The Group's fair value interest rate risk relates primarily to the promissory notes, loans receivable and lease liabilities which carry interests 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 borrowing. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

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

Interest rates sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowing 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 (2019: 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.

Cash flow interest rate risk

If interest rates had been 50 basis points (2019: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2020 would decrease/increase by HK$69,000 (2019: decrease/increase by HK$74,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowing.

(ii) Other price risk management

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks on equity instruments at the end of reporting period.

If the prices of the respective equity instruments had been 10% (2019: 10%) higher/lower:

- post-tax loss for the year ended 31 December 2020 would increase/decrease by HK$566,000 (2019: HK$535,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

- investment revaluation reserve for the year ended 31 December 2020 would increase/decrease by HK$3,307,000 (2019: HK$4,977,000) for the Group as a result of the changes in fair value of unlisted equity securities under equity instrument at fair value through other comprehensive income.

The percentage applied in the sensitivity analysis is 10% in both years ended 31 December 2020 and 2019 of which management considers that is reasonable in current financial market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

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

Credit risk and impairment assessment

As at 31 December 2020 and 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and loans receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Internal credit rating	Description	Trade receivables	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 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(ii) Other price risk management *(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:

2020	Notes	External credit rating	Internal credit rating	12-month/ Lifetime ECL	Gross carrying amount HK$'000	Not credit-impaired HK$'000	Credit-impaired HK$'000	Net carrying amount HK$'000
Trade receivables	28	N/A	Low risk (note 4)	Lifetime ECL	230,705	–	–	230,705
Other receivables	28	N/A	Low risk (note 2)	12-month ECL	19,562	–	–	19,562
Loans receivable	19	N/A	Low risk (note 3)	12-month ECL	4,147	–	–	4,147
Promissory notes	26(i)	N/A	Write-off (note 2)	Lifetime ECL	203,705	–	(203,705)	–
	26(ii)	N/A	Loss (note 2)	Lifetime ECL	330,000	–	(212,237)	117,763
					533,705	–	(415,942)	117,763
Amounts due from associates	29	N/A	Loss (note 2)	Lifetime ECL	4,557	–	(4,557)	–
	29	N/A	Low risk (note 2)	12-month ECL	1,421	–	–	1,421
					5,978	–	(4,557)	1,421
Fixed bank deposits	31	AA+	N/A (note 5)	N/A	817,090	–	–	817,090
Bank balances	31	AA+	N/A (note 5)	N/A	1,069,606	-	-	1,069,606

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

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

Credit risk and impairment assessment *(Continued)*

2019	Notes	External credit rating	Internal credit rating	12-month/ Lifetime ECL	Gross carrying amount HK$'000	Not credit-impaired HK$'000	Credit-impaired HK$'000	Net carrying amount HK$'000
Trade receivables	28	N/A	Low risk (note 4)	Lifetime ECL	119,890	–	–	119,890
Other receivables	28	N/A	Low Risk (note 2)	12-month ECL	52,924	–	–	52,924
Loans receivable	19	N/A	Low risk (note 3)	12-month ECL	45,353	–	–	45,353
Promissory notes	26(i)	N/A	Write-off (note 2)	Lifetime ECL	203,705	–	(203,705)	–
	26(ii)	N/A	Low risk (note 2)	Lifetime ECL	330,000	(4,544)	-	325,456
					533,705	(4,544)	(203,705)	325,456
Amounts due from associates	29	N/A	Loss (note 2)	Lifetime ECL	10,557	–	(10,557)	–
	29	N/A	Low risk (note 2)	Lifetime ECL	1,164	–	–	1,164
					11,721	–	(10,557)	1,164
Bank balances	31	AA+	N/A (note 5)	N/A	1,838,253	–	–	1,838,253

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

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

Credit risk and impairment assessment *(Continued)*

2. For those financial assets which are past due, management assessed they are credit-impaired as follows:

    a) promissory note of gross amount of HK$203,705,000 (2019: HK$203,705,000) issued by Mr. Dai Hai Dong, which internal credit rating set as write-off (2019: write-off); ii) promissory note issued by Profit Castle of gross amount of HK$330,000,000 (2019: HK$330,000,000) which internal credit rating set as loss (2019: low as there is no default and does not have any past due amounts), details of the promissory notes are disclosed in note 26 to the consolidated financial statements.

    b) amounts due from associates of gross amount of HK$4,557,000 (2019: HK$10,557,000).

    For the financial assets including other receivables and remaining portion of amount due from associates which are either not yet past due or no fixed-term of repayment, management assessed they are not credit-impaired and internal credit rating set as low risk.

3. The Group assessed the loss allowances for loans receivable with gross amount of HK$4,147,000 (2019: HK$45,353,000) on 12m ECL basis. The expected loss of loans receivable is assessed individually, taking into account the repayment histories, collaterals provided to the Group and internal credit rating of the debtors as well as forward-looking information, as appropriate.

4. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses by past due status. No allowance of expected loss has been recognised for the years ended 31 December 2020 and 2019.

5. Management considers the Group has limited credit risk with its banks which are leading and reputable banks and are assessed as having low credit risk. Majority of bank balances are deposited with reputable banks in Hong Kong. The Group has not incurred significant loss from non-performance by these parties in the past and management does not expect so in the future.

As at 31 December 2020, the Group also has concentration of credit risk on aggregate promissory notes due from one company amounted to HK$117,763,000 (2019: HK$325,456,000). As at 31 December 2020, no aggregate loans receivable due from one company (2019: HK$40,270,000). An internal credit assessment process assesses the potential borrower's credit quality and defines credit limits by borrower, and considered the credit risk is low. There is no other significant concentration risk during the year.

The Group's concentration of credit risk related to trade receivables by geographical locations is mainly in the PRC as at 31 December 2020 and in Hong Kong as at 31 December 2019 respectively.

The Group has concentration of credit risk by customer as 73% (2019: 52%) and 50% (2019: 21%) of the total trade receivables were due from the Group's five largest customers and the largest customer respectively. The Group's five largest customers are medical service companies with good reputation.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

45. 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 borrowing 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 borrowing 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 HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2020 HK$'000
31 December 2020							
Non-derivative financial liabilities							
Trade and other payables	–	–	127,498	–	–	127,498	127,498
Amounts due to non-controlling interests	–	41,715	–	–	–	41,715	41,715
Amount due to an investee	–	298	–	–	–	298	298
Variable rate bank borrowing	4.10%	16,623	–	–	–	16,623	16,623
Lease liabilities	2.44%	–	20,393	51,805	56,107	128,305	123,260
		58,636	147,891	51,805	56,107	314,439	309,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity and interest risk tables (Continued)

	Weighted average effective interest rate	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2019 HK$'000
31 December 2019							
Non-derivative financial liabilities							
Trade and other payables	–	–	86,009	–	–	86,009	86,009
Amounts due to non-controlling interests	–	42,971	–	–	–	42,971	42,971
Amount due to an investee	–	300	–	–	–	300	300
Variable rate bank borrowing	4.11%	17,730	–	–	–	17,730	17,730
Lease liabilities	3.45%	–	19,106	51,412	64,824	135,342	129,799
		61,001	105,115	51,412	64,824	282,352	276,809

The table below summarises the maturity analysis of the bank borrowing which contained a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis contained in the above table. 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 borrowing will be repaid within 3 months to 12 years (2019: within 3 months to 13 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$20,998,000 (2019: HK$22,864,000). Details of which are set out in the table below:

Maturity Analysis – Bank borrowing with a repayment on demand clause based on scheduled repayments

	Less than 1 year HK$'000	1-2 years HK$'000	2-5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
31 December 2020	**1,762**	**1,762**	**5,286**	**12,188**	**20,998**	**16,623**
31 December 2019	1,770	1,770	5,310	14,014	22,864	17,730

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

45. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurement 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Fair value hierarchy as at 31 December 2020

	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets at FVTPL				
– Listed equity securities in Hong Kong	**6,774**	**–**	**–**	**6,774**
Equity instruments at FVTOCI				
– Unlisted equity securities	**–**	**–**	**39,609**	**39,609**
	6,774	**–**	**39,609**	**46,383**

Fair value hierarchy as at 31 December 2019

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
– Listed equity securities in Hong Kong	6,411	–	–	6,411
Equity instruments at FVTOCI				
– Unlisted equity securities	–	–	59,609	59,609
	6,411	–	59,609	66,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Financial assets	Fair value as at 31 December 2020 HK$'000	Fair value as at 31 December 2019 HK$'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	**6,774**	6,411	Level 1	Quoted bid prices in an active market	n/a	n/a	n/a
2 Equity instruments at FVTOCI	**39,609**	59,609	Level 3	Discounted cash flow method	Yearly growth rates of revenue	Ranging from 2.07% to 21.01% (2019: 5% to 10.9%)	The increase in yearly growth rates of revenue would increase in fair value
					Terminal growth rate	2.07% (2019: 2.54%)	The increase in terminal growth rate would increase in fair value
					Pre-tax operating profit margin	13.05% (2019: 12.98%)	The increase in yearly pre-tax operating profit margin would increase in fair value
					Weighted average cost of capital	12.83% (2019: 12.58%)	The increase in weighted average cost of capital would decrease in fair value
					Company specific risk premium	2.50% (2019: 2.50%)	The increase in company specific risk premium would decrease in fair value
					Discount rate for lack of control and marketability	Ranging from 10.15% to 15.80% (2019: 10.15% to 15.80%)	The increase in discount rate would decrease in fair value

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

45. FINANCIAL INSTRUMENTS *(Continued)*

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

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets at FVTPL HK$'000	Equity instruments at FVTOCI HK$'000
At 1 January 2019	3,691	85,190
Fair value changes	(3,691)	(25,581)
At 31 December 2019 and 1 January 2020	–	59,609
Fair value changes	–	(18,421)
Disposal	–	(1,579)
At 31 December 2020	**–**	**39,609**

The fair value loss on financial assets at FVTPL for the year under review of approximately HK$nil related to the contingent consideration that are measured at fair value at the end of each reporting period (2019: HK$3,691,000) and are included in "other gains and losses".

The fair value loss of approximately HK$18,421,000 (2019: fair value loss of approximately HK$25,581,000) 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 reserve". As a result of the changes in the current economic environment related to the COVID-19 pandemic, the investment of the financial assets is experiencing negative conditions of decreased revenues, that indicate that the relevant fair value change in financial assets at fair value through other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

46. 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.

	Amounts due to non-controlling interests (note 30) HK$'000	Lease liabilities (note 36) HK$'000	Bank borrowing (note 35) HK$'000	Total liabilities from financing activities HK$'000
At 1 January 2019 (restated)	47,685	166,002	18,756	232,443
Changes from financing cash flows:				
Repayment to non-controlling interests	(4,714)	–	–	(4,714)
Repayment of liabilities	–	(78,882)	(1,026)	(79,908)
Interest paid	–	(5,368)	(749)	(6,117)
Total changes from financing cash flow	(4,714)	(84,250)	(1,775)	(90,739)
Non-cash changes				
Recognition of lease liabilities during the year	–	48,047	–	48,047
Interest expenses	–	–	749	749
At 31 December 2019 and 1 January 2020	42,971	129,799	17,730	190,500
Changes from financing cash flows:				
Repayment to non-controlling interests	(1,256)	–	–	(1,256)
Repayment of liabilities	–	(75,645)	(1,107)	(76,752)
Interest paid	–	(4,707)	(572)	(5,279)
Total changes from financing cash flow	(1,256)	(80,352)	(1,679)	(83,287)
Non-cash changes				
Recognition of lease liabilities during the year	–	73,813	–	73,813
Interest expenses	–	–	572	572
At 31 December 2020	41,715	123,260	16,623	181,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

47. RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group entered into the following transactions with related parties:

Name of related party	Nature of transactions	2020 HK$'000	2019 HK$'000
Advance Bond Limited*	Rental income	**886**	936
China Life Insurance (Overseas) Company Limited**	Medical services income	**528**	1,076
	Insurance expenses	**(659)**	(554)
China Life Insurance Company Limited and China Life Property & Casualty Insurance Company Limited**	Medical services income	**2,390**	861
	Property income	**51**	–
China Life Insurance Company Limited, Shandong Branch***	Repayment of lease liabilities	**(2,886)**	(2,263)
Hong Kong Bariatric and Metabolic Institute Limited*	Management services fee income	**272**	305
	Management services fee expense	**(43)**	(354)
	Repayment of lease liabilities	**(308)**	(319)
Hong Kong Health Check and Medical Diagnostic Centre Limited*	Rental income	**3,626**	3,921
	Cost of sales	**11**	–
My Beauty Company Limited*	Rental income	**1,760**	1,601
	Laboratory fee income	**8**	–
Prestige Medical Centre (HK) Ltd.	Medical services income	**28**	–
	Purchase of pharmaceutical supplies	**(25)**	–
Fecund Medical Centre	Laboratory fee income	**2**	–
Paragon Medical Centre	Laboratory fee income	**1**	–

Notes:

* The related parties are the associates of the Company during the years ended 31 December 2020 and 2019.

** The related parties are the subsidiaries of the China Life Insurance (Group) Company ("China Life Insurance"), one of the beneficial owners of the Company.

*** China Life Insurance Company Limited, Shandong Branch is a branch office of China Life Insurance Company Limited and China Life Insurance is a controlling shareholder of China Life Insurance Company Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

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.

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 29, 30 and 34.

Compensation of key management personnel

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

	2020	2019
	HK$'000	HK$'000
Short-term benefits	**504**	12,839
Post-employment benefits	**–**	74
	504	12,913

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 2020

48. EVENT AFTER REPORTING PERIOD

The Company has been informed that the SFC has considered the IC Report and other documents and information submitted by the Company, and the SFC has, by notice to the Stock Exchange and pursuant to Section 9(3) of the SMLR, permitted the dealings in the Shares to recommence subject to the Resumption Conditions.

As disclosed in note 1, the Company fulfilled the first Resumption Condition by publishing the announcement dated 26 February 2021.

As such, trading in the shares of the Company on the Stock Exchange resumed with effect from 9:00 a.m. on 1 March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 **HK$'000**	2019 HK$'000
NON-CURRENT ASSETS		
Unlisted investment in a subsidiary	**28,530**	28,530
Amounts due from subsidiaries	**3,898,736**	3,738,948
	3,927,266	3,767,478
CURRENT ASSETS		
Amount due from an associate	**500**	500
Other receivables	**806**	802
Bank balances and cash	**152,452**	308,392
	153,758	309,694
CURRENT LIABILITY		
Other payables	**493**	480
NET CURRENT ASSETS	**153,265**	309,214
	4,080,531	4,076,692
CAPITAL AND RESERVES		
Share capital – ordinary shares	**75,261**	75,261
Reserves (Note)	**4,005,270**	4,001,431
Total equity	**4,080,531**	4,076,692

The Company's statement of financial position was approved and authorised for issue by the board of directors of the Company on 26 March 2021 and are signed on its behalf by:

Mr. Zhao Hui
DIRECTOR

Mr. Jin Zhaogen
DIRECTOR

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

49. 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 2019	3,341,639	9,020	28,180	62,677	545,205	3,986,721
Profit and total comprehensive income for the year	–	–	–	–	33,525	33,525
Dividend paid	–	–	–	–	(18,815)	(18,815)
At 31 December 2019	3,341,639	9,020	28,180	62,677	559,915	4,001,431
Profit and total comprehensive income for the year	–	–	–	–	3,839	3,839
At 31 December 2020	3,341,639	9,020	28,180	62,677	563,754	4,005,270

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 2020

50. PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2020 and 2019 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 2020		31 December 2019		31 December 2020		31 December 2019		
					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	–	80%	–	80%	–	67%	–	67%	Provision of medical healthcare services
Bright Wisdom International Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	–	100%	–	100%	–	100%	–	100%	Provision of laboratory 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	–	43.4%	–	43.4%	–	67%	–	67%	Provision of medical healthcare services
Nanyang Xiangrui	PRC/sino foreign equity joint venture	PRC	–	RMB84,835,000	–	60.2%	–	60.2%	–	60%	–	60%	Provision of hospital management services
PHC Medical Group Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$2	–	100%	–	100%	–	100%	–	100%	Provision of medical healthcare services
Modern Ascent Limited	Hong Kong/limited liability company	Hong Kong	Ordinary	HK$1	–	35%	–	35%	–	67%	–	67%	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%	Provision of business and corporate advisory services
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 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
河南祥邦物業服務有限公司	PRC/sino foreign equity joint venture	PRC	–	RMB5,000,000	–	60.2%	–	60.2%	–	60%	–	60%	Provision of consultation services
南陽健科醫療科技有限公司	PRC/sino foreign equity joint venture	PRC	–	RMB15,000,000	–	60.2%	–	60.2%	–	60%	–	60%	Trading of medical equipment
Ruishi Opthalmology	PRC/sino foreign equity joint venture	PRC	–	RMB20,000,000	–	36.7%	–	30.7%	–	40%	–	40%	Provision of eyecare services
Yugangxiang	PRC/sino foreign equity joint venture	PRC	–	RMB4,000,000	–	48.2%	–	–	–	48%	–	–	Provision of trading of medicines

Note: The subsidiary acts as investment holding company and has no specific principal place of operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2020

50. PRINCIPAL SUBSIDIARIES *(Continued)*

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.

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	
		2020	2019
Hong Kong medical services	Hong Kong	**48**	59
Hong Kong managed care business	Hong Kong	**9**	9
Mainland hospital management and medical services	PRC	**28**	29
Others	Hong Kong	**95**	94

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	
		31.12.2020	31.12.2019	**31.12.2020**	31.12.2019	**31.12.2020 HK$'000**	31.12.2019 HK$'000	**31.12.2020 HK$'000**	31.12.2019 HK$'000
Nanyang Xiangrui	PRC	**40%**	40%	**39.8%**	39.8%	**16,517**	11,986	**245,391**	215,570
Individually immaterial subsidiaries with non-controlling interests						**6,071**	6,947	**70,260**	71,894
						22,588	18,933	**315,651**	287,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

50. PRINCIPAL SUBSIDIARIES *(Continued)*

Details of non-wholly owned subsidiary that have material non-controlling interests *(Continued)*

Nanyang Xiangrui	2020 HK$'000	2019 HK$'000
Current assets	**425,874**	386,945
Non-current assets	**163,366**	88,766
Current liabilities	**(97,247)**	(54,891)
Non-current liabilities	**–**	–
Equity attributable to owners of the Company	**296,182**	253,335
Non-controlling interests	**195,811**	167,485
Income	**254,448**	113,719
Expenses	**(210,555)**	(76,711)
Profit for the year	**43,893**	37,008
Profit attributable to owners of the Company	**26,424**	22,279
Profit attributable to the non-controlling interests	**17,469**	14,729
Profit for the year	**43,893**	37,008
Other comprehensive income attributable to owners of the Company	**16,656**	4,309
Other comprehensive income attributable to the non-controlling interests	**11,012**	2,849
Other comprehensive income for the year	**27,668**	7,158
Total comprehensive income attributable to owners of the Company	**43,080**	26,588
Total comprehensive income attributable to the non-controlling interests	**28,481**	17,578
Total comprehensive income for the year	**71,561**	44,166
Net cash inflow from operating activities	**1,312**	47,628
Net cash outflow used in investing activities	**(68,154)**	(19,734)
Effect of foreign exchange rate changes	**25,164**	(5,641)
Net cash (outflow) inflow	**(41,678)**	22,253

MAJOR PROPERTIES INFORMATION

The Group's property portfolio summary – major properties held for investment.

	Location	Existing use	Tenure	Group's interest (%) 2020	2019
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.	14/F, Kaiseng Commercial Centre, Nos. 4-6 Hankow Road, Kowloon	Office	Medium term lease	**100%**	100%
3.	13/F, Kaiseng Commercial Centre, Nos. 4-6 Hankow Road, Kowloon	Office	Medium term lease	**100%**	100%
4.	12/F, Kaiseng Commercial Centre, Nos. 4-6 Hankow Road, Kowloon	Office	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

	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,069,045**	1,128,932	1,121,736	1,108,724	1,011,549
(Loss) profit for the year from continuing operations	**(258,450)**	10,519	85,509	(97,360)	93,342
Profit (loss) for the year from discontinued operation	**–**	–	–	21,681	(15,203)
(Loss) profit for the year	**(258,450)**	10,519	85,509	(75,679)	78,139
Attributable to:					
Owners of the Company					
– from continuing operations	**(281,038)**	(8,414)	64,014	(129,426)	78,700
– from discontinued operation	**–**	–	–	21,681	(15,203)
Non-controlling interests	**22,588**	18,933	21,495	32,066	14,642
	(258,450)	10,519	85,509	(75,679)	78,139

ASSETS AND LIABILITIES

	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
					(Restated)
Total assets	**4,582,639**	4,738,571	4,633,068	4,675,437	5,209,587
Total liabilities	**(456,507)**	(435,560)	(288,970)	(360,957)	(598,933)
	4,126,132	4,303,011	4,344,098	4,314,480	4,610,654
Assets attributable to:					
Owners of the Company	**3,810,481**	4,015,547	4,071,271	4,037,403	4,378,726
Non-controlling interests	**315,651**	287,464	272,827	277,077	231,928
	4,126,132	4,303,011	4,344,098	4,314,480	4,610,654

GLOSSARY

AGM	annual general meeting of the Company
Audit Committee	audit committee of the Board
BB Promissory Note	the promissory note with a principal amount of HK$330,000,000 issued by Profit Castle as part of the consideration for the acquisition of the Group's interests in Bonjour Beauty International Limited and its subsidiaries
Board	the board of Directors
Broad Idea	Broad Idea International Limited
Bye-laws	bye-laws of the Company
CEO or Chief Executive Officer	the chief executive officer of the Company
CG Code	Corporate Governance Code as contained in Appendix 14 to the Listing Rules
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 Life Group	CLIG and its subsidiaries
Classictime	Classictime Investments Limited
CLG Subscription	the subscription for 1,785,098,644 Shares by CLIG pursuant to an investment agreement dated 5 January 2015 entered into between the Company and CLIG
CLIC	China Life Insurance Company Limited, a joint stock company established in the PRC with limited liability whose shares are listed on the Main Board (Stock Code: 2628), New York Stock Exchange (stock code: LFC) and Shanghai Stock Exchange (stock code: 601628) respectively
CLIG	中國人壽保險(集團)公司 (in English for identification purpose only, China Life Insurance (Group) Company)
CLIO	China Life Insurance (Overseas) Company Limited, a company established in the PRC with limited liability and is a wholly-owned subsidiary of CLIG
CLIO and its Branches	CLIO and all subsidiaries, branches and sub-branches of CLIO in Hong Kong

GLOSSARY

CLIO Framework Agreement	the framework agreement dated 19 February 2021 and entered into between the Company and CLIO in respect of (1) the provision of the Medical Related Services by the Group to CLIO and its Branches or their respective staff and clients and (2) the procurement of the CLIO Products by the Group from CLIO and its Branches
CLIO Products	insurance products, including but not limited to staff medical insurance, to be sold by CLIO and its Branches to the Group pursuant to the CLIO Framework Agreement
CLIS	中國人壽保險股份有限公司山東省分公司 (in English, for identification only, China Life Insurance Company Limited, Shandong Branch)
CLIS and its Branches	CLIS and all branches and sub-branches of CLIC in Shandong Province of the PRC under the management of CLIS
CLIS Framework Agreement	the framework agreement dated 19 February 2021 and entered into between the Company and CLIS in respect of (1) the provision of the Medical & Healthcare Services by the Group to CLIS and its Branches or their respective staff and clients and (2) the procurement of the CLIS Products by the Group from CLIS and its Branches
CLIS Products	insurance products, including but not limited to staff medical insurance, to be sold by CLIS and its Branches to the Group pursuant to the CLIS Framework Agreement
CLIZ	中國人壽保險股份有限公司深圳市分公司 (in English, for identification only, China Life Insurance Company Limited, Shenzhen Branch)
CLPE	China Life Private Equity Investment Company Limited
CLPI	中國人壽財產保險股份有限公司 (in English, for identification only, China Life Property & Casualty Insurance Company Limited)
CLPS	中國人壽財產保險股份有限公司山東省分公司 (in English, for identification only, China Life Property & Casualty Insurance Company Limited, Shandong Branch)
CLPS and its Branches	CLPS and all branches and sub-branches of CLPI in Shandong Province of the PRC under the management of CLPS

GLOSSARY

CLPS Framework Agreement	the framework agreement dated 19 February 2021 and entered into between the Company and CLPS in respect of (1) the provision of the Medical & Healthcare Services by the Group to CLPS and its Branches or their respective staff and clients and (2) the procurement of the CLPS Products by the Group from CLPS and its Branches
CLPS Products	insurance products, including but not limited to property loss insurance, to be sold by CLPS and its Branches to the Group pursuant to the CLPS Framework Agreement
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
connected person	has the meaning ascribed to it under the Listing Rules
controlling shareholder	has the meaning ascribed to it under the Listing Rules
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
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
Disposal	the disposal of the entire issued share capital of Wise Lead, which owns 49% interest in Huayao, by the Group
Dr. Cho	Dr. Cho Kwai Chee
Dr. Choi	Dr. Choi Chee Ming *GBS, JP*
Dr. Ip	Dr. Ip Chun Heng Wilson

GLOSSARY

Framework Agreements	the CLIO Framework Agreement, the CLIS Framework Agreement and the CLPS Framework Agreement
Fubon Financial	Fubon Financial Holding Co., Ltd.
Fubon Insurance	Fubon Insurance Co., Ltd.
Fubon Life	Fubon Life Insurance Co., Ltd.
Ganghe Clinic	深圳港和診所 (in English for identification purpose only, Shenzhen Ganghe Clinic)
Group	the Company and its subsidiaries
HCMPS	HCMPS Healthcare Holdings Limited
HK$ or HKD	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the PRC
Huayao	Huayao Medical Group Limited
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Main Board	the Main Board of the Stock Exchange
Medical & Healthcare Services	health check services (including but not limited to general health checks, underwriting health checks and VIP customer health checks) and medical services (including but not limited to general practice and specialist medical services, dental health care and treatments, medical beauty and anti-ageing services, Hong Kong medical consultation, vaccination and auxiliary medical services)
Medical Network Administrator Services	medical network administrator services, including but not limited to third-party medical network administrator services
Medical Related Services	the Medical & Healthcare Services and the Medical Network Administrator Services
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)

GLOSSARY

Nanyang Ruishi Ophthalmology Hospital	南陽瑞視眼科醫院有限公司 (in English for identification purpose only, Nanyang Ruishi Ophthalmology Hospital Co., Ltd.), a subsidiary of the Company
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
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 (formerly known as Jun Yang Financial Holdings Limited)
Profit Castle	Profit Castle Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and owned as to 50% by Dr. Ip and 50% by his spouse
Purchaser	the purchaser in the Disposal, i.e. Mr. Dai Hai Dong
Remuneration Committee	remuneration committee of the Board
Resumption Announcement	the announcement of the Company dated 26 February 2021 in relation to the update on resumption of trading of Shares
RMB	Renminbi, the lawful currency of the PRC
SBL	Sino Biopharmaceutical Limited (中國生物製藥有限公司)
Senior Management Team	the senior management team of the Company comprising the Chief Executive Officer, the chief operating officer of the Company, the chief financial officer of the Company and the group head of legal & company secretary of the Company
SFC	Securities and Futures Commission of Hong Kong
SFO	Securities and Futures Ordinance (Chapter 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)
SMRL	the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong)

GLOSSARY

Stock Exchange	The Stock Exchange of Hong Kong Limited
substantial shareholder	has the meaning ascribed to it under the Listing Rules
TBM	The Beauty Medical
TH (BVI)	Town Health (BVI) Limited, a 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
Wise Lead	Wise Lead Holdings Limited
WL Promissory Note	the promissory note in the principal amount of HK$203,705,000 issued by the Purchaser, a third party individual, in favour of TH (BVI), being the vendor in the Disposal
Year	year ended 31 December 2020
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
Yugangxiang	雲南豫港祥醫藥有限公司 (in English for identification purpose only, Yunnan Yugangxiang Pharmaceuticals Co., Ltd.), a subsidiary of the Company