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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)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2014:

- The Group recorded revenue of approximately HK\$191,887,000 (2013: approximately HK\$164,694,000).
- The Group recorded a profit of approximately HK\$64,634,000 (2013: approximately HK\$22,001,000). The increase in profit was mainly attributable to an increase in the revenue for provision of healthcare and dental service business, a reversal of tax provision on unrealised gain in securities trading, a reversal of provision for impairment of certain loans receivable and a fair value gain on held for trading investments.

As at 30 June 2014:

- The Group had a current ratio (defined as total current assets divided by total current liabilities) of 3.07 and a gearing ratio (defined as total bank and other borrowings divided by equity attributable to owners of the Company) of 24.53%.

During the six months ended 30 June 2014, a final dividend of HK5.5 cents per share for the year ended 31 December 2013 was declared and paid.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

RESULTS

The Board of Directors (the “Board”) of Town Health International Medical Group Limited (the “Company”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014 (the “Period under review”), together with the comparative unaudited figures for the six months ended 30 June 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	<i>Notes</i>	Six months ended 30 June	
		2014	2013
		(unaudited) HK\$'000	(unaudited) HK\$'000
Revenue	4	191,887	164,694
Cost of sales		<u>(133,371)</u>	<u>(112,834)</u>
Gross Profit		58,516	51,860
Other income	6	22,534	19,498
Administrative expenses		(95,590)	(79,530)
Other gains and losses	7	36,201	(11,056)
Finance costs	8	(3,296)	(3,129)
Gain on disposal of a subsidiary		1,874	–
Gain on disposal of associates		–	28,052
Share of results of associates		3,444	3,909
Increase in fair value of investment properties		<u>1,515</u>	<u>13,060</u>
Profit before tax	9	25,198	22,664
Income tax credit (expenses)	10	<u>39,436</u>	<u>(663)</u>
Profit for the period		<u><u>64,634</u></u>	<u><u>22,001</u></u>

		Six months ended 30 June	
		2014	2013
		(unaudited)	(unaudited)
<i>Note</i>		HK\$'000	HK\$'000
Other comprehensive (expense) income for the period			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on the translation of foreign operations		(6,513)	208
Share of exchange reserve of associates		(1,003)	1,293
		(7,516)	1,501
Total comprehensive income for the period		57,118	23,502
Profit for the period attributable to:			
Owners of the Company		45,157	18,993
Non-controlling interests		19,477	3,008
		64,634	22,001
Total comprehensive income attributable to:			
Owners of the Company		37,641	20,494
Non-controlling interests		19,477	3,008
		57,118	23,502
(restated)			
Earnings per share	12		
– Basic		HK0.98 cents	HK0.42 cents
– Diluted		HK0.96 cents	HK0.42 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Investment properties		286,920	448,405
Property, plant and equipment		151,807	171,916
Deposit paid for acquisition of subsidiaries	13	46,000	–
Loans receivable	14	39,428	39,428
Goodwill		15,121	15,121
Interests in associates		111,774	116,658
Available-for-sale investments		60,974	58,417
		<u>712,024</u>	<u>849,945</u>
CURRENT ASSETS			
Inventories		11,016	11,552
Trade and other receivables	15	51,944	45,400
Held for trading investments		611,503	660,920
Loans receivable	14	193,314	96,240
Amounts due from associates		6,963	10,228
Amount due from an investee		1,000	1,000
Amount due from a non-controlling interest		–	100
Tax recoverable		1,479	1,089
Pledged bank deposits		31,229	17,794
Bank balances and cash		277,477	201,249
		<u>1,185,925</u>	<u>1,045,572</u>
Assets classified as held for sale		–	117,000
		<u>1,185,925</u>	<u>1,162,572</u>

		30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and other payables	16	49,636	57,775
Amount due to an associate		12	12
Amount due to an investee		–	557
Amounts due to non-controlling interests		12,000	11,834
Amount due to a related party		5	14
Bank borrowings		283,467	363,772
Tax payable		41,179	82,013
		386,299	515,977
NET CURRENT ASSETS			
		799,626	646,595
TOTAL ASSETS LESS CURRENT LIABILITIES			
		1,511,650	1,496,540
NON-CURRENT LIABILITIES			
Deferred tax liabilities		3,603	3,063
Other borrowings		10,000	–
		13,603	3,063
		1,498,047	1,493,477
CAPITAL AND RESERVES			
Share capital	17	45,847	9,169
Reserves		1,150,528	1,199,997
Equity attributable to owners of the Company		1,196,375	1,209,166
Non-controlling interests		301,672	284,311
Total equity		1,498,047	1,493,477

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. GENERAL

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

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

Pursuant to a special resolution passed at a special general meeting of the Company held on 25 March 2014 and as approved by the Registrar of Companies in Bermuda on 25 March 2014, the English name of the Company has changed from "Town Health International Investments Limited" to "Town Health International Medical Group Limited" and the Chinese name of the Company has changed from "康健國際投資有限公司" to "康健國際醫療集團有限公司".

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

Except as described below, the accounting policies used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

During the six months ended 30 June 2014, the Group has applied, for the first time, a new Interpretation and certain amendments to Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA that are mandatorily effective for the six months ended 30 June 2014.

The application of the new Interpretation and amendments to HKFRSs during the six months ended 30 June 2014 has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. REVENUE

Revenue represents the aggregate of the net amounts received and receivable from third parties for the period.

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Provision of healthcare and dental services	182,473	153,074
Properties	9,414	11,594
Others	—	26
	191,887	164,694

5. SEGMENT INFORMATION

Segment revenue and results

Six months ended 30 June 2014

	Provision of healthcare and dental services (unaudited) <i>HK\$'000</i>	Securities trading (unaudited) <i>HK\$'000</i>	Properties (unaudited) <i>HK\$'000</i>	Others (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
SEGMENT REVENUE FROM EXTERNAL SALES	<u>182,473</u>	<u>–</u>	<u>9,414</u>	<u>–</u>	<u>191,887</u>
RESULTS					
Segment results	<u>11,245</u>	<u>9,851</u>	<u>2,289</u>	<u>(254)</u>	<u>23,131</u>
Other income					22,534
Unallocated corporate expenses					(52,489)
Finance costs					(3,296)
Gain on disposal of a subsidiary					1,874
Share of results of associates					3,444
Impairment loss reversed in respect of certain loans receivable					<u>30,000</u>
Profit before tax					<u><u>25,198</u></u>

Six months ended 30 June 2013

	Provision of healthcare and dental services (unaudited) <i>HK\$'000</i>	Securities trading (unaudited) <i>HK\$'000</i>	Properties (unaudited) <i>HK\$'000</i>	Others (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
SEGMENT REVENUE FROM					
EXTERNAL SALES	<u>153,074</u>	<u>–</u>	<u>11,594</u>	<u>26</u>	<u>164,694</u>
RESULTS					
Segment results	<u>5,470</u>	<u>(24,366)</u>	<u>13,111</u>	<u>(4,445)</u>	<u>(10,230)</u>
Other income					19,498
Unallocated corporate expenses					(15,436)
Finance costs					(3,129)
Gain on disposal of associates					28,052
Share of results of associates					<u>3,909</u>
Profit before tax					<u><u>22,664</u></u>

Geographical information

Majority of the Group's operations are located in Hong Kong. Majority of the provision of healthcare and dental services are carried out in Hong Kong. The Group's revenue from external customers based on location of customers is mainly derived from Hong Kong. The Group's non-current-assets, excluding financial instruments and the Group's associates, are all located in Hong Kong.

6. OTHER INCOME

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest income from		
– bank deposits	505	96
– loans receivable	9,027	4,183
	<u>9,532</u>	<u>4,279</u>
Dividend income from listed investments classified		
as held for trading investments	5,002	4,313
Dividend income from unlisted investments classified		
as available-for-sale investments	898	380
Gain on disposal of investment properties	2,380	4,450
Rental income	746	2,543
Sundry income	3,976	3,533
	<u>22,534</u>	<u>19,498</u>

7. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Gain (loss) on fair value changes on held for trading investments	9,851	(9,121)
Impairment loss recognised in respect of trade receivables	(1,837)	(1,935)
Impairment loss reversed in respect of certain loans receivable	30,000	–
Loss on disposal of available-for-sale investments	(1,813)	–
	<u>36,201</u>	<u>(11,056)</u>

8. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>3,296</u>	<u>3,129</u>

9. PROFIT BEFORE TAX

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit before tax has been arrived at after charging:		
Staff costs		
– Directors' remuneration	11,107	14,092
– Other staff's salaries, bonus and other benefits	103,960	96,166
– Other staff's retirement benefits scheme contributions	<u>1,590</u>	<u>580</u>
	<u>116,657</u>	<u>110,838</u>
Amortisation of intangible assets	–	167
Depreciation of property, plant and equipment	13,720	13,971
Loss on disposal of property, plant and equipment	<u>219</u>	<u>134</u>

10. INCOME TAX CREDIT (EXPENSES)

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Hong Kong Profits Tax	<u>39,436</u>	<u>(663)</u>

Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for both interim periods.

11. DIVIDENDS

During the six months ended 30 June 2014, a final dividend of HK5.5 cents per share for the year ended 31 December 2013, amounting to approximately HK\$50,432,000 (2013: Nil) was declared and paid to the owners of the Company.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

12. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Earnings for the purpose of basic and diluted earnings per share:		
Profit for the period attributable to owners of the Company	45,157	18,993
	30 June	30 June
	2014	2013
	(unaudited)	(unaudited)
		(restated)
Number of shares (in thousand):		
Weighted average number of ordinary shares for		
the purpose of basic earnings per share	4,584,689	4,551,674
Effect of dilutive potential ordinary shares from		
the share option scheme	130,644	2,130
Weighted average number of ordinary shares for the purpose of		
diluted earnings per share	4,715,333	4,553,804

The weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the six months ended 30 June 2013 have been adjusted and restated for the bonus issue, details of which are set out in note 17.

13. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

The amount represents a deposit paid by the Group for the acquisition of 94.3% equity interest in Dr. Vio & Partners Limited and its subsidiary. The acquisition has not yet completed as at the date of this announcement. Details of the acquisition are disclosed in the announcement of the Company dated 12 June 2014 and the circular of the Company dated 21 August 2014.

14. LOANS RECEIVABLE

	30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Fixed-rate loans receivable	<u>232,742</u>	<u>135,668</u>

15. TRADE AND OTHER RECEIVABLES

	30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
Trade receivables	22,106	18,419
Less: allowance for doubtful debts	<u>(3,908)</u>	<u>(2,071)</u>
Total trade receivables, net of allowance	18,198	16,348
Prepayments, deposits and other receivables	<u>33,746</u>	<u>29,052</u>
	<u>51,944</u>	<u>45,400</u>

Most of the patients of the medical and dental practices settle in cash. Payments by patients using medical cards will normally be settled within 180 to 240 days. The Group allows an average credit period of 60 to 240 days to its trade customers under other business activities.

The following is an ageing analysis of trade receivables at the end of the reporting period:

	30 June	31 December
	2014	2013
	(unaudited)	(audited)
	HK\$'000	HK\$'000
0 – 60 days	14,661	12,312
61 – 120 days	3,537	3,923
121 – 180 days	–	113
	18,198	16,348

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

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

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

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

16. TRADE AND OTHER PAYABLES

	30 June	31 December
	2014	2013
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Trade payables	16,001	12,550
Other payables	16,569	24,043
Accruals	17,066	21,182
	49,636	57,775

The following is an ageing analysis of trade payables at the end of the reporting period:

	30 June 2014 (unaudited) HK\$'000	31 December 2013 (audited) HK\$'000
0 – 60 days	16,001	12,527
61 – 120 days	<u>–</u>	<u>23</u>
	<u>16,001</u>	<u>12,550</u>

17. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary share of HK\$0.01 each		
Authorised:		
As at 1 January 2013, 30 June 2013, 31 December 2013 and 30 June 2014	<u>30,000,000,000</u>	<u>300,000</u>
Issued and fully paid:		
As at 1 January 2013 and 30 June 2013	910,334,710	9,103
Exercise of share option (Note 1)	<u>6,603,000</u>	<u>66</u>
As at 31 December 2013	916,937,710	9,169
Bonus issue of share (Note 2)	<u>3,667,750,840</u>	<u>36,678</u>
As at 30 June 2014	<u>4,584,688,550</u>	<u>45,847</u>

Notes:

- (1) During the year ended 31 December 2013, 5,103,000 and 1,500,000 share options were exercised at a subscription price of HK\$0.49 and HK\$1.03 per share, respectively, resulting in the issue of 6,603,000 ordinary shares of HK\$0.01 each in the Company and giving a total cash consideration of approximately HK\$4,045,000.
- (2) On 18 June 2014, 3,667,750,840 ordinary shares of the Company of HK\$0.01 each were issued on the basis of four new shares for every existing share held by the shareholders of the Company whose names appear on the register of members of the Company on 4 June 2014 by way of capitalisation of part of the Company's retained earnings. Details of the bonus issue are set out in the circular of the Company dated 16 April 2014.

18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 2 based on the degree to which the fair value is observable.

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

	As at 30 June 2014		
	Level 1	Level 2	Total
	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000
Held for trading investments			
Listed equity securities	579,970	–	579,970
Unlisted funds	–	31,533	31,533
	<u>579,970</u>	<u>31,533</u>	<u>611,503</u>
Available-for-sale investments			
Unlisted funds	–	8,472	8,472
	<u>579,970</u>	<u>40,005</u>	<u>619,975</u>

	As at 31 December 2013		
	Level 1	Level 2	Total
	(audited)	(audited)	(audited)
	HK\$'000	HK\$'000	HK\$'000
Held for trading investments			
Listed equity securities	629,387	–	629,387
Unlisted funds	–	31,533	31,533
	<u>629,387</u>	<u>31,533</u>	<u>660,920</u>
Available-for-sale investments			
Listed equity securities	2,838	–	2,838
Unlisted funds	–	8,467	8,467
	<u>2,838</u>	<u>8,467</u>	<u>11,305</u>
	<u><u>632,225</u></u>	<u><u>40,000</u></u>	<u><u>672,225</u></u>

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

Fair value of the Group's financial assets that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the Period under review, revenue increased by 16.51% to approximately HK\$191,887,000 (2013: approximately HK\$164,694,000), and the Group recorded profit of approximately HK\$64,634,000 (2013: approximately HK\$22,001,000).

The increase in profit was mainly attributable to (1) an increase in the revenue for provision of healthcare and dental service business, (2) a reversal of tax provision on unrealised gain in securities trading, (3) a reversal of provision for impairment of certain loans receivable and (4) a fair value gain on held for trading investments. Profit for the Period under review attributable to owners of the Company was approximately HK\$45,157,000 (2013: approximately HK\$18,993,000).

2014 is a year of inflection for the healthcare industry with a series of favourable policies released in 2013 paving the way for the opening up of the Chinese hospital and healthcare service markets. With the improved access to healthcare services and increased public awareness for well-being, the health expenditure is expected to increase rapidly. The Group's gross profit margin for the Period under review was 30.50% (2013: 31.49%), representing a slight decrease of 0.99% compared with the corresponding period.

Increase in the revenue for provision of healthcare and dental service business

The Group's healthcare and dental service business has enjoyed a steady growth during the Period under review. In particular, the development and growth of the medical specialty healthcare network business has been encouraging. During the Period under review, the revenue generated from provision of healthcare and dental service business increased by 19.21% to approximately HK\$182,473,000. The Group is dedicated to becoming the leader in the Hong Kong healthcare industry and will continue to invest more on its healthcare and dental service business. The Group will also strive to improve the operational efficiency of its healthcare and dental service business so as to enhance its market competitiveness and profitability.

Reversal of tax provision on unrealised gain in securities trading and provision for impairment of certain loans receivable

During the Period under review, the Group reversed the tax provision made on unrealised gain in securities trading in prior years. The Group also reversed certain provision made for the impairment of certain loans receivable in prior years because certain loans receivable were recovered during the Period under review.

Fair value gain on held for trading investments

During the Period under review, the Group recorded a gain of approximately HK\$9,851,000 (2013: loss of approximately HK\$24,366,000). The Group will continue to adopt a prudent investment strategy and create value for the shareholders of the Company.

Operation Review

Steady growth of healthcare and dental service business

The Group offers a wide spectrum of quality healthcare services to general public and corporate clients in both Hong Kong and the People's Republic of China (the "PRC"), from primary and specialty medical care services, health check, dental services to reproductive services. The Group is currently operating 74 medical centres in Hong Kong, comprising 1 cyclotron centre, 1 reproductive centre and the remaining are centres providing comprehensive medical and dental services. The healthcare and dental services remain as the crucial revenue driver for the Group. During the Period under review, the healthcare and dental service business generated revenue of approximately HK\$182,473,000 (2013: approximately HK\$153,074,000), accounting for approximately 95.09% (2013: 92.94%) of the Group's total revenue.

The Group has officially renamed as "Town Health International Medical Group Limited" in March 2014 to enhance the corporate image. The reason for the change of name is to illustrate our determination to focus and continue on developing in the healthcare market. On the other hand, the Group has been gradually reducing its reliance on the securities and properties investments to better utilise its capital for investing in the medical sector. In addition, the Group has strengthened its management team, with Dr. Cho Kwai Chee appointed as the Executive Vice Chairman, Dr. Hui Ka Wah, Ronnie, JP, appointed as the Chief Executive Officer, and Mr. Wong Seung Ming appointed as an executive director and the Chief Financial Officer. Two management committees were established, namely the Professional Healthcare Management Committee, and the Legal & Compliance Committee, to assist the Board in managing various medical business segments in Hong Kong and the PRC.

Enhance the competitive position in the healthcare market in Hong Kong

The Group continued to reinforce its healthcare investment through acquisitions both in Hong Kong and the PRC healthcare markets. During the Period under review, the Group announced the acquisition of 94.3% equity interest in Dr. Vio & Partners Limited (“Dr. Vio”), which is both a direct medical service provider and a well-regarded administrator of third-party funded medical scheme services with substantial in-house expertise. Dr. Vio is one of the largest managed care operators in the Hong Kong market, and proved to have a solid business growth track record, with revenue tripled in the past 10 years. It has a vast customer base including banks, insurance companies and other major corporations. Additionally, Dr. Vio has only three self-run clinics, the Group strongly believes that there exists a huge business synergy between the Group and Dr. Vio. Firstly, there might be possible cross-referrals from Dr. Vio to the Group’s clinic chain or vice-versa, especially specialty clinics. This will significantly boost the patient load of the Group and thus enhance its profitability. Beneficially, the Group can provide more integrated and quality medical services to Dr. Vio’s customers by improving their service scope and quality. The Group believes that this acquisition, after completion, will definitely enhance the competitive advantages of both the Group and Dr. Vio, therefore allowing both parties to capture a larger market share.

The Group’s strategy is to continue to grow the managed care business operated by Dr. Vio, either organically or through further acquisitions to consolidate smaller competitors in the market. Also, the Group will strive to venture into the largely untapped managed care service market in the PRC market by mirroring the business model of Dr. Vio. The Group will continuously assist Dr. Vio to boost its businesses to a point that it could be separately listed in the stock market to enhance its brand name and market position.

Besides, the Group has announced that it intended to invest in Luck Key Investment Limited (“Luck Key”) which is owned by Computech Holdings Limited, the shares of which are listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange (stock code: 8081) (now renamed as China Mobile Games and Cultural Investment Limited). Luck Key and its subsidiaries (“Luck Key Group”) now operates an aggregate of 9 health check centres and 2 laboratories in Hong Kong, providing one-stop comprehensive and quality medical diagnostic services with advanced imaging technology and a full-range of laboratory services. The Group will strive to create synergy between the Hong Kong health check and laboratory diagnostic business with the Group’s PRC health check business, the Yikang subsidiary in Guangdong, and leveraging on this health check and laboratory platform, to offer business synergy to the PRC medical projects to be acquired by the Group. The Group believes that through setting up a cross-border platform by offering a comprehensive and quality laboratory and medical diagnostic services, it will further benefit and complement the medical business development of the Group in Hong Kong and the PRC.

Accelerate the growth of healthcare business in the PRC

While China is rapidly opening up its healthcare market through a series of healthcare reforms, the Group is optimistic about the PRC healthcare market. The Group has been focusing on developing its medical business in the PRC market through various acquisitions.

During the Period under review, the Group has announced its intention on the possible acquisition of Renji BVI Company (“Renji Group”) with the assistance of Mr. Zhou Ling. Renji Group operates a rehabilitation-oriented hospital in Hangzhou and clinic services of Chinese and Western healthcare as well as dental services. The rehabilitation hospital has the market niche which offers clinical services complementary to the services of many sizable integrated public hospitals in the nearby locality. Furthermore, the demand for rehabilitation services has been growing fast in Zhejiang Province and even the whole PRC market. The Group believes that this business model can potentially be replicated in the other provinces of the PRC. The acquisition is such that all the vending parties will contribute a total sum of RMB120 million into the Renji Group platform, and such sum will be used to acquire or develop 3 more clinics in 2015 and 2016. Also, the Renji Group will strive to acquire one or two small to medium sized public hospitals in Zhejiang for reform. Through this acquisition, the Renji Group will expand its business scope to become a larger healthcare platform of the Group in Zhejiang Province. The Group’s strategy is to boost the business of Renji Group to such a scale that it could meet the listing requirements, so it can be listed to enhance its brand name and facilitate its future growth through acquisitions.

During the Period under review, the Group invested in a joint venture company which established an in vitro fertilisation specialty hospital in Henan Province. During the Period under review, the performance of this investment was not satisfactory. The Group may consider to dispose of the investment if opportunities arise. The Group will continue to seek appropriate investment opportunities to bring better returns to stakeholders.

Tap the vast potential in the PRC pharmaceutical industry

The PRC pharmaceutical business is expected to grow in tandem with the healthcare sector, due to rising healthcare awareness, rapid aging population as well as increasing health awareness and spending. The Group has expanded its investment in the pharmaceutical distribution business through the spin-off and listing of New Ray Medicine International Holding Limited (“New Ray Medicine”) on the GEM of the Stock Exchange (stock code: 8180) in October 2013. New Ray Medicine is a company principally engaged in pharmaceutical distribution business in China which mainly focuses in Hangzhou and Zhejiang provinces. The Group will continue to seek more reasonable investment opportunities in the PRC pharmaceutical industry.

Gradually reducing securities and properties investments

The Group's investment portfolio comprises investments in listed and unlisted securities. During the Period under review, the Group recorded a gain of approximately HK\$9,851,000 (2013: loss of approximately HK\$24,366,000). The more diversified investment improved the investment results.

The Group's strategic investment in Convoy Financial Services Holdings Limited ("Convoy"), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1019) is expected to be a long term investment. The Group is currently the second largest shareholder of Convoy, which is one of the largest independent insurance and MPF scheme brokerage firms in Hong Kong. On one hand, the Group believes that Convoy will continue to enjoy good business and profit growth as well as contribute a source of stable income to the Group. On the other hand, the Group believes that it could create synergy between Dr. Vio and Convoy. Convoy is principally engaged in the selling and distributing business for insurance and investment linked insurance products and Dr. Vio is the managed care operator offering services for various insurance schemes. As such, the Group could contemplate offering medical insurance products for Convoy to sell and allowing Dr. Vio to offer services. This strategy will create a tremendous synergy for the Group. Also, Convoy has established a distribution and sales network in the PRC market, and the Group will, together with Dr. Vio, develop the managed care business in the PRC market. The Group believes that more medical expenses will be covered when Convoy launches its medical travel insurance arm in the PRC, hence boosting the revenue contributed by insured travelers who seek medical services in the Group's medical centres during their visits in Hong Kong. The Group's strategy is to develop meaningful medical tourism business through a cross-border platform.

The Group's rental income from its properties investments was approximately HK\$9,414,000 (2013: approximately HK\$11,594,000), which represented a 18.80% decrease compared with the corresponding period last year. The Group will stay abreast of market changes and cautious in investment practices. In order to fully utilise the resources to best advantage, the Group will slowly pull out of securities and properties investments for potential healthcare related projects to align with the Group's core business development plan in the healthcare sector.

Prospects

Chinese medical and healthcare industry

China has a population of over 1.3 billion, with approximately 7 million growth annually. It is expected that the proportion of population aged 60 years and above will reach 15% by 2015 and further increase to 24% by 2030. According to a research report, the annual growth of the Chinese healthcare market is 18%, it is expected that the market size will reach RMB3,160 billion in the next few years.

The Chinese healthcare sector continues to develop at an astonishing pace. From pharmaceuticals to medical products to medical healthcare, China remains among the world's most attractive markets and by far the fastest-growing among all the large emerging markets. The Chinese healthcare market presents an unlimited opportunities, as the main driver of market expansion is the rising awareness of healthcare, fueled by economic growth, vast aging population, increased total and per capita healthcare spending, the ongoing healthcare reform and the 12th Five-Year Plan supportive measures. One of the goals of the 12th Five-Year Plan is to improve basic public services, including social insurance and healthcare services, and the plan will likely include new targets for healthcare spending.

Healthcare services can be provided through public and private providers. In China, 90% of emergency and in-patient services are provided by public sector. As such, the government is currently supporting the development of private hospital in order to establish a basic and universal healthcare system that can provide safe, effective, convenient and low-cost services to all of the its citizens.

Before the healthcare reform, private hospitals faced reimbursement restrictions. In many cities, they were not eligible to join the hospital networks covered by public health insurance. In cities where they were covered, their reimbursement rates were below those given to public hospitals. Yet, the reform targets to remove these constraints. Doctors may now practice at multiple facilities, including private hospitals, making the best doctors more mobile and easier to recruit. As a result, private providers could begin building hospitals or leveraging existing facilities that combine high clinical quality and high service levels to address the needs of the fast-growing affluent-patient segment. There is also an increasing signs that private hospitals are now being considered for inclusion in public health insurance networks on the same terms as public hospitals.

Private providers will play an important role in China by creating healthy competition with public hospitals and addressing unmet needs. The Chinese government will open the market to foreign companies in private healthcare facilities. The healthcare reform will improve the quality of care and enhance health outcomes for the Chinese population. It will also stimulate the Chinese healthcare market and create opportunities for private investors in the industry.

Healthcare investment opportunity in China appears to be sizzling. The Group taps into the PRC market and strives to expand its business in the region through creating synergy with Hong Kong medical professionals.

Furthermore, the Chinese healthcare reform aims to improve the quality, accessibility and regulation of pharmaceuticals. Pharmaceutical sales growth in China has outstripped that of healthcare expenditures in general. The key takeaway from the Chinese healthcare reform includes broader access to healthcare nationwide and elevated protection for pharmaceutical brands, which are able to raise the visibility and prescription of patented drugs. In addition, the Group's strategy is to create a sophisticated synergy by continuously acquiring other health check centres, and other small pharmaceutical companies in the PRC through the platforms of Yikang and New Ray Medicine respectively. The expertise of these partners in the pharmaceutical industry could offer tremendous assistance in developing hospital management business.

Hong Kong medical and healthcare industry

In Hong Kong, the Hospital Authority proposed a number of public-private interface exercises where public patients are encouraged to make use of private healthcare services. The Hong Kong Government also increased the healthcare subsidisation for all elderly to consume healthcare and related services in the private sector. As such, the Group believes that there are huge market opportunities in the healthcare sector. With the leading position and well-established clinic network in the Hong Kong healthcare industry, the Group is well positioned to seize the immense growth potential of the market.

The Group aims to gain organic growth by active acquisitions and to consolidate the highly fragmented managed care market. The Group will strive to develop its existing primary and specialty medical chain clinics and target to create the largest synergy between Dr. Vio and the Group's existing primary and specialty healthcare, laboratory and medical diagnostic businesses.

The Group's strategy for this year is to develop mega specialty centres in Hong Kong, covering ophthalmology, orthopaedics, cosmetic dermatology, general surgery and in vitro fertilisation. The strategy is to develop one or two major centres for each specialty, together with some smaller-size satellite centres. This will form a large platform for each specialty in Hong Kong, creating the scale and branding effects. Similarly, the Group will seek to acquire specialty hospitals in the PRC, so as to integrate the Hong Kong specialty centres with the corresponding specialty hospitals in the PRC. As a result, it will form a larger cross-border platform for each specialty. The Group believes that there exists synergy in this cross-border collaboration, where the Hong Kong side could offer technology, expertise transfer and provide training to the mainland doctors. Also, the collaboration could offer significant branding effect for the PRC specialty hospitals.

Moreover, the Group will develop, through acquisition or organically, specialty managed care related businesses and services. There are many complementary businesses or services that could match well with individual medical specialty, for instance, audiology and sleep apnea testing services for ENT specialty, eye-glass retailing or optometry services for ophthalmology specialty, physiotherapy or occupational therapy services for orthopaedic specialty, which are all suitable for expansion.

The proposed acquisition of Dr. Vio allows the Group to enlarge its patient referral program. The Group believes that there exists a huge synergy between Dr. Vio and the specialty centres which will be developed. The web of collaboration may also be applicable in the PRC market, thus allowing the Group to venture into the PRC market efficiently and effectively.

The Group's strategy is to develop medical specialty platforms to such a scale that each specialty platform, together with the related businesses or services, could be separately listed. The Group believes that through separate listing on the stock market, the brand name of each specialty could be highly enhanced. Also, the raised capital could be used to expand the specialty's business scope and scale both in Hong Kong and the PRC.

Introduce high quality standard in Hong Kong services to the PRC market through synergy

Numerous patients from the PRC travel to Hong Kong for medical treatments every year, and the Group attempts to integrate its healthcare services in Hong Kong and the PRC. To this end, patients from the PRC can be referred directly to the Group's specialty centres in Hong Kong for medical treatments and surgeries. A newly established medical centres is expected to be launched by the end of this year or early 2015. The Group believes a meaningful medical tourism industry can be developed through medical scheme operators to channel mainland patients to seek medical care in the Group's specialty centres in Hong Kong. Also the Group will periodically organise professional training and academic interchange with mainland hospitals and clinics to build a brand in the PRC.

In addition, the Group aims to initiate medical scheme operations in major cities in the PRC and introduce practical concepts of managed care into the healthcare market, therefore, constantly acquiring different specialty hospitals in the PRC which have niche markets and unique competitiveness. The Group will collaborate with global insurance companies, major corporates and healthcare service providers within the region in order to provide a new form of managed care services. The Group will also collaborate with major hospitals to launch medical scheme operations and refer premium patients to Hong Kong for higher quality services. Moreover, specialty hospitals could merge with Hong Kong specialty centres to form a larger cross-border healthcare platform which is capable of creating synergy and develop medical tourism business. The Group believes a high level of vertically integrated value chain will be achieved through acquisitions and consolidation exercises, as well as cross-border collaborations.

The future development plan of the Group is to focus on investing in the medical and healthcare related businesses in Hong Kong and the PRC. On the contrary, the Group will further reduce its investment in non-healthcare businesses and the capital expenditure is expected to reach HK\$1.3 – HK\$1.4 billion by 2015. The Group proposed to acquire, by itself or by a company designated by it, 31% equity interests in Guizhou Industry Investment Fund Management Co., Ltd. ("Fund Management Co.") by making capital contribution of RMB15.5 million, and cooperate with Guizhou Industry Investment (Group) Co., Ltd. ("Guizhou Investment Group Co.") to jointly assist Fund Management Co. to establish an investment fund (the "Fund"). The Fund would mainly focus on healthcare industry as well as corporate reform, restructuring and merger and acquisition projects in Guizhou Province of the PRC. With the optimistic outlook of the entire medical market in the PRC, the Group sees numerous investment opportunities with high potential return. Guizhou Investment Group Co. focuses on investing in the eight main industries, and the Group believes the collaboration with the government of Guizhou Province and the participation in the medical related business in the province will yield a better return for the Group.

Professional and Expertise Management Team

In view of the rapidly expanding scope and scale of the Group's medical business, and to better manage various business segments in different localities, the Group needs to strengthen and enhance its management team. In this connection, the Group has established the Professional Healthcare Management Committee and the Legal & Compliance Committee in July 2014.

Dr. Hui Ka Wah, Ronnie, JP, is the Chairman of the Professional Healthcare Management Committee. This committee advises the Board on business and development strategies, and assists the Group to operate and manage the healthcare and medical businesses in Hong Kong and the PRC. To increase the efficiency and effectiveness of the committee, it is further subdivided into the Hong Kong team and the PRC team, which focuses on matters relating to the healthcare and medical businesses. On the other hand, Mr. Lee Chik Yuet is the Chairman of the Legal & Compliance Committee. This Committee advises and assists the Board to oversee the legal and compliance matters of the Group.

Looking ahead, the Group will continue to implement a diversified business model. The Board believes its well-experienced and professional management team, together with strong medical expertise will be able to introduce high-end, professional and one-stop integrated medical management services of international standard in Hong Kong market into the PRC market through synergy. The Group strives to become one of the largest and most powerful healthcare service providers in Hong Kong and the PRC.

Members of the Professional Healthcare Management Committee

- (1) Dr. Hui Ka Wah, Ronnie, JP – Chairman of the committee. Dr. Hui is the CEO of the Company and is a specialist in Paediatrics. He is a CFA Charterholder and holds a degree in master of business administration conferred by Universitas 21 Global. Dr. Hui is a member of the Small and Medium Enterprises Committee of the Government of Hong Kong.

Hong Kong Team

- (2) Mr. Lee Chik Yuet – Executive Director of the Company. Mr. Lee holds a bachelor degree and a master degree in Laws from the University of Hong Kong. Prior to joining the Group, Mr. Lee had been a practicing solicitor for more than 13 years in Hong Kong, specialised in commercial, corporate finance and investment laws in Hong Kong and the PRC.
- (3) Dr. Chan Wing Lok, Brian – Executive Director of the Company. Dr. Chan holds the qualifications of MBBS (HK), DCH (RCP&SI) and DPD (Cardiff). He is the district vice president of Yau Tsim District of Scout Association of Hong Kong.
- (4) Dr. So Chi Kin – Dr. So holds the qualification of BDS (HK). He is currently responsible for the development and management of the Group's dental clinic business as well as enhancement of professional dental service standards.
- (5) Dr. Yau Yi Kwong – Dr. Yau holds the qualifications of BDS (HK) and DGDP (UK). He is currently responsible for the management of Group's dental clinics and is the Group's organiser of continuous dental education and is committed to enhancing the overall standard of the Group's dental services.

PRC Team

- (6) Mr. Zhou Ling – Mr. Zhou is the Chairman and an Executive Director of New Ray Medicine, an associate of the Group. He has over 14 years of experience in the pharmaceutical distribution industry and is responsible for the business operation and the overall sales and marketing strategies of New Ray Medicine.
- (7) Mr. Dai Hai Dong – Mr. Dai is the CEO of New Ray Medicine and has over 10 years of experience in the pharmaceutical industry. He is responsible for the business operation and the overall development of sales and marketing management and strategies of New Ray Medicine.
- (8) Mr. Liang Kang – Mr. Liang has substantial experience in the health check business in the PRC.

- (9) Mr. Chen Yi Fang – Mr. Chen has substantial experience in the health check business in the PRC.
- (10) Mr. Xu Chong – Mr. Xu has substantial experience in laboratory testing in the PRC.

Members of the Legal & Compliance Committee

- (1) Mr. Lee Chik Yuet – Chairman of the committee. (Please refer above for further details)
- (2) Mr. Wong Seung Ming – CFO and Executive Director of the Company. Mr. Wong holds a bachelor degree in Accountancy from the City University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has over 18 years of experience in accounting, auditing and financial management.
- (3) Mr. Kwan Chung Man – Mr. Kwan is the head of legal affairs of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group held bank balances and cash of approximately HK\$277,477,000 (31 December 2013: approximately HK\$201,249,000). The Group had bank and other borrowings of approximately HK\$293,467,000 (31 December 2013: approximately HK\$363,772,000).

As at 30 June 2014, net current assets amounted to approximately HK\$799,626,000 (31 December 2013: approximately HK\$646,595,000). Current ratio (defined as total current assets divided by total current liabilities) was 3.07 (31 December 2013: 2.25).

As at 30 June 2014, gearing ratio (defined as total bank and other borrowings divided by equity attributable to owners of the Company) was 24.53% (31 December 2013: 30.08%). Major currencies used for the Group's transactions were Hong Kong Dollars, Renminbi and United States Dollars ("US Dollars"). As Hong Kong Dollars are pegged to the US Dollars and the fiscal policy of the Central Government of the PRC in relation to Renminbi is stable throughout the six months ended 30 June 2014, the Group considers that the potential foreign exchange exposure of the Group is limited.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2014, certain property, plant and equipment, investment properties and held for trading investments of the Group with the carrying value of approximately HK\$65,385,000 (31 December 2013: approximately HK\$68,951,000), approximately HK\$258,920,000 (31 December 2013: approximately HK\$420,405,000) and approximately HK\$42,238,000 (31 December 2013: approximately HK\$68,978,000), respectively, and bank deposits of approximately HK\$31,229,000 (31 December 2013: approximately HK\$17,794,000) were pledged to secure general banking facilities granted to the Group, respectively.

As at 31 December 2013, assets classified as held for sale of approximately HK\$117,000,000 were pledged. During the six months ended 30 June 2014, the pledge was released due to the completion of disposal.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group had no material contingent liabilities (31 December 2013: Nil).

HUMAN RESOURCES

As at 30 June 2014, the Group employed 533 staff (2013: 517). Total employee costs, including directors' emoluments, amounted to approximately HK\$116,657,000 for the six months ended 30 June 2014 (2013: approximately HK\$110,838,000).

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

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

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 30 June 2014, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

REVIEW OF FINANCIAL STATEMENTS

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2014 have been reviewed by the audit committee of the Company.

By order of the Board
Town Health International Medical Group Limited
Lee Chik Yuet
Executive Director

Hong Kong, 25 August 2014

As at the date of this announcement, the executive directors of the Company are Miss Choi Ka Yee, Crystal (Chairperson), Dr. Cho Kwai Chee (Executive Vice Chairman), Dr. Hui Ka Wah, Ronnie, JP (Chief Executive Officer), Mr. Lee Chik Yuet, Dr. Chan Wing Lok, Brian and Mr. Wong Seung Ming (Chief Financial Officer); the non-executive director of the Company is Dr. Choi Chee Ming, GBS, JP (Vice-Chairman); and the independent non-executive directors of the Company are Mr. Chan Kam Chiu, Mr. Ho Kwok Wah, George and Mr. Wai Kwok Hung, SBS, JP.