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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 2016

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2016:

- The Group recorded revenue of approximately HK\$587,512,000 (2015: approximately HK\$538,789,000).
- The Group recorded a profit of approximately HK\$56,455,000 (2015: approximately HK\$259,926,000). The decrease in profit was mainly attributable to the decrease in gain on fair value changes on held for trading investments.

As at 30 June 2016:

- The Group had a current ratio (defined as total current assets divided by total current liabilities) of 3.96 and a gearing ratio (defined as total bank borrowings divided by equity attributable to owners of the Company) of 0.47%.

During the six months ended 30 June 2016, a final dividend of HK0.98 cents per ordinary share for the year ended 31 December 2015 was declared.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

RESULTS

The Board of Directors (the “Board”) of Town Health International Medical Group Limited (the “Company”) is pleased to report the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 (the “Period under review”), together with the comparative unaudited figures for the six months ended 30 June 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
		(unaudited)	(unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	4	587,512	538,789
Cost of sales		(364,998)	(306,272)
Gross profit		222,514	232,517
Administrative expenses		(236,904)	(244,437)
Finance costs	8	(4,352)	(18,217)
Other income	6	30,208	33,509
Other gains and losses	7	49,392	255,989
Share of results of associates		5,001	11,114
Share of results of joint ventures		(1,408)	–
Profit before tax		64,451	270,475
Income tax expenses	9	(7,996)	(10,549)
Profit for the period	10	56,455	259,926

		Six months ended 30 June	
		2016	2015
		(unaudited)	(unaudited)
<i>Notes</i>		HK\$'000	HK\$'000
Other comprehensive income (expense)			
for the period			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising from the translation of foreign operations		(3,658)	(1,201)
Reclassification of translation reserve and investment revaluation reserve to profit or loss upon dilution of interest and disposal of an associate		(5,965)	–
Share of translation reserve of associates and joint ventures		2,363	(42)
		(7,260)	(1,243)
Total comprehensive income for the period		49,195	258,683
Profit for the period attributable to:			
Owners of the Company		54,239	258,297
Non-controlling interests		2,216	1,629
		56,455	259,926
Total comprehensive income attributable to:			
Owners of the Company		47,432	257,143
Non-controlling interests		1,763	1,540
		49,195	258,683
Earnings per share (<i>HK cents</i>)	<i>12</i>		
– Basic		0.70	4.39
– Diluted		0.70	4.18

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		30 June 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Investment properties		701,328	457,760
Property, plant and equipment		246,587	233,317
Loans receivable	13	7,343	9,902
Loan to a related party		–	138,000
Promissory note receivable		95,000	–
Goodwill		385,237	375,891
Intangible assets		488,267	492,428
Interests in associates		61,495	140,487
Interests in joint ventures		296,915	257,110
Available-for-sale investments		380,359	318,861
Deposits made on acquisition of investment properties, and property, plant and equipment		14,694	68,820
Deposit made on acquisition of a subsidiary		141,933	59,666
Deferred tax assets		724	724
		<u>2,819,882</u>	<u>2,552,966</u>
CURRENT ASSETS			
Inventories		28,533	20,600
Trade and other receivables	14	233,239	210,642
Available-for-sale investments		–	30,000
Held for trading investments		61,327	522,459
Loans receivable	13	46,698	7,989
Loan to a related party		138,000	–
Amounts due from associates		21,218	38,060
Amount due from a related party		–	20
Amount due from an investee		13,300	13,300
Amounts due from non-controlling interests		2,551	1,107
Tax recoverable		6,959	6,216
Restricted bank deposit		13,460	13,460
Bank balances and cash		<u>1,800,593</u>	<u>1,826,679</u>
		<u>2,365,878</u>	<u>2,690,532</u>

		30 June 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and other payables	15	513,749	437,444
Amounts due to associates		12	28
Amount due to an investee		313	313
Amounts due to non-controlling interests		32,216	30,514
Bank borrowings	16	21,364	21,887
Loan notes	17	–	121,919
Tax payable		29,179	24,211
		596,833	636,316
NET CURRENT ASSETS			
		1,769,045	2,054,216
TOTAL ASSETS LESS CURRENT LIABILITIES			
		4,588,927	4,607,182
NON-CURRENT LIABILITIES			
Deferred tax liabilities		14,300	14,300
		4,574,627	4,592,882
CAPITAL AND RESERVES			
Share capital – ordinary shares	18	77,613	74,696
Share capital – convertible preference shares	19	–	2,917
Reserves		4,423,575	4,453,179
Equity attributable to owners of the Company		4,501,188	4,530,792
Non-controlling interests		73,439	62,090
Total equity		4,574,627	4,592,882

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL

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

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

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 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

During the six months ended 30 June 2016, 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 2016.

The application of the new interpretation and amendments to HKFRS during the six months ended 30 June 2016 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	
	2016	2015
	(unaudited)	(unaudited)
	HK\$’000	HK\$’000
Provision of healthcare and dental services	226,965	186,696
Managed care business	216,701	170,500
Beauty and cosmetic medicine business	119,394	152,512
Property rental income	9,043	8,217
Others	15,409	20,864
	587,512	538,789

5. SEGMENT INFORMATION

Segment revenue and results

Six months ended 30 June 2016

	Provision of healthcare and dental services (unaudited) HK\$'000	Managed care business (unaudited) HK\$'000	Beauty and cosmetic medicine business (unaudited) HK\$'000	Investments in securities and properties and treasury management (unaudited) HK\$'000	Others (unaudited) HK\$'000	Elimination (unaudited) HK\$'000	Total (unaudited) HK\$'000
REVENUE							
External sales	226,965	216,701	119,394	9,043	15,409	–	587,512
Inter-segment sales	<u>6,997</u>	<u>–</u>	<u>–</u>	<u>3,003</u>	<u>–</u>	<u>(10,000)</u>	<u>–</u>
	<u>233,962</u>	<u>216,701</u>	<u>119,394</u>	<u>12,046</u>	<u>15,409</u>	<u>(10,000)</u>	<u>587,512</u>
Segment results	<u>7,679</u>	<u>19,613</u>	<u>(431)</u>	<u>49,533</u>	<u>(4,977)</u>	<u>–</u>	<u>71,417</u>
Finance costs							(4,352)
Other gains and losses							23,323
Other income							6,766
Share of results of associates							(307)
Share of results of joint ventures							(1,408)
Unallocated corporate expenses							<u>(30,988)</u>
Profit before tax							<u><u>64,451</u></u>

Six months ended 30 June 2015

	Provision of healthcare and dental services (unaudited) <i>HK\$'000</i>	Managed care business (unaudited) <i>HK\$'000</i>	Beauty and cosmetic medicine business (unaudited) <i>HK\$'000</i>	Investments in securities and properties and treasury management (unaudited) <i>HK\$'000</i>	Others (unaudited) <i>HK\$'000</i>	Elimination (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
REVENUE							
External sales	186,696	170,500	152,512	8,217	20,864	–	538,789
Inter-segment sales	<u>4,932</u>	<u>–</u>	<u>–</u>	<u>2,937</u>	<u>–</u>	<u>(7,869)</u>	<u>–</u>
	<u>191,628</u>	<u>170,500</u>	<u>152,512</u>	<u>11,154</u>	<u>20,864</u>	<u>(7,869)</u>	<u>538,789</u>
Segment results	<u>7,611</u>	<u>16,026</u>	<u>13,547</u>	<u>273,938</u>	<u>(3,301)</u>	<u>–</u>	<u>307,821</u>
Finance costs							(18,217)
Other income							10,501
Share of results of associates							7,170
Unallocated corporate expenses							<u>(36,800)</u>
Profit before tax							<u><u>270,475</u></u>

Geographical information

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

6. OTHER INCOME

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Dividend income from listed investments classified as held for trading investments	–	4,713
Dividend income from unlisted investments classified as available-for-sale investments	2,027	1,275
Interest income	20,452	17,020
Rental income	1,500	1,391
Sundry income	6,229	9,110
	<u>30,208</u>	<u>33,509</u>

7. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Gain on disposal of available-for-sale investments	5,504	–
Gain on fair value changes on held for trading investments	58	298,259
Loss on deemed disposal of an associate	–	(40,160)
Net gain on dilution of interest and disposal of an associate	35,762	–
Reversal of impairment loss (impairment loss) recognised in respect of trade and other receivables, loans receivable and goodwill	8,068	(2,110)
	<u>49,392</u>	<u>255,989</u>

8. FINANCE COSTS

	Six months ended 30 June	
	2016 (unaudited) <i>HK\$'000</i>	2015 (unaudited) <i>HK\$'000</i>
Dividends paid for convertible preference shares	–	12,953
Effective interest expense on loan notes	4,093	4,833
Interest on bank borrowings		
– wholly repayable within five years	–	196
– not wholly repayable within five years	259	235
	<u>4,352</u>	<u>18,217</u>

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2016 (unaudited) <i>HK\$'000</i>	2015 (unaudited) <i>HK\$'000</i>
Hong Kong Profits Tax	<u>7,996</u>	<u>10,549</u>

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for both interim periods.

10. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging:		
Staff costs		
– Directors' remuneration	5,701	8,100
– Other staff's salaries, bonus and other benefits	343,444	302,291
– Other staff's retirement benefits scheme contributions	3,099	3,002
	352,244	313,393
Amortisation of intangible assets	4,161	5,000
Depreciation of property, plant and equipment	18,778	14,402

11. DIVIDENDS

During the six months ended 30 June 2016, a final dividend of HK0.98 cents per ordinary share for the year ended 31 December 2015, amounting to approximately HK\$76,061,000 (2015: approximately HK\$24,650,000), was declared to the owners of the Company.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: 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	
	2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000
Earnings for the purpose of basic and diluted earnings per share:		
Profit for the period attributable to owners of the Company	<u>54,239</u>	<u>258,297</u>
	30 June 2016 (unaudited)	30 June 2015 (unaudited)
Number of shares (in thousand):		
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,734,055	5,886,698
Effect of dilutive potential ordinary shares:		
Convertible preference shares	<u>27,243</u>	<u>291,666</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>7,761,298</u>	<u>6,178,364</u>

13. LOANS RECEIVABLE

	30 June 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Fixed-rate loans receivable (unsecured)	<u>54,041</u>	<u>17,891</u>
Analysed for reporting purpose as:		
Non-current portion	7,343	9,902
Current portion	<u>46,698</u>	<u>7,989</u>
	<u>54,041</u>	<u>17,891</u>

14. TRADE AND OTHER RECEIVABLES

	30 June 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Trade receivables	132,980	136,573
Less: allowance for doubtful debts	<u>(5,065)</u>	<u>(2,708)</u>
Total trade receivables, net of allowance	127,915	133,865
Prepayments, deposits and other receivables	<u>105,324</u>	<u>76,777</u>
	<u>233,239</u>	<u>210,642</u>

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

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

	30 June	31 December
	2016	2015
	(unaudited)	(audited)
	HK\$'000	HK\$'000
0 – 60 days	124,053	116,877
61 – 120 days	2,639	6,330
121 – 180 days	693	10,612
181 – 240 days	530	46
	127,915	133,865

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

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

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

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

15. TRADE AND OTHER PAYABLES

	30 June	31 December
	2016	2015
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Trade payables	44,678	47,712
Accruals	85,048	78,533
Deferred income	241,234	250,969
Deposits received	5,230	6,827
Dividend payable	76,061	–
Other payables	61,498	53,403
	513,749	437,444

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

	30 June	31 December
	2016	2015
	(unaudited)	(audited)
	HK\$'000	HK\$'000
0 – 60 days	44,119	41,290
61 – 120 days	335	2,784
Over 120 days	224	3,638
	<u>44,678</u>	<u>47,712</u>

16. BANK BORROWINGS

	30 June	31 December
	2016	2015
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Secured	<u>21,364</u>	<u>21,887</u>

As at 30 June 2016 and 31 December 2015, the bank borrowings of the Group carried variable interest rates at HIBOR+2.1% to HIBOR+2.25% per annum.

The Group's mortgage loan is secured by the Group's leasehold land and building and supported by personal guarantee which will be released upon repayment of the mortgage.

17. LOAN NOTES

During the year ended 31 December 2014, the Company issued loan notes carrying effective interest rate of 10% with aggregate face value amounted to HK\$115,000,000. On initial recognition, the aggregate principal amount of the loan notes amounted to HK\$99,800,000 and the fair value for the redemption option amounted to HK\$15,200,000. The loan notes are unsecured.

The redemption option entitled the Company, at its sole discretion, to redeem any amount of the outstanding loan notes before their maturity by giving a fourteen-business-day prior notice to the holders at their principal amount with interest accrued. The redemption option also entitled the holders to redeem any amount of the loan notes held before maturity date by giving a 6-month prior notice to the Company between 1 June 2016 and 1 June 2020 at certain percentage of their principal amount with interest accrued. The effective interest rate of the loan notes is 10%.

During the six months ended 30 June 2016, all loan notes were redeemed.

18. SHARE CAPITAL – ORDINARY SHARES

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 30 June 2016	30,000,000,000	300,000
Issued and fully paid:		
At 1 January 2015	5,110,372,223	51,104
Issue of consideration shares (<i>Note 1</i>)	365,327,586	3,653
Exercise of share options (<i>Note 2</i>)	125,500,000	1,255
Conversion of convertible preference shares (<i>Note 3</i>)	83,333,333	833
Issue of shares upon share subscription (<i>Note 4</i>)	1,785,098,644	17,851
At 31 December 2015	7,469,631,786	74,696
Conversion of convertible preference shares (<i>Note 3</i>)	291,666,666	2,917
At 30 June 2016	7,761,298,452	77,613

Notes:

1. On 1 January 2015, the Company issued 365,327,586 ordinary shares to Bonjour Group Limited for acquisition of 100% equity interest in Bonjour Beauty International Limited. Details of the transaction are disclosed in the announcements of the Company dated 20 August 2014 and 1 January 2015 and the circular of the Company dated 19 November 2014.
2. During the year ended 31 December 2015, 120,500,000 and 5,000,000 share options were exercised at a subscription price of HK\$0.2128 and HK\$0.206 per share respectively, resulting in the issue of a total of 125,500,000 ordinary shares and the Company received a total cash consideration of approximately HK\$26,672,000.
3. On 22 May 2015 and 18 January 2016, 83,333,333 and 291,666,666 ordinary shares were allotted and issued upon exercise of the conversion rights attaching to the convertible preference shares which were allotted and issued (the “CPS Subscription”) pursuant to the convertible preference share subscription agreement dated 31 October 2014. For details of the CPS Subscription, please refer to the announcement of the Company dated 31 October 2014 and the circular of the Company dated 28 November 2014.
4. Pursuant to the investment agreement dated 5 January 2015, 1,785,098,644 ordinary shares were allotted and issued at HK\$0.98 per share on 29 May 2015. The gross proceeds from the investment agreement were approximately HK\$1,749,397,000. Details of the transaction are disclosed in the announcement of the Company dated 5 January 2015 and the circular of the Company dated 3 February 2015.

19. SHARE CAPITAL – CONVERTIBLE PREFERENCE SHARES (THE “PREFERENCE SHARES”)

	Numbers of shares	Amount <i>HK\$'000</i>
Preference shares of HK\$0.01 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 30 June 2016	375,000,000	3,750
Issued and fully paid:		
At 1 January 2015	374,999,999	3,750
Converted during the year	<u>(83,333,333)</u>	<u>(833)</u>
At 31 December 2015	291,666,666	2,917
Converted during the period	<u>(291,666,666)</u>	<u>(2,917)</u>
At 30 June 2016	<u><u>–</u></u>	<u><u>–</u></u>

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

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

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

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key input
	30 June 2016	31 December 2015		
1. Held for trading investments	Listed equity securities in Hong Kong – HK\$61,327,000	Listed equity securities in Hong Kong – HK\$522,459,000	Level 1	Quoted bid prices in an active market.
2. Unlisted fund classified as available-for-sale investments	Unlisted equity fund in Hong Kong – HK\$8,495,000	Unlisted equity fund in Hong Kong – HK\$8,489,000	Level 2	Derived from quoted bid prices in an active market.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Town Health International Medical Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) are pleased to report the results for the six months ended 30 June 2016 (the “Period under review”).

During the Period under review, the Group recorded profit of approximately HK\$56,455,000 (2015: approximately HK\$259,926,000).

The decrease in profit was mainly attributable to the decrease in gain on fair value changes on held for trading investments. Profit attributable to owners of the Company for the Period under review was approximately HK\$54,239,000 (2015: approximately HK\$258,297,000). The Group’s gross profit margin for the Period under review was 37.87% (2015: 43.16%).

Decrease in gain on fair value changes on held for trading investments

Total gain on fair value changes on the Group’s held for trading investments for the Period under review amounted to approximately HK\$58,000 (2015: approximately HK\$298,259,000), comprising realised gain from disposal of held for trading investments of approximately HK\$5,076,000 and unrealised loss on fair value changes on held for trading investments of approximately HK\$5,018,000.

Business Review

With volatile global market and economic slowdown in the first half of 2016, the Group has adopted prudent business strategies and continued to improve its operational efficiency. In the past year, the Group maintained a healthy financial profile with abundant cash position in order to capture possible development opportunities in the healthcare market. Despite the challenging economic environment, the Group continued to focus on developing its core healthcare network business, and facilitate steady growth of a healthcare platform across Hong Kong and the People’s Republic of China (the “PRC”).

During the Period under review, the Group has developed a network of 488 healthcare service points that covered multiple disciplines, including 302 general practices service points, 69 specialties service points and 44 dental service points. As at 30 June 2016, a total of 738 medical doctors, dentists and auxiliary service providers, comprising 446 general practitioners, 215 specialists and 77 dentists, offered healthcare services through a network of self-operated and affiliated centres under the Group.

Managed care business

During the Period under review, the Group's managed care business achieved remarkable results and grew steadily which further strengthened the Group's leading position in the market. The Group successfully expanded the market share of Dr. Vio & Partners Limited ("Dr. Vio"), one of the subsidiaries of the Group, and enlisted more corporate clients and insurance companies. China Life Insurance (Overseas) Company Limited has also appointed Dr. Vio as its corporate medical service administrator. In order to enhance Dr. Vio's competitive advantage, the Group has integrated Dr. Vio's and its self operated clinic network to provide better primary, dental and specialty medical care services.

Healthcare service business

During the Period under review, the Group's self operated healthcare service business recorded steady revenue growth. However, the increase in medical staff expense has been squeezing the operating margins. At present, the Group operates a total of 91 medical centres and 15 dental clinics. In order to improve operational efficiency, the Group strived to review its human resources structure and adopt stringent cost control policies. The Group's specialty medical business delivered strong business growth and three orthopedic centres started operation during the Period under review. At present, the Group runs 39 specialty medical centres. Some specialty medical centres which are of relatively large scale and located in central business districts such as Central, Causeway Bay and Tsim Sha Tsui, are still at their initial development stages. The cost efficiency of those centres is not optimal yet, but their revenue growth is significant. The Group actively integrates its healthcare network through Dr. Vio and its specialty medical centres to increase patient referrals. The healthcare and dental service business of the Group contributed approximately HK\$226,965,000 (2015: HK\$186,696,000) to the Group's revenue during the Period under review, which constituted approximately 38.63% (2015: 34.65%) of the total revenue of the Group in the Period under review.

Beauty and cosmetic medicine business

During the Period under review, the Group's beauty and cosmetic medicine business was adversely affected by the economic downturn. Selling of cosmetic services as well as medical cosmetic services was under significant pressure. As such, this sector recorded a revenue decline, resulting in a loss of approximately HK\$431,000. The Group will strive to improve the operation efficiency and look into any possible strategic moves for this business segment.

Promotion of medical tourism between the PRC and Hong Kong

The PRC-HK medical tourism is a major focus for the Group's business development. During the Period under review, the Group has newly established diversified marketing channels including website, mobile app, WeChat platform and hotline centre to facilitate the medical tourism business. Besides, the Group also participated in the "616 Customer Festival" organized by China Life Insurance (Group) Company ("China Life Group"). Through the campaign "遊禮享", the Group showed its Hong Kong premium and customized one-stop medical tourism services to China Life Group's PRC customers. Since the vaccine scandal broke out in China, the Group has been working with China Parenting Network Holdings Limited (a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 8361)) ("China Parenting Network") to launch cross-border mother-child vaccination services. Since the development of the PRC-HK medical tourism was still at the initial development stage, it did not contribute substantially to the revenue of the Group during the Period under review. The Group is confident of the future development potential of the PRC-HK medical tourism business.

Integration of comprehensive One Pass O2O platform

During the Period under review, the Group completed the establishment of One Pass platform, an online to offline (O2O) health and lifestyle platform which integrates the Group's growing variety of healthcare and well-being business segments. The Group has commenced the development of the second phase of One Pass, which will connect the platform to more business segments of the Group to improve its healthcare management function. It is expected that One Pass in its second phase will be launched in the second half of 2016.

Healthcare service business in the PRC

Thriving PRC high-end health check business

Guangzhou Yikang Medical Management Limited (“Yikang”), a subsidiary of the Group, operating a high-end health check and medical diagnostic centre in Guangzhou, has been performing well in the first half of 2016. The health check services for VIP and corporate clients as well as the demand for nuclear medicine services have witnessed strong growth during the Period under review. This has much to do with the good effort on marketing and optimizing referral programs.

China hospital service business

The Renji Group, which is comprised of a number of enterprises established in the PRC which the Group holds interest, operates a rehabilitation hospital and two clinics in Hangzhou. During the Period under review, Renji Group did not perform well owing to the keen market competition for both business and healthcare talents. In addition, the progress of setting up new departments in the hospital was far from satisfactory. As a result, the income base could not be broadened as initially expected.

Nanyang Xiangrui Hospital Management Advisory Co. Ltd. (南陽祥瑞管理諮詢有限公司) (“Nanyang Xiangrui”) operates a Class A tertiary hospital, Nanshi Hospital of Nanyang (南陽南石醫院) (“Nanshi Hospital”), two hospital branches and a community health service centre. The Group has submitted the documents for the acquisition approval according to the PRC regulations to the relevant authorities. During the Period under review, the Group made great efforts on operational and management integration. The Group reformed the physician remuneration scheme of Nanshi Hospital and implemented a performance based reward system. In addition, the Group rebuilt the supply chain platform, updated the name list of suppliers and improved the procurement procedure, which would further increase its bargaining power and lower its procurement costs. Meanwhile, the Group assisted Nanshi Hospital in developing its new out patient departments, including cosmetic medicine, reproductive medicine and health check services. The Hong Kong based professional specialists in the Group also got involved so as to introduce Hong Kong style healthcare services to the Group’s business units in Mainland China. In respect of the beauty and

cosmetic medicine business, the Group's professional team had formulated development plans, marketing strategies, cooperation channels and venue renovation projects to turn the high-end customers of China Life Group in Nanyang into the Nanshi Hospital's customers. In order to facilitate the introduction of Hong Kong style healthcare service, the Group organized exchange programs for the staff of Nanshi Hospital to gain a better understanding of the operations and service flows of the Group's business units in Guangzhou and Hong Kong. The Group continued to explore opportunities to acquire other hospitals and develop hospital management business in the Henan Province.

Development of dental clinic network in the PRC

During the Period under review, to facilitate development of high-end dental and Invisalign orthodontic services business, the Group provided high-end Invisalign orthodontic training programs to dentists in Shanghai that could enhance the dentists' capabilities and help recruit potential orthodontic dentists. Moreover, the renovation of the Group's dental training and service flagship centre in Hangzhou has now been completed and this centre is expected to start operation in the second half of the year. The Group has also explored opportunities of further cooperation with partners in China so as to provide high-end dental services to their customers.

Strategic investments and treasury management

During the Period under review, the Group adopted prudent strategic investment and treasury management policies, lowering its investment ratio and further increasing its cash position in order to minimize the financial risk and allocate more resources to healthcare investments. The Group has been closely monitoring its cash position to maintain adequate and flexible funding for future potential investments and development projects.

OUTLOOK

In Hong Kong

The second half of 2016 will be challenging for the Group, with global growth showing a clear sign of slowdown. The Group will continue to strengthen its leading healthcare network and integrate its upstream and downstream businesses. Meanwhile, the Group has also been seeking for further business cooperation and acquisition targets to consolidate and expand its business scale.

In respect of the managed care business, Dr. Vio will restructure its business development team, and recruit experienced sales personnel to maintain a good working relationship with the existing customers and provide value-added services. Also, the sales personnel will attempt to solicit potential clients to enlarge the market share of the Group. In order to simplify the approval, clearing and payment procedures, the Group will upgrade Dr. Vio's information technology system to facilitate the electronic payment and claim system for clients, so as to enhance the service quality and efficiency.

In respect of the healthcare services, the Group expects the newly established integrated specialty centre in downtown Yuen Long will provide services to the residents in the North district of Hong Kong in the second half of the year. The Group is considering to streamline the manpower structure to achieve optimal efficiency. The Group will adopt stringent budget control and cost reduction policies to improve its profitability. In terms of specialty medical services, the Group will recruit more experienced specialist practitioners to expand its specialty team and obtain more referrals by integrating its healthcare network.

For medical tourism, the Group plans to provide Hong Kong medical tourism service to China Life Group's high-end customers in six provinces in the PRC. Meanwhile, the Group will work with other branches of China Life Group and other travel agencies in the long term. Besides, the Group plans to establish a healthcare management centre at China Life Investment Building in Wan Chai to cater for the mainland tourists.

In the PRC

For the PRC market, the demand for healthcare services will continue to increase due to the economic growth and the aging population in the PRC. The Group will seize the opportunities to further capture the market and strengthen the management of its existing businesses in the PRC in order to bring its core value of professional healthcare management into the PRC market.

In respect of the health check business in the PRC, the Group will work with the Shenzhen branch of China Life Group to explore the possibility of setting up its health check business in Shenzhen. The Group will increase marketing efforts, upgrade its information technology systems and establish partnerships with domestic medical institutions in the PRC to enlist more referral cases. Facing the issue of fully utilized facilities, the Group will purchase a new ECT scanner to meet the service needs. Since the tenancy agreement of the health check and diagnostic centre of Yikang will expire in the first half of 2017, the Group is looking for a new location for the relocation of this health check and diagnostic centre.

As to the hospital management business in the PRC, the Group will recruit experienced practitioners to join Reji Group and offer trainings to its specialist team. The Group will speed up the development of the new departments, such as Intensive Care Unit and Spinal Rehabilitation Centre. In order to have more room for the expansion of Shengkang Hospital, the Group will relocate its elderly home. In addition, the Group will continue to seek for clinic acquisitions in Hangzhou to broaden its community healthcare services coverage.

The Group is proactively completing the acquisition of Nanyang Xiangrui and the approval has now reached the final stage. The Group will accelerate the development of its healthcare service by introducing Hong Kong style health check, cosmetic medicine, pretreatment for reproductive medicine, and obstetric and gynaecological services to Nanshi Hospital. In order to provide advanced professional medical services, the Group plans to purchase new medical devices, including electron linear accelerators used for surgical oncology and automatic clinical chemistry analyzers used for health check. Besides, the Group is proactively developing an e-procurement platform which will facilitate electronic supply chain management and enhance operational efficiency. In line with its long-term development, the Group will develop a new medical building for Nanshi Hospital based on construction standards of international medical institutions. This new 1,000-bed medical building with floor area of more than 70,000 square meters, and equipped with advanced surgical centres and high-end health check and medical diagnosis equipment, will expand the scale of the intensive care units and obstetrics and gynaecology services of Nanshi Hospitals and provide the hospital with VIP rooms for premium healthcare services. For this important investment, the Group will adopt a prudent approach to allocate its resources and ensure effective budget control. The Group will continue its efforts in searching for investment opportunities in hospital management and acquisition targets.

In respect of the dental business in the PRC, the Group's dental training and service flagship center in Hangzhou will start operation in the second half of the year. The Group will offer Invisalign training programs to more than 100 dentists to further expedite the development of its dental business in the PRC. The Group will set up two entities engaging in dental material procurement and provision of dental software. The Group will expedite the development of the whole dental services chain in order to achieve the strategic coverage of the Group.

With the rapid development of its healthcare businesses and its shifting focus to the PRC markets, the Group will further optimize its management structure in Mainland China. At present, the Group's businesses span across Guangzhou, Shanghai, Hangzhou and Nanyang in China. To better implement its business strategies in the PRC markets, the Group plans to set up a headquarters in Beijing which will provide business development, operations, financial and supply chain managements, for the Group's businesses in the PRC. The Beijing headquarters will also serve to work closely with China Life Group, so that the Group can fully align its healthcare strategies with those of China Life Group so as to capture new development opportunities in the healthcare industry in the PRC.

Investments

To ensure the Group has adequate capital for long-term development and strategic planning, the Group will gradually divest its non-core investments. The Group will continue to maintain a healthy financial profile and strong cash position for funding future potential acquisitions and collaborations, so as to enlarge the Group's market share and maintain its market leading position.

The Group remains committed to its objectives of developing business in the PRC and Hong Kong. These objectives will be achieved through cautious and selective acquisitions, stringent capital expenditure and cost control measures across all business units, and strengthening the internal controls and optimizing management system in every aspect to ensure effective allocation of resources and continuous improvement of operational efficiencies throughout the Group. The Group will continue to maintain a prudent financial profile and strong liquidity to build a solid foundation for long term development.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group held bank balances and cash, which were denominated in Hong Kong Dollars (“HKD”), Renminbi (“RMB”) and United States Dollars (“USD”), of approximately HK\$1,800,593,000 (31 December 2015: approximately HK\$1,826,679,000). The Group had bank borrowings, which were denominated in HKD, of approximately HK\$21,364,000 (31 December 2015: approximately HK\$21,887,000). Details of bank borrowings are set out in note 16 to the condensed consolidated financial statements for the six months ended 30 June 2016.

As at 30 June 2016, net current assets amounted to approximately HK\$1,769,045,000 (31 December 2015: approximately HK\$2,054,216,000). Current ratio (defined as total current assets divided by total current liabilities) was 3.96 (31 December 2015: 4.23).

As at 30 June 2016, gearing ratio (defined as total bank borrowings divided by equity attributable to owners of the Company) was 0.47% (31 December 2015: 0.48%). Major currencies used for the Group’s transactions were HKD, RMB and USD. As the HKD are pegged to USD and the fiscal policy of the Central Government of the PRC in relation to RMB was stable throughout the six months ended 30 June 2016, the Group considers that the potential foreign exchange exposure of the Group was limited.

CAPITAL STRUCTURE

As at 30 June 2016, the Group had equity attributable to owners of the Company of approximately HK\$4,501,188,000 (31 December 2015: approximately HK\$4,530,792,000).

SHARE CAPITAL

Details of movements in the share capital of the Company during the Period under review are set out in notes 18 and 19 to the condensed consolidated financial statements for the six months ended 30 June 2016.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2016, certain property, plant and equipment and investment properties of the Group with carrying value of approximately HK\$111,382,000 (31 December 2015: HK\$114,093,000) and HK\$146,000,000 (31 December 2015: HK\$146,000,000) respectively, were pledged to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no material contingent liabilities (31 December 2015: Nil).

HUMAN RESOURCES

As at 30 June 2016, the Group employed 1,458 staff (2015: 1,379). Total employee costs, including directors' emoluments, amounted to approximately HK\$352,244,000 for the six months ended 30 June 2016 (2015: approximately HK\$313,393,000).

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 2016, 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 2016, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

REVIEW OF FINANCIAL STATEMENTS

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2016 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, 19 August 2016

As at the date of this announcement, the executive Directors are Miss Choi Ka Yee, Crystal (Chairperson), Dr. Cho Kwai Chee (Executive Deputy Chairman), Dr. Hui Ka Wah, Ronnie, JP (Chief Executive Officer), Dr. Ip Chun Heng, Wilson, Mr. Lee Chik Yuet and Mr. Wong Seung Ming (Chief Financial Officer); the non-executive Directors are Dr. Choi Chee Ming, GBS, JP (Deputy Chairman), Ms. Fang Haiyan (Deputy Chairperson), Mr. Tsai Ming-hsing (Deputy Chairman) and Mr. Chen Jinhao; and the independent non-executive Directors are Mr. Ho Kwok Wah, George, MH, Mr. Wong Tat Tung, MH, JP, Mr. Yu Xuezhong, Ms. Li Mingqin and Mr. Wang John Hong-chiun.