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 2018

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2018:

– The Group recorded revenue of approximately HK$529,396,000 (2017: HK$538,174,000).

– The Group recorded a profit of approximately HK$61,502,000 (2017: HK$57,953,000).

As at 30 June 2018:

– The Group had net current assets and net assets of approximately HK$1,737,252,000 and HK$4,383,399,000, respectively.

– The Group had a current ratio of 8.67 and a gearing ratio of 0.47%.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

RESULTS

The board of directors of Town Health International Medical Group Limited is pleased to report the unaudited interim condensed consolidated results of the Company and its subsidiaries for the six months ended 30 June 2018, together with the comparative unaudited figures for the six months ended 30 June 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Continuing operations			
Revenue	*4*	**529,396**	538,174
Cost of sales		**(365,129)**	(367,705)
Gross profit		**164,267**	170,469
Other income	*6*	**36,372**	42,322
Administrative expenses		**(184,813)**	(153,706)
Other gains and losses	*7*	**56,571**	(17,128)
Finance costs	*8*	**(264)**	(323)
Share of results of associates		**7,122**	10,359
Share of results of a joint venture		**261**	(1,152)
Profit before tax		**79,516**	50,841
Income tax expenses	*9*	**(18,014)**	(14,569)
Profit for the period from continuing operations	*10*	**61,502**	36,272
Discontinued operation			
Profit for the period from discontinued operation		**–**	21,681
Profit for the period		**61,502**	57,953

	Note	Six months ended 30 June 2018 (unaudited) HK$'000	2017 (unaudited) HK$'000
Other comprehensive income (expense) for the period			
Item that will not be reclassified to profit or loss:			
Fair value gain on movements in equity instruments at fair value through other comprehensive income		**19,954**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising from the translation of foreign operations		**(11,658)**	23,929
Fair value loss on available-for-sale investments		**–**	(5,060)
		(11,658)	18,869
		8,296	18,869
Total comprehensive income for the period		**69,798**	76,822
Profit for the period attributable to:			
Owners of the Company			
– from continuing operations		**57,627**	21,836
– from discontinued operation		**–**	21,681
Non-controlling interests		**3,875**	14,436
		61,502	57,953
Total comprehensive income attributable to:			
Owners of the Company		**69,151**	57,865
Non-controlling interests		**647**	18,957
		69,798	76,822
Earnings per share *(HK cent)*	*12*		
For continuing operations and discontinued operation			
– Basic and diluted		**0.77**	0.56
For continuing operations			
– Basic and diluted		**0.77**	0.28

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	**30 June 2018 (unaudited)** *HK$'000*	31 December 2017 (audited) *HK$'000*
NON-CURRENT ASSETS			
Investment properties		**610,685**	597,601
Property, plant and equipment		**389,582**	343,166
Loans receivable		**5,539**	5,998
Goodwill		**500,362**	502,127
Intangible assets		**360,803**	368,134
Interests in associates		**278,545**	268,675
Interests in a joint venture		**17,855**	17,594
Available-for-sale investments		**–**	286,329
Financial assets at fair value through profit or loss		**101,101**	37,840
Equity instruments at fair value through other comprehensive income		**98,937**	–
Promissory notes		**330,000**	330,000
Deposits made for acquisition of property, plant and equipment		**–**	8,165
		2,693,409	2,765,629
CURRENT ASSETS			
Inventories		**26,416**	24,585
Trade and other receivables	*13*	**220,579**	241,325
Held for trading investments		**–**	16,726
Financial asset at fair value through profit or loss		**9,478**	–
Loans receivable		**864**	163,594
Promissory notes		**30,000**	–
Amounts due from associates		**6,030**	6,730
Amount due from a non-controlling interest		**1,247**	64
Tax recoverable		**388**	867
Fixed bank deposit		**–**	64,358
Bank balances and cash		**1,668,894**	1,391,559
		1,963,896	1,909,808

	Notes	**30 June 2018 (unaudited) *HK$'000***	31 December 2017 (audited) *HK$'000*
CURRENT LIABILITIES			
Trade and other payables	*14*	**126,824**	222,140
Amount due to an investee		**307**	308
Amounts due to non-controlling interests		**46,621**	47,101
Bank borrowings	*15*	**19,258**	19,777
Tax payable		**33,634**	22,552
		226,644	311,878
NET CURRENT ASSETS		**1,737,252**	1,597,930
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,430,661**	4,363,559
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**47,262**	49,079
		4,383,399	4,314,480
CAPITAL AND RESERVES			
Share capital	*16*	**75,261**	75,261
Reserves		**4,034,482**	3,962,142
Equity attributable to owners of the Company		**4,109,743**	4,037,403
Non-controlling interests		**273,656**	277,077
Total equity		**4,383,399**	4,314,480

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL

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

The Company's shares are listed on the Stock Exchange.

The addresses of the registered office and the principal place of business of the Company are Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and 6/F, Town Health Technology Centre, 10-12 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong respectively.

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

2. BASIS OF PREPARATION

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

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values.

Other than changes in accounting policies resulting from application of new HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

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

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on HKFRS 9 "Financial Instruments"

In the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses for financial assets and 3) general hedge accounting.

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

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

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

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

3.2 *Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"*

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

The Group recognises revenue from the following major sources:

- Hong Kong medical services
- Hong Kong managed care business
- securities and properties investments and treasury management
- Mainland medical management and services
- others

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

Summary of effects arising from initial application of HKFRS 15

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

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

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

4. REVENUE

Revenue represents the aggregate of the net amounts received and receivable from third parties for the period. There is no seasonality or cyclicality of the interim operations of the Group. Disaggregation of revenue from contracts with customers are as follows:

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Types of services		
Hong Kong medical services	**260,133**	238,209
Hong Kong managed care business	**228,306**	225,474
Property rental income	**8,045**	9,226
Mainland medical management and services	**28,002**	65,265
Miscellaneous healthcare services income	**4,910**	–
	529,396	538,174
Timing of revenue recognition		
At point in time	**499,957**	501,438
Over time	**29,439**	36,736
	529,396	538,174

5. SEGMENT INFORMATION

During the year ended 31 December 2017, there were five reportable and operating segments, namely provision of healthcare and dental services, managed care business, investments in securities and properties and treasury management, hospital management and consulting services business and others. During the six months ended 30 June 2018, the chief operating decision maker, being the chief executive officer of the Company ("CEO"), reassessed the current business units of the Group. The CEO considered that the locations of the different types of business are more relevant for the purposes of resources allocation and assessment of segment performance.

Specifically, the Group's new operating and reportable segments are as follows:

- Hong Kong medical services – Operations of the medical and dental practices in Hong Kong
- Hong Kong managed care business – Provision of managed care for healthcare networks & medical third party network administor business in Hong Kong
- Mainland medical management and services – Operations of medical and dental practices in the PRC, provision of hospital management services and provision of consulting services in relation to the hospital management
- Securities and properties investments and treasury management – Trading of listed securities and leasing of properties
- Others – Provision of miscellaneous healthcare services

Comparative figures have been restated to conform with the current period's presentation.

No segment information of assets and liabilities is provided to the CEO for the assessment of performance of different segments. Accordingly, no segment information of assets and liabilities is presented.

Segment revenue and results

Six months ended 30 June 2018

	Hong Kong medical services (unaudited) *HK$'000*	**Hong Kong managed care business (unaudited)** *HK$'000*	**Mainland medical management and services (unaudited)** *HK$'000*	**Securities and properties investments and treasury management (unaudited)** *HK$'000*	**Others (unaudited)** *HK$'000*	**Elimination (unaudited)** *HK$'000*	**Total (unaudited)** *HK$'000*
REVENUE							
External sales	**260,133**	**228,306**	**28,002**	**8,045**	**4,910**	**–**	**529,396**
Inter-segment sales	**12,564**	**–**	**–**	**3,670**	**–**	**(16,234)**	**–**
	272,697	**228,306**	**28,002**	**11,715**	**4,910**	**(16,234)**	**529,396**
Segment results	**17,939**	**21,967**	**(4,848)**	**80,117**	**(12,914)**	**–**	**102,261**
Finance costs							**(264)**
Unallocated other income							**4,350**
Unallocated corporate expenses							**(26,831)**
Profit before tax							**79,516**

Six months ended 30 June 2017

	Hong Kong medical services (unaudited) *HK$'000*	Hong Kong managed care business (unaudited) *HK$'000*	Mainland medical management and services (unaudited) *HK$'000*	Securities and properties investments and treasury management (unaudited) *HK$'000*	Others (unaudited) *HK$'000*	Elimination (unaudited) *HK$'000*	Total (unaudited) *HK$'000*
REVENUE							
External sales	238,209	225,474	65,265	9,226	–	–	538,174
Inter-segment sales	11,464	–	–	3,431	–	(14,895)	–
	249,673	225,474	65,265	12,657	–	(14,895)	538,174
Segment results	14,579	24,040	16,584	8,284	(2,815)	–	60,672
Finance costs							(323)
Unallocated other income							15,099
Unallocated corporate expenses							(24,607)
Profit before tax							50,841

Geographical information

The Group's revenue from external customers in its continuing operations are detailed below:

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Hong Kong	**501,394**	472,909
Other regions of the PRC	**28,002**	65,265
	529,396	538,174

6. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Dividend income from equity instruments at fair value through other comprehensive income	**4,843**	–
Interest income	**27,179**	25,173
Rental income	**2,255**	1,613
Sundry income	**2,095**	13,486
Dividend income from unlisted investments classified as available-for-sale investments	**–**	2,050
	36,372	42,322

7. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Reversal of impairment loss (impairment loss) recognised in respect of:		
– promissory note	**30,000**	–
– trade receivables	**(3,118)**	(2,603)
– other receivables	**2,258**	–
– amounts due from investees	**–**	250
Fair value changes on investment properties	**29,784**	–
Fair value changes on financial assets at fair value through profit or loss	**(2,353)**	–
Fair value changes on held for trading investments	**–**	(14,775)
	56,571	(17,128)

8. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on bank borrowings	**264**	323

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Hong Kong Profits Tax	**8,205**	8,151
PRC Enterprise Income Tax	**11,130**	7,218
Deferred taxation credit	**(1,321)**	(800)
	18,014	14,569

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for both interim periods.

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

10. PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit for the period from continuing operations has been arrived at after charging:		
Staff costs		
– Directors' remuneration	**6,444**	5,711
– Other staff's salaries, bonus and other benefits	**314,230**	288,442
– Other staff's retirement benefits scheme contributions	**3,612**	3,355
	324,286	297,508
Amortisation of intangible assets	**5,346**	4,434
Depreciation of property, plant and equipment	**23,710**	16,768

11. DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2018 (2017: Nil).

12. EARNINGS PER SHARE

For continuing operations

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

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit for the period attributable to owners of the Company and earnings for the purpose of calculating basic and diluted earnings per share	**57,627**	21,836

	30 June 2018	30 June 2017
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	**7,526,134,452**	7,714,710,540

For continuing and discontinued operations

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

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit for the period attributable to owners of the Company and earnings for the purpose of basic and diluted earnings per share	**57,627**	43,517

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

For discontinued operation

Basic and diluted earnings per share for the six months ended 30 June 2017 for the discontinued operation was HK0.28 cent per share (2018: Nil) based on the profit for the period from the discontinued operation of approximately HK$21,681,000 (2018: Nil) and the denominators detailed above for both basic and diluted earnings per share.

13. TRADE AND OTHER RECEIVABLES

	30 June 2018 (unaudited) ***HK$'000***	31 December 2017 (audited) *HK$'000*
Trade receivables	**115,508**	162,900
Less: Allowance for doubtful debts	**(8,286)**	(5,289)
Total trade receivables, net of allowance	**107,222**	157,611
Prepayments, deposits and other receivables	**113,357**	83,714
	220,579	241,325

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

	30 June 2018 (unaudited) ***HK$'000***	31 December 2017 (audited) *HK$'000*
0-60 days	**92,521**	120,953
61-120 days	**9,913**	24,096
121-180 days	**3,203**	12,143
181-240 days	**1,585**	419
	107,222	157,611

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

14. TRADE AND OTHER PAYABLES

	30 June 2018 (unaudited)	31 December 2017 (audited)
	HK$'000	*HK$'000*
Trade payables	**30,693**	56,691
Other payables	**14,738**	80,079
Accruals	**65,535**	73,192
Deposits received	**5,194**	9,243
Contract liabilities	**10,664**	–
Deferred income	**–**	2,935
	126,824	222,140

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

	30 June 2018 (unaudited)	31 December 2017 (audited)
	HK$'000	*HK$'000*
0-60 days	**27,535**	39,746
61-120 days	**1,939**	5,305
Over 120 days	**1,219**	11,640
	30,693	56,691

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

15. BANK BORROWINGS

	30 June 2018 (unaudited) *HK$'000*	31 December 2017 (audited) *HK$'000*
Secured	**19,258**	19,777

As at 30 June 2018 and 31 December 2017, the bank borrowings of the Group carried variable interest rates at HIBOR+2.25% per annum.

The Group's mortgage loan is secured by the Group's leasehold land and building and supported by personal guarantee provided by non-controlling interests of the Company's non-wholly owned subsidiary which will be released upon repayment of the mortgage.

16. SHARE CAPITAL

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

Town Health International Medical Group Limited and its subsidiaries are pleased to report the results for the six months ended 30 June 2018.

During the period under review, the Group recorded a profit of approximately HK$61,502,000 (2017: approximately HK$57,953,000). The increase in profit was mainly attributable to the net increase in other gains and losses which was set off by the increase in administrative expenses.

Other gains and losses

During the period under review, the Group recognised net gain in respect of other gains and losses of approximately HK$56,571,000 (2017: net loss of approximately HK$17,128,000).

Reversal of impairment loss recognised in respect of promissory note and other receivables

The Group recorded reversal of impairment loss in respect of promissory note of HK$30,000,000 and other receivables of approximately HK$2,258,000 (being the interest accrued on the promissory note) for the six months ended 30 June 2018 (while no reversal of impairment loss in respect of promissory note and other receivables was recorded for the six months ended 30 June 2017). Such reversal of impairment loss is due to repayment of the promissory note in the principal amount of HK$30,000,000 issued by a corporation which is a third party independent of the Company and its connected persons (as defined in the Listing Rules) in favour of the Group for partial settlement of the consideration of the Group's disposal of shares of New Ray Medicine International Holding Limited, whose shares are listed on the Main Board of the Stock Exchange (Stock code: 6108), and interest accrued thereon in the aggregate amount of approximately HK$33,058,000 in July 2018.

Fair value gain on investment properties

The Group recorded a fair value gain on investment properties of approximately HK$29,784,000 for the six months ended 30 June 2018 (2017: Nil). The fair value gain was contributed by the increase in fair value of a number of the Group's properties.

Fair value loss on held for trading investments

During the six months ended 30 June 2017, the Group recorded a fair value loss of approximately HK$14,775,000 in respect of the Group's investment in the securities of China Parenting Network Holdings Limited, whose shares are listed on GEM of the Stock Exchange (Stock code: 8361), which was previously classified as held for trading investments during the year ended 31 December 2017. As at 30 June 2018, the Group's investment in China Parenting is classified as financial assets at fair value through profit or loss and a fair value loss of approximately HK$7,248,000 was recognised.

Administrative expenses

During the period under review, the Group recognised administrative expenses of approximately HK$184,813,000 (2017: approximately HK$153,706,000). Such increase was mainly due to the increase in legal and professional fee and also depreciation and rent, rates and building management fee as a result of opening of two health management centres in Hong Kong.

Business review

Suspension of trading and progress update on resumption of trading

The SFC issued a direction to suspend trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 27 November 2017. As at the date of this announcement, the Company's share trading activity has remained suspended. As disclosed in the Company's announcement dated 18 December 2017, the Board has established an independent board committee, comprising all the independent non-executive Directors, to conduct an independent investigation into the issues and matters arising from or relating to the trading suspension, to make recommendations to the Board on appropriate actions to be taken, and to work towards the goal of having the Shares resumed trading on the Stock Exchange. In February 2018, the independent board committee recruited an independent forensic accountant to conduct a forensic investigation into the issues and matters arising from or relating to the trading suspension and other related issues. The forensic investigation has been completed and reported to the independent board committee. The Company will make an announcement in relation to the findings of the forensic investigation as soon as practicable. As disclosed in the Company's announcements dated 11 July 2018 and 1 August 2018, the Company has made a submission to the SFC to address the SFC's concerns on the Group and to seek the SFC's re-consideration on its direction, and the Company has been communicating with the SFC in connection with the resumption of trading in the Shares. The Group is now striving to have its Shares resumed trading on the Stock Exchange. The Company will keep the shareholders and potential investors of the Company informed of the progress on this matter.

Healthcare service network of the Group

As at 30 June 2018, the Group had 497 multi-disciplinary healthcare service points, including 291 general practice service points, 86 specialties service points, 36 dental service points and 84 auxiliary service points, of which the Group had 741 medical doctors, dentists and auxiliary service providers (including 435 general practitioners, 251 specialists and 55 dentists) through its self-operated and affiliated centres.

Business in Hong Kong

Third-party administrator business – Vio

The third-party administrator business of the Group has recorded steady growth in the first half of 2018. During the period under review, the Group continued to enhance the operation efficiency and quality of services of Vio network and expand its business through successful extension of service contracts with existing corporate and insurance company clients. The Group is also committed to expanding Vio's medical centre service network. Vio's self-operated medical centre in Central has been relocated to another prime location in Central during the period under review. The new facility is more spacious and provides more comprehensive and better medical services to the customers. It is anticipated that the relocation and expansion of medical centre will help boost Vio's market share and drive business growth.

During the period under review, income generated from the Group's Hong Kong managed care business was approximately HK$228,306,000 (2017: approximately HK$225,474,000), representing approximately 43.13% of the Group's revenue for the six months ended 30 June 2018 (2017: approximately 41.90%) and net profit margin of the third-party administrator business has been steadily maintained, making Vio one of the leaders of the market.

Self-operated medical and dental service business

The Group's self-operated medical and dental service business remained stable while specialty medical service business has recorded significant growth in the first half of 2018. During the period under review, the Group continued to improve the quality of its medical services through better centralised administrative support to the doctors so that its doctors can stay more focused on providing better medical services. Specialty medical services require good specialist doctors for provision of quality medical services to meet the market demand. Therefore, the Group leveraged its managerial experience accumulated over the years to attract more prominent specialists to join the Group and provide administrative support through centralised administration system together with a flexible and attractive incentive scheme for the doctors. The scope of specialty medical services has gradually expanded and customers have been increasing. Years of experience and a large customer base help promote the Group's brand recognition. The Group's self-operated chain medical service centre will be included in Vio's third-party medical service management network in order to enlarge the service network, bring in cross-referral and create synergies among upstream and downstream parties along the medical value chain to enhance the synergistic effects and the Group's core competitiveness.

During the period under review, income generated from the Group's Hong Kong medical and dental services business was approximately HK$260,133,000 (2017: approximately HK$238,209,000), representing approximately 49.14% of the Group's revenue for the six months ended 30 June 2018 (2017: approximately 44.26%).

Network of health management centres

During the period under review, the Group has worked closely with China Life Group to develop health management centres in Hong Kong and the PRC, in order to promote effective integration of insurance and health management businesses. These health management centres have introduced the concept of "preventive healthcare" and "holistic healthcare", combining health checks and follow-up healthcare services so as to provide one-stop comprehensive medical services for customers. One health management centre is located at the China Life Group's building in Wan Chai and another one in Tsim Sha Tsui. The Group has developed a strong sales team for the health management business. In order to meet the diverse needs of customers, the Group provides a wide range of health management solutions with an aim to effectively enhance the health status of its customers. Through its mobile application, the Group is able to provide personalised health advice and guidance to customers and establish personal health records for clients that contain key health information, medical records, medical reports, assessment reports, and other data so that customers could closely monitor and evaluate their health status regularly. In addition, the Group will strengthen its cooperation with the sales team of China Life Group, so as to attract their VIP customers to enjoy the high-end medical services, hence expanding its market share.

Beauty and cosmetic medicine business

Following the Group's acquisition of an aggregate of 50% share capital of Auspicious Idea in 2016 and 2017, the beauty and medical brand "The Beauty Medical" of Auspicious Idea officially integrated into the Group's medical beauty business segment. During the period under review, the Group has actively integrated the management and operation of "The Beauty Medical" with the Group's other businesses. The Group's health management centre in Tsim Sha Tsui has integrated the beauty and cosmetic medicine services which provide medical cosmetics, and anti-aging services into the health management services to provide one-stop comprehensive health management and medical beauty services. The Group has actively combined lifestyle beauty, medical cosmetics, and other medical services to expand the Group's scope of services, so as to enhance its competitiveness, increase cross-selling opportunities, reduce marketing costs and create operational synergies. The Group's rich experience on health management services, and its broad-based specialist doctor network have helped enhance its medical beauty business's competitiveness. Also, the first medical beauty clinic in the PRC wholly-owned by "The Beauty Medical" was opened in the Futian District, Shenzhen, at the end of 2017. This has significantly helped expand the Group's medical beauty business in the PRC.

During the period under review, "The Beauty Medical" recruited a total of 4 full-time or part-time doctors, among them, 1 is an orthopaedist. Its medical network in Hong Kong, Shenzhen and Shanghai opened 11, 7 and 3 centres respectively. During the period under review, the revenue of "The Beauty Medical" was approximately HK$125,993,000 (2017: approximately HK$115,107,000).

Business in the PRC

Hospital management and consulting services business in the PRC

During the period under review, the Group has been actively involved in the management of Nanshi Hospital through Nanyang Xiangrui, a subsidiary of the Company in the PRC which is principally engaged in hospital management advisory services. As of 30 June 2018, the business of Nanshi Hospital has recorded steady revenue growth. The growth rate has slowed down due to the limitation of fully occupied inpatient beds in the hospital. During the period under review, the Nanshi Hospital has adopted a series of reforms on both hardware and software enhancement. For the hardware enhancement, the Group has refurbished and renovated the hospital lobby, reception areas and various outpatient and inpatient departments. The Group has also introduced a Hong Kong-style clinic operation system to Nanshi Hospital. For the software improvement, medical specialists from Hong Kong were delegated to Nanshi Hospital to offer training to the local medical staff, including optimisation of consultation routines and improving the outpatient services in order to upgrade the standard of healthcare services and help consolidate Nanshi Hospital's leading position in the region.

For the long-term development of Nanshi Hospital, the construction of a new hospital block has been progressing apace. Construction has officially begun and is expected to be completed in 2019. By then, the old and new hospital blocks together with a new integrated outpatient building will cover more than 150,000 sq. m. with around 2,000 beds. The new block will also be equipped with high standard surgery centres, intensive care units as well as high-end obstetrics and gynecology inpatient wards of international standard, and VIP inpatient wards, together with an array of high-end medical equipment.

During the period under review, the Group acquired a building in the high-end commercial district of Nanyang City, and has planned to develop in it a high-end integrated medical centre targeting high-end customers in Nanyang City. The centre will be equipped with top-class dental and Invisalign orthodontic services, ophthalmic femtosecond services as well as beauty and medical cosmetic services, to provide high-end clients in Nanyang City with high quality and "patient-oriented" medical services which are of international standard.

During the period under review, the Group also further expanded the business scope of Nanyang Xiangrui, by establishing various subsidiaries to cover marketing business, trading of medical equipment and consumables and building management business. In the future, the Group will strive to identify and work with hospitals other than Nanshi Hospital so as to provide Hong Kong-style hospital management services to the clients.

High-end health check business

During the period under review, Yikang, a subsidiary of the Company which operates a high-end imaging diagnostic centre in the PRC with Sixth Hospital, purchased advanced medical imaging diagnostic equipment to enhance its service quality, which has contributed to its significant business growth.

High-end dental services

During the period under review, the dental clinic business of Yamei in Hangzhou has been expanding steadily. With the high-quality services together with an effective marketing strategy has earned Yamei expansion of a good reputation in the market and achieved a steady business growth and customer base since its establishment. Invisalign training for local dentists has become an important part of Yamei's business and helped fuel steady revenue growth during the period under review. As the key trainer of Invisalign treatment for the Group, Dr. Yau Yi Kwong has been actively developing Invisalign orthodontic services in the PRC, and building Yamei as the premier brand of Invisalign dental service provider in the industry.

Chain beauty and cosmetic medicine centres

In 2017, the Group had entered into a cooperation agreement with Shanxi Taigang to jointly develop beauty and cosmetic medicine business in the Shanxi Province. The cooperation between Shanxi Taigang and the Group will integrate both Shanxi Taigang's resources for healthcare customers and the Group's advantages with medical techniques, advanced management models, together with Hong Kong-style, professional, safe and people-oriented beauty and cosmetic medicine services in order to jointly build a network of local chain beauty and cosmetic medicine centres. The Group and Shanxi Taigang are in the negotiation of entering into a formal agreement to provide further details on their cooperation.

Other investments

As at 30 June 2018, the Group held 7,708.37 shares in Heemin Capital – Class A Shares with an aggregate subscription price of US$7,884,000 (equivalent to HK$61,103,000). Heemin Capital is principally engaged in global fund investment. As at 30 June 2018, the fair value of the Group's investment in Heemin Captial is approximately HK$58,571,000. As at 30 June 2018, the Group's investment in Heemin Capital constituted approximately 53% of the balance of the financial assets at fair value through profit or loss which was previously classified as available-for-sale investments as at 31 December 2017.

As at 30 June 2018, the Group held approximately 17.67% of HCMPS with an investment amount of approximately HK$88,703,000. HCMPS and its subsidiaries are principally engaged in the provision of contracted medical schemes for integrated medical and healthcare check-up services. Based on the latest unaudited combined financial information for the six months ended 30 June 2018 of HCMPS, it recorded a profit of approximately HK$15 million. The Group is of the view that the ageing population and the increasing demand for corporate medical solutions services in Hong Kong are favourable to the continuing development of HCMPS's business. As at 30 June 2018, the Group's investment in HCMPS constituted approximately 90% of the balance of equity instruments at fair value through other comprehensive income which was previously classified as available-for-sale investments as at 31 December 2017.

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

OUTLOOK

Looking ahead, the Group's business in Hong Kong will continue to maintain a stable growth. With the deepening of healthcare reforms in China, there will be increasing demand for high-end healthcare services in the PRC market. To grasp the blooming business opportunities, the Group will leverage its healthcare management expertise to introduce high quality and more efficient Hong Kong-style healthcare service and operation models to the PRC market and strive to become the leading player in the healthcare industry.

Hong Kong

As regards the healthcare services management business, the Group will strive to expand its business network and coverage and further enhance the service quality. The Group will continuously upgrade its technology and operation procedure so as to enhance its operational efficiency.

For the self-operated medical clinics, the Group will continue to optimise the service coverage. The Group will continue to uphold the high standard of service, and integrate the upstream and downstream business to credit the synergy, and provide professional and one-stop medical service for customers. At the same time, the Group will recruit more capable specialty doctors, and to enhance its branding effect.

As regards the health management business, the Group will continue to actively promote the service integration of insurance and healthcare businesses. To this end, the Group has developed a strong marketing and sales team. In the future, the Group will further enhance its branding strategy and launch more promotional activities. At the same time, the Group will explore the possibility of use of the marketing and sales team of China Life Group in order to recruit more high-end customers.

As for the beauty and medical cosmetic business of "The Beauty Medical", the Group will continue to integrate its operation with the Group's other businesses and seek to create synergies and improve operational efficiency. The Group will put emphasis on expanding its business in the PRC medical cosmetic market and to introduce high quality and reliable service to the PRC. In addition, the Group will work closely with China Life Group to explore collaboration opportunities so as to achieve mutual benefits.

The PRC

The rapid growth of China's economy has led a rapid rise of demand for various healthcare services, such as rehabilitation hospital and community clinic services. In the future, the Group will continue to focus on expanding its PRC healthcare business.

The further development of Nanshi Hospital will expand the Group's income base. In addition, the Group will focus on developing its community healthcare. The Group's new comprehensive medical centre is located at the centre of Nanyang City and equipped with high-end sophisticated outpatient facilities to serve the needs of high-end customers. The centre is expected become the most prestigious medical centre in that locality.

As for the high-end health check business, the Group will actively explore for other development opportunities to broaden its high-end laboratory and medical diagnostic business, and adjust its business strategies to cater for the changes.

The Group expects that its high-end PRC dental business will continue to grow in the second half of the year. The Group will proactively promote Invisalign orthodontic services, and enhance its brand awareness in China, and continue to introduce its dental clinic services and Invisalign training services to Nanshi Hospital.

The Group will also actively develop the businesses of Nanyang Xiangrui's subsidiaries covering marketing, medical equipment and consumables trading and property management services, in order to expand the services scope of its hospital management business.

Meanwhile, the Group will continue to strengthen its cooperation with China Life Group to develop integrated health management centres in the PRC. The Group will strive to develop a new collaborative business model between the insurance and healthcare services sectors. Focusing on preventive medicines and anti-aging services, the health management centre will provide comprehensive and holistic healthcare services to high-end customers of China Life Group.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2018, the Group held bank balances and cash of approximately HK$1,668,894,000 (31 December 2017: approximately HK$1,391,559,000) of which approximately 71% and 29% are denominated in HK$ and RMB respectively. The Group had bank borrowings which represented a mortgage loan of approximately HK$19,258,000 (31 December 2017: approximately HK$19,777,000) of which approximately HK$1,123,000 (31 December 2017: approximately HK$1,109,000) are repayable within one year. The Group's loans were arranged on a floating interest rate basis. Details of bank borrowings of the Group are set out in note 15 to the condensed consolidated financial statements for the six months ended 30 June 2018 in this announcement.

As at 30 June 2018, the Group's net current assets amounted to approximately HK$1,737,252,000 (31 December 2017: approximately HK$1,597,930,000) and the Group had a current ratio of 8.67 (31 December 2017: 6.12). As at 30 June 2018, the Group's gearing ratio was 0.47% (31 December 2017: 0.49%). The Group considers the level of liabilities of a company reflects its financial health. The Group strives to keep the level of borrowings at minimum and to maintain ample internal resources to support its business operations, not only to reduce interest burden, but also to enable the Group to respond to changes and capture business opportunities in a timely manner when they arise. As such, both current ratio and gearing ratio are useful in assessing the Group's financial positions. While higher current ratio reflects sufficiency of the Group's assets and the capability of the Group to meet its debt repayment obligations, lower gearing ratio represents lesser reliance on debt financing and greater financial stability of the Group. During the period under review, the Group's liquidity position was well-managed and the Group's financial resources were sufficient to support its business operations. Where necessary, the Group may also consider other fund raising activities when opportunity arises under favourable market conditions.

Major currencies used for the Group's transactions were HK$, RMB and US$. As HK$ are pegged to the US$ and the fiscal policy of the Central Government of the PRC in relation to RMB was stable throughout the period under review, the Group considers that the potential foreign exchange exposure of the Group is limited.

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

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

CAPITAL STRUCTURE

As at 30 June 2018, the Group had equity attributable to owners of the Company of approximately HK$4,109,743,000 (31 December 2017: approximately HK$4,037,403,000).

SHARE CAPITAL

Details of movements in the share capital of the Company during the period under review are set out in note 16 to the condensed consolidated financial statements for the six months ended 30 June 2018 in this announcement.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any significant investment, material acquisition and disposal during the period under review.

PLEDGE OF ASSETS

As at 30 June 2018, certain property, plant and equipment and investment properties of the Group with carrying value of approximately HK$50,730,000 (31 December 2017: approximately HK$195,732,000) and HK$Nil (31 December 2017: approximately HK$486,502,000) respectively, were pledged to secure general banking facilities granted to the Group. As at 30 June 2018, the Group were in the process of releasing certain property, plant and equipment and investment properties of the Group with carrying value of approximately HK$109,747,000 and HK$410,565,000 respectively, which were previously pledged to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no material contingent liabilities (31 December 2017: Nil).

HUMAN RESOURCES AND TRAINING SCHEMES

As at 30 June 2018, the Group employed 1,259 staff (31 December 2017: 1,245). Total employee costs, including directors' emoluments, amounted to approximately HK$324,286,000 for the six months ended 30 June 2018 (2017: approximately HK$328,571,000). The salary and benefits levels of the employees of the Group are competitive and individual performance is rewarded through the Group's salary, bonus system and share option schemes. Remuneration packages are reviewed annually.

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

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

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

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2018, 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 INTERIM RESULTS

The condensed consolidated financial information for the six months ended 30 June 2018 has not been audited, but has been reviewed by the audit committee of the Board. Moore Stephens CPA Limited, as the Company's auditors, has reviewed the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

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

Hong Kong, 28 August 2018

As at the date of this announcement, the executive Directors are Miss Choi Ka Yee, Crystal (Chairperson), Dr. Hui Ka Wah, Ronnie, JP (Chief Executive Officer), Mr. Lee Chik Yuet, Mr. Wong Seung Ming (Chief Financial Officer) and Dr. Chan Wing Lok, Brian; the non-executive Directors are Dr. Choi Chee Ming, GBS, JP (Deputy Chairman), Ms. Fang Haiyan (Deputy Chairperson) and Mr. Chen Jinhao; and the independent non-executive Directors are Mr. Ho Kwok Wah, George, MH, Mr. Yu Xuezhong, Ms. Li Mingqin, Mr. Wang John Hong-chiun, Mr. Yu Kai Fung Jackie and Mr. Wong Sai Kit.

GLOSSARY

Auspicious Idea	Auspicious idea Corporate Development Limited
Board	the board of Directors
China Life Group	China Life Insurance (Group) Company and its subsidiaries
China or PRC	the People's Republic of China excluding, for the purpose of this announcement only, Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
Company	Town Health International Medical Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability whose Shares are listed on the Main Board of the Stock Exchange
current ratio	total current assets divided by total current liabilities
Director(s)	the director(s) of the Company
EIT Law	the Law of PRC on Enterprise Income Tax
gearing ratio	total bank borrowings divided by equity attributable to owners of the Company
Group	the Company and its subsidiaries
HCMPS	HCMPS Healthcare Holdings Limited
Heemin Capital	Heemin Capital Enhanced Yield Bond Fund

HK$	Hong Kong Dollars, the lawful currency of Hong Kong
HKAS	Hong Kong Accounting Standards
HKFRS	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	Hong Kong Special Administrative Region of the PRC
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Nanshi Hospital	南陽南石醫院 (in English, for identification purpose only, Nanshi Hospital of Nanyang)
Nanyang Xiangrui	南陽祥瑞醫院管理諮詢有限公司 (in English, for identification purpose only, Nanyang Xiangrui Hospital Management Advisory Co. Ltd.), a subsidiary of the Company
RMB	Renminbi, the lawful currency of the PRC
SFC	Securities and Futures Commission
Shanxi Taigang	山西太鋼醫療有限公司 (in English for identification purpose only, Shanxi Taigang Medical Co. Ltd.)
Share(s)	ordinary share(s) of HK$0.01 each in the share capital of the Company
Sixth Hospital	中山大學附屬第六醫院 (in English, for identification purpose only, The Sixth Affiliated Hospital of Sun Yat-Sen University)
Stock Exchange	The Stock Exchange of Hong Kong Limited

US$	United States Dollars, the lawful currency of the United States of America
Vio	Dr. Vio & Partners Limited, a subsidiary of the Company
Yamei	杭州康健雅美口腔門診部有限公司 (in English, for identification purpose only, Hangzhou Town Health Yamei Dental Center Company Limited), a subsidiary of the Company
Yikang	廣州宜康醫療管理有限公司 (in English, for identification purpose only, Guangzhou Yikang Medical Management Limited), a subsidiary of the Company