



Town Health International Medical Group Limited 康健國際醫療集團有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
(Stock Code : 3886)



**INTERIM
REPORT
2021**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Jin Zhaogen

(Chief Executive Officer) (Note 1)

Mr. Chen Jinhao

(Chief Executive Officer) (Note 2)

Ms. Zhao Xiangke

(Chief Financial Officer) (Note 3)

Non-executive Directors

Mr. Kong Dechang *(Chairman) (Note 4)*

Mr. Zhao Hui *(Chairman) (Note 5)*

Mr. Hou Jun

Independent Non-executive Directors

Mr. Ho Kwok Wah, George, *MH*

Mr. Yu Xuezhong

Dr. Xu Weiguo *(Note 6)*

Ms. Li Mingqin *(Note 7)*

BOARD COMMITTEES

Audit Committee

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

Mr. Yu Xuezhong

Dr. Xu Weiguo *(Note 6)*

Ms. Li Mingqin *(Note 7)*

Remuneration Committee

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

Mr. Jin Zhaogen *(Note 1)*

Mr. Yu Xuezhong

Dr. Xu Weiguo *(Note 6)*

Mr. Chen Jinhao *(Note 2)*

Ms. Li Mingqin *(Note 7)*

Nomination Committee

Mr. Kong Dechang *(Chairman) (Note 4)*

Mr. Jin Zhaogen *(Note 1)*

Mr. Ho Kwok Wah, George, *MH*

Mr. Yu Xuezhong

Dr. Xu Weiguo *(Note 6)*

Mr. Zhao Hui *(Chairman) (Note 5)*

Mr. Chen Jinhao *(Note 2)*

Ms. Li Mingqin *(Note 7)*

COMPANY SECRETARY

Mr. Kwan Chung Man

AUDITORS

Moore Stephens CPA Limited

Certified Public Accountants

Registered Public Interest Entity Auditor

REGISTERED OFFICE

Victoria Place, 5th Floor

31 Victoria Street

Hamilton HM10

Bermuda

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6th Floor, Town Health Technology Centre
10–12 Yuen Shun Circuit
Siu Lek Yuen
Shatin, New Territories
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
China Construction Bank (Asia)
Corporation Limited
Chong Hing Bank Limited
CMB Wing Lung Bank Limited
Credit Suisse AG,
Hong Kong Branch
Dah Sing Bank, Limited
Hang Seng Bank Limited
UBS AG, Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Management (Bermuda) Limited
Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM10
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

WEBSITE

www.townhealth.com

Notes:

1. On 26 March 2021, Mr. Jin Zhaogen was appointed as an executive Director, the Chief Executive Officer and a member of each of the Nomination Committee and the Remuneration Committee.
2. On 26 March 2021, Mr. Chen Jinhao resigned as an executive Director, the Chief Executive Officer and a member of each of the Nomination Committee and the Remuneration Committee.
3. On 26 March 2021, Ms. Zhao Xiangke was appointed as an executive Director.
4. On 21 May 2021, Mr. Kong Dechang was appointed as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.
5. On 21 May 2021, Mr. Zhao Hui resigned as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.
6. On 31 March 2021, Dr. Xu Weiguo was appointed as an independent non-executive Director, and a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee.
7. On 31 March 2021, Ms. Li Mingqin resigned as an independent non-executive Director, and a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee.



FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2021:

- The Group recorded revenue of approximately HK\$721,974,000 (2020: approximately HK\$437,155,000).
- The Group recorded a profit of approximately HK\$24,675,000 (2020: loss of approximately HK\$87,662,000).

As at 30 June 2021:

- The Group had net current assets and net assets of approximately HK\$1,927,842,000 and HK\$4,154,633,000, respectively.
- The Group had a current ratio of 5.82 and a gearing ratio of 0.42%.

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2021 (2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group is pleased to report the results for the six months ended 30 June 2021.

During the period under review, the Group recorded an unaudited consolidated profit of approximately HK\$24,675,000 (2020: loss of approximately HK\$87,662,000). Such turnaround from unaudited consolidated loss to unaudited consolidated profit was mainly attributable to (i) the increase in the revenue of the Group recorded for the six months ended 30 June 2021; (ii) the fair value gain on the Group's investment properties recorded for the six months ended 30 June 2021; and (iii) the share of profits of associates recorded for the six months ended 30 June 2021, which was offset by the expected credit loss recognised on the BB Promissory Note for the six months ended 30 June 2021.

Increase in Revenue

The Group recorded revenue of approximately HK\$721,974,000 for the six months ended 30 June 2021 (2020: approximately HK\$437,155,000), which was mainly contributed by the increase in demand for (a) medical services; (b) hospital management and related services in Mainland China; and (c) COVID-19 testing services for the six months ended 30 June 2021. Details of revenue from different business segments of the Group will be explained in subsequent paragraphs.

Fair Value Gain on Investment Properties

The Group recorded a fair value gain on investment properties of approximately HK\$49,175,000 for the six months ended 30 June 2021 (2020: fair value loss of approximately HK\$42,339,000), which was mainly contributed by the improvement in property market conditions as a result of the recovery of economic activities from COVID-19 pandemic.

Share of Profits of Associates

The Group recorded share of profits of associates of approximately HK\$14,165,000 for the six months ended 30 June 2021 (2020: share of losses of associates of approximately HK\$9,435,000), which was mainly contributed by the recovery of business operations from the pandemic.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (CONTINUED)

Expected Credit Loss Recognised on the BB Promissory Note

The Group recorded an expected credit loss in respect of the BB Promissory Note of approximately HK\$79,555,000 for the six months ended 30 June 2021 (2020: Nil). Details of the BB Promissory Note are set out in the announcements of the Company dated 30 December 2016, 17 March 2017, 19 March 2021, 27 April 2021 and 26 May 2021 and the circular of the Company dated 23 February 2017, and will be explained in subsequent paragraphs.

BUSINESS REVIEW

In the first half of 2021, the strict pandemic prevention measures of Hong Kong and Mainland China brought the pandemic under control relatively. As a result, economic activities gradually recovered, and demands for medical services returned to normal, which stimulated the Group's revenue to grow steadily. During the period under review, the Group swung into profit and recorded total revenue of approximately HK\$721,974,000 (2020: approximately HK\$437,155,000), representing a significant year-on-year growth of approximately HK\$284,819,000 or approximately 65.15%, and profit amounting to approximately HK\$24,675,000 (2020: loss of approximately HK\$87,662,000), representing a significant year-on-year growth of approximately HK\$112,337,000 or approximately 128.15%. Since the outbreak of the pandemic, the Group promoted the pandemic prevention with wholehearted efforts and rigorous measures, took safeguarding the safety of employees and patients as the most important task, and achieved encouraging victory in the fight against the pandemic with all medical service institutions owned or managed by the Group in Hong Kong and Mainland China recording "zero infection" during the period under review. In the meantime, the Group supported Hong Kong government's fight against COVID-19 pandemic with all its might. The large COVID-19 Reverse Transcription-Polymerase Chain Reaction (RT-PCR) Test laboratory at the headquarter office building of the Group in a venue provided by the Group, established under the Group's cooperation with a government-recognised testing institution, has handled over 2,300,000 tests during the period under review, which effectively improved the overall testing capability of Hong Kong and also brought ideal returns to the Group. In the long term, the pandemic compels citizens to attach greater importance to healthcare, and the Group will actively seize development opportunities in the healthcare industry to promote rapid growth in all business segments, while remaining committed to providing citizens with more comprehensive high-quality healthcare services and creating greater value for shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)

Healthcare Service Network of the Group

As of 30 June 2021, the Group had 461 healthcare service points covering multiple practices, including 261 general practice service points, 80 specialist service points, 23 dental service points and 97 auxiliary service points. As of 30 June 2021, the Group employed 698 doctors, dentists and auxiliary service staff (including 397 general practitioners, 213 specialists, 34 dentists and 54 auxiliary service staff), all of whom provided healthcare services via the Group's network of self-operated and affiliated medical centres.

Business in Hong Kong

Managed Medical Network – Vio

During the period under review, Vio recorded a revenue growth of approximately 11.46% compared with that of the corresponding period of last year. This growth was fuelled by a rebound in outpatient visits as customers became less worried about catching COVID-19 in medical centres amid moderating number of new confirmed cases locally and increasing confidence in counter-measures against infection. In addition, some non-urgent surgical procedures and health checks suspended by the pandemic in 2020 were postponed to this year. Furthermore, many prospective vaccinees consulted doctors before taking the COVID-19 vaccines and there was a lot of demand for the COVID-19 Reverse Transcription-Polymerase Chain Reaction (RT-PCR) tests.

Vio has continued to enhance training on customer service to its staff in order to improve service quality of its medical network. In addition to implementing infection preventive measures in medical centres, Vio has also devoted additional resources towards facilities management to safeguard the health and safety of its staff and customers. For the workflow at medical centres, Vio has continued to implement the e-voucher and e-approval process in order to reduce administrative burden on the frontline staff at medical centres, allowing them to have more time to serve customers and thereby improving customer service experience and operational efficiency.

As Vio continues to reduce paper-based documentation while capturing essential clinical and claims data electronically and accurately, the occurrence of manuscript error is reduced. Increasing number of corporate clients and insurers are accepting electronic claiming process.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)

During the period under review, the revenue generated from the Group's managed medical network business amounted to approximately HK\$216,431,000 (2020: approximately HK\$194,181,000), and accounted for approximately 29.98% of the Group's revenue for the six months ended 30 June 2021 (2020: approximately 44.42%).

Self-Operated Medical Centre Chain

During the period under review, the overall performance of general practice services, specialist services and dental services of the Group witnessed a strong growth as compared with that of the corresponding period of last year. As the pandemic started to slow down, outpatient visits of the general practice services steadily increased month on month and revenue and net profit of the specialist services also recorded significant growth during the period under review.

In terms of cardiology services, the Hong Kong Cardiac Centre and the Hong Kong Cardiac Diagnostic Centre recorded significant increase in revenue and net profit during the period under review, being the best performers among these specialist centres. The major reasons included the significant increase in demand for cardiac diagnostic service by Hong Kong citizens, and one new cardiology specialist joining the team. For ophthalmology services, Healthy Vision Eye Centre employed one new full-time ophthalmologist, who made contributions to the increase of revenue and net profit. In terms of surgeries, Hong Kong Bariatric and Metabolic Institute recorded growth in revenue and net profit, and the reason was that non-urgent surgeries scheduled for 2020 were postponed to 2021 due to the pandemic, thus resulting in the increase in surgery demands.

For dental services, they were affected by the pandemic to a relatively less extent. During the period under review, the overall revenue of the segment represented satisfactory performance, and the Group opened two dental medical centres in Sheung Shui and Tai Po.

In the meantime, the Group earnestly fulfilled its corporate social responsibility. Since March 2021, the Group was responsible for operating the Tseung Kwan O Community Vaccination Centre, and all medical centres offered free COVID-19 vaccination services to Hong Kong citizens. Since May 2021, the vaccination services were even expanded to house-call injection services for large enterprises. As of June 2021, the Group has offered more than 120,000 doses of COVID-19 vaccines to Hong Kong citizens, showing its determination of working together with citizens to win the fight against COVID-19 pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)

During the period under review, the revenue generated from the general practice services, specialist services and dental services of the Group amounted to approximately HK\$214,056,000 (2020: approximately HK\$172,202,000), and accounted for approximately 29.65% of the Group's revenue for the six months ended 30 June 2021 (2020: approximately 39.39%).

Medical Beauty Business

During the period under review, TBM recorded a significant growth in net profit and turned losses into gains. The growth of net profit was primarily attributable to the rapid growth of businesses in Mainland China driven by the effective control of COVID-19 pandemic in the region and the recovery of businesses in Hong Kong in the second quarter.

In terms of the businesses in Hong Kong, during the period under review, although TBM suspended the business for a few weeks in accordance with the government's requirements in the first quarter of 2021, the business began to recover as the pandemic was gradually controlled in the second quarter of 2021, recording revenue growth and opening new beauty centres in the sluggish market. With SH Medical Centre, a subsidiary of TBM, providing professional health check and one-stop health management service and the opening of CO Health Care, the pain and physiotherapy centre, CO Hair, the hair care centre and CO Dental Care, the dental care centre, the business scope of TBM expanded from beauty care and medical beauty to different aspects of "comprehensive health", including health check, hair care, pain therapy and dental, hoping that businesses of TBM would refer customers to each other and create synergies.

In Mainland China, businesses developed with a strong momentum during the period under review, as the pandemic was effectively controlled. The revenue grew significantly as compared with that of the corresponding period of last year. TBM opened one new beauty centre in Shanghai, thereby further improving the layout of beauty centres.

During the period under review, TBM employed 18 full-time or part-time doctors, and had 13, 8, 6 and 3 beauty centres in Hong Kong, Shenzhen, Shanghai and Guangzhou, respectively.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)

Business in Mainland China

Hospital Management Business in Mainland China

During the period under review, the overall revenue of Nanyang Xiangrui, a subsidiary of the Company, recorded a growth as compared with that of the corresponding period of 2020. Its subsidiaries, including Nanyang Jianke Medical Technology Co., Ltd. and Yugangxiang Medical, all realised expected growth. Nanyang Ruishi Ophthalmology Hospital also recorded increases in both revenue and the number of surgeries.

During the period under review, Nanshi Hospital, which was managed by Nanyang Xiangrui, performed well. Nanshi Hospital received more than 200,000 patient visits, which represented a year-on-year growth of about 40%. In addition, the bed utilisation rate reached 111% and stayed at a relatively high level; the number of Grade III surgeries handled was over 5,500, representing a year-on-year growth of approximately 13%. As the demand for hospitalization and surgery increased comprehensively, revenue from medical services and pharmaceuticals achieved steady growth during the period under review.

With the commitment of improving medical environment and service quality, Nanshi Hospital put the new surgical building into operation officially in August 2021, increased the number of beds to over 1,800, and further improved the space of wards and patient satisfaction. Currently, the beds are being fully utilised, which is better than expectation. In the new surgical building, 15 surgery rooms have been in service and are expected to handle up to 13,000 surgeries in a year, which is nearly doubling the capacity of the old building. Furthermore, Nanshi Hospital actively promoted the reconstruction of the old building, so as to further improving the environment of the patients during their hospital stay and the capacity of the hospital to provide medical services.

Meanwhile, Nanshi Hospital actively explored new business development patterns by developing departments with profit growth potential into high-end and verticalized specialty hospitals, generating additional sources of income. During the period under review, Nanshi Hospital developed the rehabilitation branch into a Chinese medicine rehabilitation hospital of independent operation, and has obtained the Grade II hospital licence. Currently, the number of beds is 150 and is expected to increase to 300 in the future. The rehabilitation hospital is expected to commence operation officially in the second half of 2021 and will generate considerable income.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)

Health Management Centres Business

Town Health International Health Management Centre, located at the China Life Centre in Jinan City, Shandong Province, further improved the service level, and the overall visits and revenue grew steadily, with health check services remaining as the major source of income of the health management centre. The health management centre has passed the review and became a designated institution of provincial-level and municipal-level medical insurance. During the period under review, the health management centre developed two new projects, the construction of athletic training and rehabilitation centre and the provision of intestinal cancer screening services. Under the cooperation with a third-party athletic training and rehabilitation consulting company, both parties worked together to develop and operate the athletic training and rehabilitation centre, which represented a new business that provides customers with more comprehensive professional health management services.

In addition, the health management centre strengthened the coordinated development with China Life Group, and launched intestinal cancer screening services by collaborating with Creative Biosciences (Guangzhou) Co., Ltd., a leading independent third-party testing centre. The intestinal cancer testing kit “COLOSAFE®” was widely accepted by customers of China Life Group, which helped improve the loyalty of insurance customers and brought good returns to the health management centre.

High-end Medical Imaging Diagnostic and Health Check Business

During the period under review, the Sixth Hospital's medical diagnostic centre managed by Yikang Medical, a subsidiary of the Company, maintained revenue that was substantially the same as that of last year. Further, Zhongshan Health Management Centre, a joint venture project in Zhongshan, Guangdong Province of Zhongshan Shangfeng Yikang, a subsidiary of Yikang Medical, commenced operation officially in May 2021. Zhongshan Shangfeng Yikang also collaborates with Shanghai United Imaging, a renowned medical imaging equipment manufacturer in Mainland China, to build an independent third-party imaging diagnostic centre, Zhongshan Yinghe Medical Imaging Diagnostic Centre. The imaging diagnostic centre was equipped with Positron Emission Tomography - Computed Tomography (PET-CT), Magnetic Resonance Imaging (MRI) and other advanced high-end imaging diagnosis equipment and provided outpatient clinics, and health check services as supplement in the health management centre to offer customers one-stop healthcare service experience.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (CONTINUED)

Medical Centres Business in Mainland China

During the period under review, Ganghe Clinic, located in the central area of Futian District, Shenzhen, achieved gradual business recovery. As the pandemic was contained in Shenzhen and the clinic offered some new therapy projects, Ganghe Clinic accumulated a larger customer group gradually, ultimately leading to the improvement in revenue. In addition, Ganghe Clinic undertook the underwriting health checks business of CLIZ during the period under review, which became a new source of income.

OUTLOOK

As there are signs that the pandemic is contained in Hong Kong, the economic recovery is expected to be much stronger in the second half of 2021. The Group will continue to closely monitor the pandemic, adapt to market trends and adjust the business strategy in time, and follow the four development strategies, namely, improving service quality, expanding service scope, improving operational efficiency and strengthening collaboration with China Life Group, so as to ensure that it will achieve progress while maintaining stability in adverse circumstances. The Group will also continue to fulfill the social responsibility as a healthcare enterprise, offer reliable support to the government and citizens, staying together with citizens to win the fight against the pandemic and repaying the public for their long-term trust and support to the Group.

Hong Kong

For the managed medical network business, the Group will endeavour to focus on the provision of one-stop services in major integrated medical centres and a broader network. Vio will create synergies and achieve win-win outcomes by leveraging the self-operated medical centre chain of the Group to provide a more coherent network with broader coverage in major districts in Hong Kong and integrating different disciplines. Vio plans to intensify the co-operation with its existing clients to cater for their changing needs in the future post-COVID-19 era and attract new business from prospective clients with its recognised expertise in managing healthcare costs. Vio will continue to upgrade its Contract Management Systems and strengthen security so as to protect confidential data, while allowing access to authorised management personnel for monitoring daily operations of affiliated medical centres and better management of the frontline workflows at medical centres, thereby improving operational efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK (CONTINUED)

For the self-operated medical centre chain business, the number of medical centres is increasing, and the Group is well positioned to extend healthcare services from brick-and-mortar medical centres to the internet to provide online-offline inclusive healthcare services to citizens. As the pandemic catalyses the momentum of telemedicine, the Group's telemedicine APP has entered into the final design and testing phase and is expected to be launched in the second half of 2021. As to offline services, it is expected that domestic demand for healthcare service and outpatient visits will recover gradually as the pandemic is contained in Hong Kong. Accordingly, the Group will continue to expand the medical centres network. It is actively identifying appropriate locations to open new medical centres offering general practice services and specialist services, and has recruited a new orthopaedics specialist. In addition, the Private Healthcare Facilities Ordinance, promulgated in Hong Kong in November 2018, imposed a series of regulatory requirements. The licensing requirements under the ordinance in respect of day procedure centres have come into effect in January 2021. The Group has established a dedicated committee to help all clinics with clinic licences application in accordance with the ordinance. Meanwhile, the ophthalmic day procedure centre has obtained the provisional licence and is expected to acquire the official licence in the second half of 2021. The Group will continue to upgrade the IT system, and support the vigorous development of the self-operated medical centre chain business with the central administration platform, improving the internal operational efficiency. Being optimistic about the prospects of Mainland China healthcare market, the Group will fully leverage on the advantages of Hong Kong-style healthcare services, collaborating with China Life Group to actively explore more possibilities of healthcare and insurance integration, so as to cultivating new growth engines and new sources of profit. The Group has acquired the Mainland and Hong Kong Closer Economic Partnership Arrangement licence and has been granted the right to open Hong Kong-invested clinics in Mainland China. The Group plans to invite general practitioners and specialists to refer themselves to the Group's clinics in Mainland China in the long run, so as to promoting Hong Kong healthcare services gradually to other cities of the Greater Bay Area, providing residents of Mainland China with high-quality and leading healthcare services with the "Hong Kong Doctors and Hong Kong Pharmaceuticals" concept, and realising healthcare resource sharing in the Greater Bay Area.



MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK (CONTINUED)

For the medical beauty business, reports state that the income scale of the medical beauty market in Mainland China is estimated to exceed RMB200 billion. Given such a great development potential, TBM will seize the golden opportunities to comprehensively strengthen brand recognition and market influence, and focus on developing the light medical beauty market with huge potential in Mainland China. In the second half of 2021, TBM will continue to invest in establishing new beauty centres in Mainland China, planning to open three, four and one new centres in Shenzhen, Shanghai and Guangzhou respectively. One beauty centre to be located at SOHO Fuxing Plaza, Huangpu District, Shanghai, will be developed into a large medical beauty flagship, aiming to elevate the brand influence. Taking advantage of declining shop rents in Hong Kong, TBM will continue to identify appropriate locations to open new centres in more districts in Hong Kong with the plans of opening two new beauty centres in the second half of 2021, thereby consolidating the market position and the market share. In the meantime, TBM will continue the success with hot pursuit and actively expand sources of income by developing private-label skincare products, which will be available in the second half of 2021 aiming at improving the profit margin and the profitability.

Mainland China

Given that Mainland China's healthcare industry has a great potential, the Group is optimistic about the future of Mainland China's "comprehensive health" industry. As a leading healthcare service group, the Group has a management team with extensive industry experience and medical talents of great expertise, together with China Life Group as a solid support for the expansion of the healthcare market in Mainland China, the Group will seize the policy opportunities under the deepening of national healthcare system reform to provide customers with high-quality one-stop medical services and vigorously develop the huge "comprehensive health" market in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK (CONTINUED)

For the hospital management and related services business in Mainland China, as the new surgical building is in service, Nanshi Hospital, managed by the Group's Nanyang Xiangrui, takes a leap forward in terms of the number of services attendances. While upgrading hardware facilities, Nanshi Hospital is expected to obtain the first internet hospital licence in Nanyang in 2021 to enter into the domestic telemedicine market. With the self-built telemedicine back office system and the abundant medical resources, Nanshi Hospital and its collaborative physician groups will enable patients to be offered with medical services including health assessment, remote consultation and chronic disease management without going out. The internet hospital is being integrated into the national medical insurance system. In the future, it is expected to offer services to local patients and those of Henan Province who are covered by the urban employee medical insurance. Yugangxiang Medical, having obtained the pharmaceutical sale licence and the GSP certificate, can provide remote patients with drug delivery services. As a result, the business synergy will be maximised. Nanshi Hospital will fully maximise the advantage of internet hospital licence and strengthen the cooperation with China Life Group to jointly establish the "specialised and verticalized whole-cycle health management service system", thereby creating synergies for Nanshi Hospital and China Life Group's insurance business, expanding customer bases of both parties and improving the overall service experience. To be specific, Nanshi Hospital will cooperate with China Life Group to jointly introduce disease screening, chronic disease management, disease care and health promotion into China Life Group's health insurance services, providing a closed loop of health management covering the life cycle of prevention, intervention, diagnosis and treatment as well as post-healing rehabilitation, and lead to a shift from "post-claim" to "pre-prevention" so as to fully improve the health of insurance customers. As a result, a win-win situation for the hospital, patients and the insurance company can be achieved.



MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK (CONTINUED)

For the health management centres business, Town Health International Health Management Centre in Jinan will make great effort to develop new customers, aiming to bring new breakthroughs to the health management centres business. The health management centre will provide customers with comprehensive health management services of specialty clinic, including intestinal cancer screening and medical beauty, etc. These services, combined with the upcoming launch of athletic training and rehabilitation project, are expected to attract more customers. In the future, the health management centre will continue to promote the coordination of China Life Group's insurance business and the Group's healthcare services, thereby reinforcing the loyalty of China Life Group's customers to the health management centre and further expanding the customer base of each other.

For the high-end medical diagnostic and health check business, Yikang Medical will stick to the development of its clinic, health check centre and imaging diagnostic centre business. Yikang Medical plans to apply for a medical institution licence in Guangzhou to establish a wholly-owned integrated clinic, which will feature the business model of pre-hospital and post-hospital "health management + outpatient healthcare services" and provide one-stop "health check and healthcare integration" services. In addition, Yikang Medical will focus on specialty clinic businesses, such as female entire life cycle management and athletic rehabilitation, and will actively explore opportunities to cooperate with branches of China Life Group in Guangzhou and Zhongshan to develop projects and products incorporating the "healthcare + insurance" pattern, thus providing customers of China Life Group with value-added healthcare services and achieving win-win outcomes.

MANAGEMENT DISCUSSION AND ANALYSIS

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 controlling borrowings at a healthy level.

As at 30 June 2021, the Group held bank balances and cash of approximately HK\$1,162,168,000 (31 December 2020: approximately HK\$1,070,835,000) and fixed bank deposits of approximately HK\$727,216,000 (31 December 2020: approximately HK\$817,090,000). In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and substantial cash is generally deposited with banks in Hong Kong and denominated mostly in HK\$. As at 30 June 2021, the Group had bank borrowing which represented a mortgage loan of approximately HK\$16,016,000 (31 December 2020: approximately HK\$16,623,000) of which approximately HK\$1,129,000 (31 December 2020: approximately HK\$1,126,000) are repayable within one year. The Group's loans were arranged on a floating interest rate basis. Details of bank borrowing of the Group are set out in note 20 to the condensed consolidated financial statements for the six months ended 30 June 2021 set out in this report.

As at 30 June 2021, the Group's net current assets amounted to approximately HK\$1,927,842,000 (31 December 2020: approximately HK\$1,926,151,000) and the Group had a current ratio of 5.82 (31 December 2020: 6.34). As at 30 June 2021, the Group's gearing ratio was 0.42% (31 December 2020: 0.44%). The Group considers the level of liabilities of a company reflects its financial health. The Group strives to keep the level of borrowings at a 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.



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

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 foreign exchange exposure of the Group was limited.

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

CAPITAL STRUCTURE

As at 30 June 2021, the Group had equity attributable to owners of the Company of approximately HK\$3,816,434,000 (31 December 2020: approximately HK\$3,810,481,000).

SHARE CAPITAL

Details of movements in the share capital of the Company during the period under review are set out in note 21 to the condensed consolidated financial statements for the six months ended 30 June 2021 set out in this report.

PROMISSORY NOTES

WL Promissory Note

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

The Purchaser failed to repay the interest on the principal amount (i.e. HK\$2,511,432) accrued from 1 January 2019 up to 31 March 2019 and the Purchaser failed to respond to the Group's legal demand letter dated 9 April 2019 which demanded the Purchaser to repay the principal amount and all outstanding interest accrued thereon on or before 23 April 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

PROMISSORY NOTES (CONTINUED)

WL Promissory Note (Continued)

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

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

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

On 23 April 2021, TH (BVI) received a notice ("**Notice**") and a court summons issued by the PRC Court, pursuant to which, among others:

1. the counterclaim ("**Counterclaim**") filed by the Purchaser has been accepted by the PRC Court and will be heard together with TH (BVI)'s original claim against the Purchaser;
2. TH (BVI), as the defendant to the Counterclaim, is required to submit its defence to the Counterclaim within 15 days upon receipt of the statement of counterclaim; and
3. each party to the Counterclaim is required to submit evidence to the PRC Court to support the Counterclaim (or the defence thereto) within 30 days from the date of the Notice.

The Company will continue to seek advice from its PRC legal advisers on the WL Promissory Note. Further details of the WL Promissory Note are set out in the announcements of the Company dated 4 November 2016, 12 April 2019, 10 May 2019 and 3 May 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

PROMISSORY NOTES (CONTINUED)

BB Promissory Note

The BB Promissory Note in the principal amount of HK\$330,000,000, which carries interest of 6% per annum, was issued by Profit Castle, a company incorporated in the British Virgin Islands with limited liability and owned as to 50% by Dr. Ip and 50% by his spouse, to Oasis Beauty, a wholly-owned subsidiary of the Company, as part of the consideration for the disposal of the entire issued share capital of Bonjour Beauty by Oasis Beauty to Profit Castle. The BB Promissory Note is secured by the Guarantee and the Share Mortgage. The BB Promissory Note matured on 9 April 2020 (“**Maturity Date**”). As at the date of this report, the BB Promissory Note in the aggregate principal amount of HK\$330,000,000 remains outstanding.

Since the Maturity Date, the Group, Dr. Ip and Profit Castle had been in negotiation on the extension of the maturity date of the BB Promissory Note and the repayment schedule of the principal amount of the BB Promissory Note and interest accrued thereon. However, such negotiation fell through in the absence of any viable repayment proposal from Dr. Ip and Profit Castle that is acceptable to the Group. Having considered the facts and circumstances, the Group had instructed its legal advisers to issue a final demand letter to each of Profit Castle and Dr. Ip on 19 March 2021.

On 22 April 2021, Oasis Beauty issued a notice of enforcement to Profit Castle to declare, among other things, that the Share Mortgage, which was executed by Profit Castle in favour of Oasis Beauty over all shares of Bonjour Beauty (“**Charged Assets**”) for securing the repayment of the BB Promissory Note, is enforceable. In order to safeguard the interest of the Company and the shareholders of the Company, on 23 April 2021, Oasis Beauty appointed receivers (on a joint and several basis) over the Charged Assets in accordance with the terms of the Share Mortgage created by Profit Castle in favour of Oasis Beauty (“**Appointment of Receivers**”).

MANAGEMENT DISCUSSION AND ANALYSIS

PROMISSORY NOTES (CONTINUED)

BB Promissory Note (Continued)

On 21 May 2021, Oasis Beauty (as defendant) was served with a writ of summons together with a statement of claim from Profit Castle and Dr. Ip (collectively, "**Plaintiffs**") in the Court of First Instance of the High Court of Hong Kong ("**Action**"). In the Action, the Plaintiffs are seeking the following reliefs:

1. damages for deceit or fraudulent misrepresentation, or under section 3 of the Misrepresentation Ordinance, and rescission of the SP Agreement, the BB Promissory Note, the Share Mortgage and the Guarantee;
2. alternatively, a declaration that Oasis Beauty is not entitled to enforce the Share Mortgage and the Guarantee;
3. a declaration that the Appointment of Receivers and the appointment of directors for each of Bonjour Beauty Limited, Bonjour Beauty (Shanghai) Limited, Bonjour Medical Science & Technology Beauty Center Limited, on 29 April 2021 and 3 May 2021 (as applicable), be null and void;
4. damages for trespass and/or conversion of the Charged Assets; and
5. an injunction restraining Oasis Beauty from enforcing the Share Mortgage or otherwise interfering with Profit Castle's lawful rights and interest qua the sole shareholder in Bonjour Beauty.

The Company will continue to seek advice from its legal advisers and will consider and take all appropriate and necessary steps in the Action to defend its position, including but without limitation bringing any counterclaim(s) and/or third party proceedings (if considered appropriate).

Further details of the BB Promissory Note are set out in the announcements of the Company dated 30 December 2016, 17 March 2017, 19 March 2021, 27 April 2021 and 26 May 2021, the circular of the Company dated 23 February 2017.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

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



MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 30 June 2021, certain of the Group's assets of approximately HK\$44,241,000 (31 December 2020: approximately HK\$42,925,000) was pledged to secure the Group's mortgage loan and bills payable.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group had no material contingent liabilities (31 December 2020: Nil).

HUMAN RESOURCES AND TRAINING SCHEMES

As at 30 June 2021, the Group employed 1,176 staff (31 December 2020: 1,164). Total employee costs, including directors' emoluments, amounted to approximately HK\$308,785,000 for the six months ended 30 June 2021 (2020: approximately HK\$280,533,000). The salary and benefits levels of the employees of the Group are competitive and individual performance is rewarded through the Group's salary and bonus system. Remuneration package of the employees of the Group 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.

EVENT AFTER REPORTING PERIOD

On 2 July 2021, Guangdong Townsfolk, an indirect wholly-owned subsidiary of the Company, entered into the Framework Cooperation Agreement with CLIZ in respect of the provision of the Medical & Healthcare Services by Townsfolk Group to CLIZ or its staff and clients.

The transactions contemplated under the Framework Cooperation Agreement constitute continuing connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules. Further details of the Framework Cooperation Agreement are set out in the announcement of the Company dated 2 July 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM ISSUE OF SHARES

Issue of subscription shares and convertible preference shares

Pursuant to the CPS Subscription Agreement and ordinary shares subscription agreement, both dated 31 October 2014 and entered into among the Company, Fubon Life, Fubon Insurance and Broad Idea, on 29 December 2014, the Company allotted and issued (i) 459,183,673 Shares at HK\$0.98 per Share; and (ii) 374,999,999 Convertible Preference Shares at HK\$1.2 per Share. Each of the net proceeds from the Ordinary Shares Subscription and the net proceeds from the CPS Subscription amounted to approximately HK\$440 million. The aggregate net proceeds from the Ordinary Shares Subscription and the CPS Subscription amounted to approximately HK\$880 million.

As at 31 December 2020, the unutilised net proceeds from the Ordinary Shares Subscription and the CPS Subscription amounted to approximately HK\$605 million. During the six months ended 30 June 2021, the Group did not utilise any net proceeds from the Ordinary Shares Subscription and the CPS Subscription. The use of the net proceeds and the expected timeline of the unutilised net proceeds from the Ordinary Shares Subscription and the CPS Subscription are as follows:

Use of net proceeds	Planned use of net proceeds (HK\$ million)	Actual use of net proceeds as at 30 June 2021 (HK\$ million)	Unutilised balance of net proceeds as at 30 June 2021 (HK\$ million)	Expected timeline for utilisation of unutilised net proceeds
Acquisition, investment and development of hospitals and medical institutions in the PRC, and medical or healthcare related business in Hong Kong	650	244	406	End of 2023
Investment and development of several medical specialty centres in Hong Kong and one dental chain in the PRC	150	13	137	End of 2023
Developing a “one-stop, IT O2O platform” to integrate the Group’s growing variety of healthcare and well-being business segments	80	18	62	End of 2023
Total	880	275	605	

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

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM ISSUE OF SHARES (CONTINUED)

Issue of Shares to China Life Insurance

On 5 January 2015, the Company entered into an investment agreement with China Life Insurance, pursuant to which China Life Insurance has agreed to subscribe for 1,785,098,644 Shares. Upon completion of the CLG Subscription which took place on 29 May 2015, 1,785,098,644 Shares were allotted and issued to China Life Insurance at HK\$0.98 per Share. The net proceeds from the issue of Shares to China Life Insurance amounted to approximately HK\$1,746 million.

As at 31 December 2020, the unutilised net proceeds from the CLG Subscription amounted to approximately HK\$996 million. During the six months ended 30 June 2021, the Group did not utilise any net proceeds from the CLG Subscription. The use of the net proceeds and the expected timeline of the unutilised net proceeds from the CLG Subscription are as follows:

Use of net proceeds	Planned use of net proceeds (HK\$ million)	Actual use of net proceeds as at 30 June 2021 (HK\$ million)	Unutilised balance of net proceeds as at 30 June 2021 (HK\$ million)	Expected timeline for utilisation of unutilised net proceeds
Developing a dental chain in the PRC and investing in or acquiring dental clinics and/or hospitals in the PRC; developing or acquiring medical clinics in the PRC; developing hospitals, investing in or acquiring public or private hospitals in the PRC; and developing or acquiring rehabilitation hospitals and where appropriate in conjunction with nursing and/or aged care homes in the PRC	1,500	646	854	End of 2023
Developing or acquiring business in provision of health check, laboratory testing and medical diagnostic services in the PRC	150	104	46	End of 2023
Developing managed care business in the PRC and cross border healthcare platform for medical tourism business	96	0	96	End of 2023
Total	1,746	750	996	

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

DISCLOSURE OF INTERESTS

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

As at 30 June 2021, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2021 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies, a party to any arrangement to enable the Directors or chief executives of the Company or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

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

As at 30 June 2021, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

(i) *Substantial shareholders' long positions in the Shares*

Name of Shareholder	Capacity	Number of Shares held	Total number of Shares held	Approximate% of shareholding of the Company (Note 1)
China Life Insurance	Beneficial owner	1,785,098,644	1,785,098,644	23.72%
Broad Idea	Beneficial owner	1,418,576,764 (Note 2)	1,418,576,764	18.85%
Dr. Cho	Interest of a controlled corporation	1,418,576,764 (Note 2)	1,418,576,764	18.85%
Dr. Choi	Interest of a controlled corporation	1,418,576,764 (Note 2)	1,420,776,764	18.88%
	Beneficial owner	2,200,000		



DISCLOSURE OF INTERESTS

(ii) Other persons' long positions in the Shares

Name of Shareholder	Capacity	Number of Shares held	Approximate% of shareholding of the Company (Note 1)
Classictime	Beneficial owner	674,762,000 (Note 3)	8.97%
Power Financial	Interest of a controlled corporation	674,762,000 (Note 3)	8.97%
Kwok Wai King Pinki	Beneficial owner	406,702,000	5.40%

Notes:

1. The total number of Shares as at 30 June 2021 (that was, 7,526,134,452 Shares) has been used for the calculation of the approximate percentage.
2. Such 1,418,576,764 Shares were held by Broad Idea. Broad Idea is beneficially owned by Dr. Cho as to 50.1% and Dr. Choi as to 49.9%. As such, Dr. Cho and Dr. Choi were deemed to be interested in the 1,418,576,764 Shares held by Broad Idea under Part XV of the SFO.
3. Such 674,762,000 Shares were held by Classictime, a wholly-owned subsidiary of Power Financial. Accordingly, Power Financial was deemed to be interested in the 674,762,000 Shares held by Classictime under Part XV of the SFO.

Save as disclosed above, as at 30 June 2021, the Company has not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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

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

CORPORATE GOVERNANCE

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

AUDITORS

Moore Stephens CPA Limited was the auditors of the Group with effect from 15 February 2018. Moore Stephens CPA Limited was re-appointed as the auditors of the Company in the AGMs held on 29 June 2018, 27 June 2019, 29 June 2020 and 28 June 2021.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2021, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the code of conduct regarding the Directors' securities transactions. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2021.

SUFFICIENCY OF PUBLIC FLOAT

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

CHANGES IN DIRECTORS' INFORMATION

1. On 26 March 2021, Mr. Jin Zhaogen was appointed as an executive Director, the Chief Executive Officer and a member of each of the Nomination Committee and the Remuneration Committee.
2. On 26 March 2021, Mr. Chen Jinhao resigned as an executive Director, the Chief Executive Officer and a member of each of the Nomination Committee and the Remuneration Committee.
3. On 26 March 2021, Ms. Zhao Xiangke was appointed as an executive Director.
4. On 21 May 2021, Mr. Kong Dechang was appointed as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.



CORPORATE GOVERNANCE

5. On 21 May 2021, Mr. Zhao Hui resigned as a non-executive Director, the chairman of the Company and the chairman of the Nomination Committee.
6. On 31 March 2021, Dr. Xu Weiguo was appointed as an independent non-executive Director, and a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee.
7. On 31 March 2021, Ms. Li Mingqin resigned as an independent non-executive Director, and a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee.

Save as disclosed above, there was no change in information in respect of the Directors and chief executives of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

AUDIT COMMITTEE

As at 30 June 2021, the Audit Committee comprised three independent non-executive Directors, namely Mr. Ho Kwok Wah, George, *MH* as the chairman of the Audit Committee, Mr. Yu Xuezhong and Dr. Xu Weiguo. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2021 and this interim report.

REVIEW OF INTERIM RESULTS

The condensed consolidated financial information for the six months ended 30 June 2021 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 2021 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
Jin Zhaogen
Executive Director and Chief Executive Officer

INDEPENDENT AUDITOR'S REVIEW REPORT



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Independent Auditor's Review Report to the Board of Directors of Town Health International Medical Group Limited

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Town Health International Medical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 64, which comprise the condensed consolidated statement of financial position as of 30 June 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 *"Interim Financial Reporting"*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



INDEPENDENT AUDITOR'S REVIEW REPORT

SCOPE OF REVIEW

We conducted our review 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. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements as at 30 June 2021 are not prepared, in all material respects, in accordance with HKAS 34.

Moore Stephens CPA Limited

Certified Public Accountants

Cheung Sai Kit

Practising Certificate Number: P05544

Hong Kong, 27 August 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
	Notes		
Revenue	4	721,974	437,155
Cost of sales		(480,938)	(316,694)
Gross profit		241,036	120,461
Other income	6	13,948	36,357
Administrative expenses		(174,797)	(169,614)
Other gains and losses, net	7	42,185	(51,761)
Expected credit loss recognised on promissory note		(79,555)	–
Finance costs	8	(2,024)	(2,641)
Share of results of associates		14,165	(9,435)
Share of results of joint ventures		(3,639)	(1,209)
Profit (loss) before tax		51,319	(77,842)
Income tax expenses	9	(26,644)	(9,820)
Profit (loss) for the period	10	24,675	(87,662)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Note	Six months ended 30 June 2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Other comprehensive income (expense) for the period			
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value changes on equity instruments at fair value through other comprehensive income		(10,952)	(20,531)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		15,109	(19,447)
Share of other comprehensive expense of associates and joint ventures		(273)	(386)
		14,836	(19,833)
		3,884	(40,364)
Total comprehensive income (expense) for the period		28,559	(128,026)
Profit (loss) for the period attributable to:			
Owners of the Company		5,518	(93,968)
Non-controlling interests		19,157	6,306
		24,675	(87,662)
Total comprehensive income (expense) attributable to:			
Owners of the Company		5,938	(129,493)
Non-controlling interests		22,621	1,467
		28,559	(128,026)
Earnings (loss) per share (HK cent(s))			
– Basic and diluted	12	0.07	(1.25)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	Notes	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000
NON-CURRENT ASSETS			
Investment properties	13	584,745	535,570
Property, plant and equipment	13	368,332	382,812
Right-of-use assets	13	84,240	114,323
Loans receivable	14	2,835	3,271
Goodwill	15	489,305	485,834
Intangible assets		331,350	334,769
Interests in associates	16	315,761	308,768
Interests in joint ventures		16,498	19,892
Equity instruments at fair value through other comprehensive income		28,657	39,609
Fixed bank deposits		82,147	71,258
		2,303,870	2,296,106
CURRENT ASSETS			
Inventories		34,053	34,522
Trade and other receivables	18	435,862	306,485
Financial asset at fair value through profit or loss		4,042	6,774
Loans receivable	14	876	876
Promissory notes	17	38,208	117,763
Amounts due from associates		1,118	1,421
Amounts due from non-controlling interests		611	–
Tax recoverable		1,160	2,025
Pledged bank deposit		4,437	–
Fixed bank deposits		645,069	745,832
Bank balances and cash		1,162,168	1,070,835
		2,327,604	2,286,533

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	Notes	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000
CURRENT LIABILITIES			
Trade and other payables	19	248,475	206,865
Contract liabilities		4,276	2,557
Amount due to an investee		298	298
Amounts due to non-controlling interests		38,494	41,715
Bank borrowing	20	16,016	16,623
Lease liabilities		57,327	68,551
Tax payable		34,876	23,773
		399,762	360,382
NET CURRENT ASSETS			
		1,927,842	1,926,151
TOTAL ASSETS LESS CURRENT LIABILITIES			
		4,231,712	4,222,257
NON-CURRENT LIABILITIES			
Lease liabilities		36,210	54,709
Deferred tax liabilities		40,869	41,416
		77,079	96,125
		4,154,633	4,126,132
CAPITAL AND RESERVES			
Share capital	21	75,261	75,261
Reserves		3,741,173	3,735,220
Equity attributable to owners of the Company		3,816,434	3,810,481
Non-controlling interests		338,199	315,651
Total equity		4,154,633	4,126,132

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the Company											Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Distributable reserve HK\$'000	Other reserves HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserves HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000		
At 31 December 2020 (audited)	75,261	3,341,639	9,020	10,033	62,677	(80,270)	95,231	(76,170)	2,690	370,370	3,810,481	315,651	4,126,132
Profit for the period	-	-	-	-	-	-	-	-	-	5,518	5,518	19,157	24,675
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	-	11,645	-	11,645	3,464	15,109
Share of other comprehensive expense of associates and joint ventures	-	-	-	-	-	-	-	-	(273)	-	(273)	-	(273)
Fair value changes on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	(10,952)	-	-	(10,952)	-	(10,952)
Other comprehensive income (expense) for the period	-	-	-	-	-	-	-	(10,952)	11,372	-	420	3,464	3,884
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	(10,952)	11,372	5,518	5,938	22,621	28,559
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	1,412	1,412
Acquisition of additional interests in a subsidiary	-	-	-	-	-	15	-	-	-	-	15	(15)	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,470)	(1,470)
At 30 June 2021 (unaudited)	75,261	3,341,639	9,020	10,033	62,677	(80,255)	95,231	(87,122)	14,062	375,888	3,816,434	338,199	4,154,633

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company											Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Distributable reserve HK\$'000	Other reserves HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserves HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000		
At 1 January 2020 (audited)	75,261	3,341,639	9,020	10,033	62,677	(85,374)	45,657	(58,685)	(41,748)	656,967	4,015,547	287,464	4,303,011
(Loss) profit for the period	-	-	-	-	-	-	-	-	-	(93,968)	(93,968)	6,306	(87,662)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	-	-	(14,608)	-	(14,608)	(4,839)	(19,447)
Share of other comprehensive expense of associates and joint ventures	-	-	-	-	-	-	-	-	(386)	-	(386)	-	(386)
Fair value changes on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	(20,531)	-	-	(20,531)	-	(20,531)
Other comprehensive expense for the period	-	-	-	-	-	-	-	(20,531)	(14,994)	-	(35,525)	(4,839)	(40,364)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	(20,531)	(14,994)	(93,968)	(129,493)	1,467	(128,026)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	478	478
Disposal of subsidiaries	-	-	-	-	-	28	-	-	-	(28)	-	(337)	(337)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(1,636)	(1,636)
At 30 June 2020 (unaudited)	75,261	3,341,639	9,020	10,033	62,677	(85,346)	45,657	(79,116)	(56,742)	562,971	3,886,054	287,436	4,173,490

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Net cash generated from operating activities	34,359	8,922
Investing activities		
Interest income received	6,586	20,139
Proceeds from loans receivables	436	14,382
Dividend received from associates	7,200	250
Decrease (increase) in fixed bank deposits	85,437	(177,750)
Acquisition of property, plant and equipment	(6,197)	(6,971)
Other cash flows arising from investing activities	(3,529)	(1,040)
Net cash generated from (used in) investing activities	89,933	(150,990)
Financing activities		
Dividends paid to non-controlling interests	(1,470)	(1,636)
Net proceeds from disposal of subsidiaries	-	(94)
Capital contribution from non-controlling interests	1,412	-
Repayment of lease liabilities	(38,765)	(37,370)
Other cash flows arising from financing activities	(2,631)	(4,299)
Net cash used in financing activities	(41,454)	(43,399)
Increase (decrease) in cash and cash equivalents	82,838	(185,467)
Cash and cash equivalents at the beginning of period	1,070,835	1,840,856
Effect of foreign exchange rates changes	8,495	(9,070)
Cash and cash equivalents at the end of period, representing bank balances and cash	1,162,168	1,646,319



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL

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

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

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

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company.

As disclosed in the annual consolidated financial statements for the years ended 31 December 2017, 2018, 2019 and 2020, the Securities and Futures Commission ("SFC") has on 27 November 2017 issued a direction to suspend trading in the shares of the Company with effect from 27 November 2017 ("Suspension") as it appears to the SFC that, inter alia, the Company's interim report for the six months ended 30 June 2016 published by the Company on 7 September 2016 and the Company's annual report for the year ended 31 December 2016 published by the Company on 27 April 2017 included materially false, incomplete or misleading information.

On 18 December 2017, the Company announced that in view of the Suspension, the board of directors ("Board") of the Company has established an independent board committee ("IBC") comprising all the independent non-executive directors of the Company, whose scope of the primary duties includes:

- (i) conducting an independent investigation on the issues and matters arising from or relating to the Suspension;
- (ii) making recommendations to the Board on appropriate action to be taken; and
- (iii) working towards the goal of having the shares of the Company resumed in trading on the Stock Exchange.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL (CONTINUED)

During 2018 and 2019, the IBC had appointed an independent forensic accountant to conduct investigations on the issues and matters arising from or relating to the direction issued by the SFC and to make recommendations to the Board.

After reviewing the findings and conclusion of the independent forensic accountant reports, the IBC accepts that the matters leading to the SFC's concerns on the materially false, incomplete or misleading information contained in the Company's interim report for the six months ended 30 June 2016 published by the Company on 7 September 2016 and the Company's annual report for the year ended 31 December 2016 published by the Company on 27 April 2017 are not substantiated. Hence, the Board has determined that no restatement of figures stated in the accounts contained in these previously issued annual and interim reports is necessary, and no disclosures contained in these accounts need to be amended.

On 30 April 2019, 31 July 2019 and 31 October 2019, the Company announced that the resumption application made by the Company to the SFC under Section 9 of the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) ("SMLR") will be considered by the board of the SFC in due course. The Company will continue to communicate with the SFC and seek to resume the trading of its shares on the Stock Exchange as soon as practicable.

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

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

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

- (i) the Stock Exchange's guidance letter states that the Stock Exchange would discuss with the SFC before exercising its right to delist an issuer suspended under Section 8 of the SMLR; and



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL (CONTINUED)

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL (CONTINUED)

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

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

With reference to the second Resumption Condition, the Company will (i) implement all the recommendations made by the Consultant in the IC Report by the target completion date with respect to each recommendation as set out in the IC Report; (ii) procure the Consultant to perform a follow-up review as at 31 October 2021 to assess whether the Consultant's recommendations in the IC Report have been properly implemented by the Company; and (iii) procure the Consultant to submit a report following such follow-up review to the Company and the SFC for concurrent review. Further announcement will be made in respect of the follow-up review report as required under the third Resumption Condition. The SFC has permitted dealings in the shares of the Company to recommence from 9:00 a.m. on 1 March 2021.

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

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 2020.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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, as appropriate.

Other than the application of the below mentioned amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 9, HKAS 39,
HKFRS 7, HKFRS 4 and HKFRS16

Interest Rate Benchmark
Reform – Phase 2

In addition, the Group has early applied the amendment to HKFRS 16 “COVID-19-Related Rent Concessions beyond 30 June 2021” (“2021 Amendments”).

The application of the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Application of amendments to HKFRSs (Continued)

The Group has early applied the amendments to HKFRS 16 “COVID-19-Related Rent Concessions” (“2020 Amendments”) in the prior period. Under the 2020 Amendments, for rent concessions relating to lease contracts that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

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

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

The Group recognised changes in lease payments that resulted from rent concessions of approximately HK\$2,688,000 (2020: approximately HK\$4,666,000) in the profit or loss during the current interim period.

The Group has early applied the 2021 Amendments in the current interim period. The 2021 Amendments have extended the application of the above mentioned practical expedient to 30 June 2022. The application has no impact to the opening accumulated profits at 1 January 2021.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

4. REVENUE

Revenue represents the aggregate of the net amounts received and receivable from third parties for the period. There is no seasonality or cyclicity of the interim operations of the Group. The performance obligation is part of a contract that has an original expected duration of one year or less. Disaggregation of revenue from contracts with customers are as follows:

	Six months ended 30 June	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Revenue recognised under HKFRS 15		
Hong Kong medical services		
– Medical services	181,502	148,013
– Dental services	32,554	24,189
	214,056	172,202
Hong Kong managed medical network business	216,431	194,181
Mainland hospital management and medical services	217,097	64,191
	647,584	430,574
Revenue recognised under other accounting standard		
Others		
– Rental income	74,390	6,581
Total	721,974	437,155
Revenue recognised under HKFRS 15		
Timing of revenue recognition		
At a point in time	604,202	388,083
Over time	43,382	42,491
	647,584	430,574

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

4. REVENUE (CONTINUED)

Revenue from Hong Kong medical services (including provision of medical and dental services), majority of Hong Kong managed medical network business and Mainland hospital management and medical services (including selling healthcare and pharmaceutical products and provision of medical and dental services) are recognised at a point in time, whereas other sources of revenue from Mainland hospital management and medical services are recognised over time.

5. SEGMENT INFORMATION

The chief operating decision maker, being the chief executive officer (“CEO”) regularly evaluated the current business units of the Group and the locations of the different types of business which are most relevant for the purposes of resources allocation and assessment of segment performance. The Group has identified four reportable and operating segments, namely Hong Kong medical services, Hong Kong managed medical network business, Mainland hospital management and medical services and others.

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

Hong Kong medical services	– Provision of the medical and dental services in Hong Kong
Hong Kong managed medical network business	– Managing healthcare networks & provision of third party medical network administrator services in Hong Kong
Mainland hospital management and medical services	– Provision of medical and dental services in the People’s Republic of China (“PRC”), provision of hospital management services and related services
Others	– Provision of miscellaneous healthcare related services and leasing of properties

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

Six months ended 30 June 2021

	Hong Kong medical services (unaudited) HK\$'000	Hong Kong managed medical network business (unaudited) HK\$'000	Mainland hospital management and medical services (unaudited) HK\$'000	Others (unaudited) HK\$'000	Elimination (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue						
External sales	214,056	216,431	217,097	74,390	-	721,974
Inter-segment sales	19,571	-	-	-	(19,571)	-
	233,627	216,431	217,097	74,390	(19,571)	721,974
Segment results before impairment loss	(10,635)	18,101	21,749	48,837	-	78,052
Impairment loss recognised on right-of-use assets	(4,144)	-	-	-	-	(4,144)
Segment results	(14,779)	18,101	21,749	48,837	-	73,908
Finance costs						(161)
Unallocated other income						3,335
Unallocated corporate expenses						(25,763)
Profit before tax						51,319

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

Six months ended 30 June 2020

	Hong Kong medical services (unaudited) HK\$'000	Hong Kong managed medical network business (unaudited) HK\$'000	Mainland hospital management and medical services (unaudited) HK\$'000	Others (unaudited) HK\$'000	Elimination (unaudited) HK\$'000	Total (unaudited) HK\$'000
Revenue						
External sales	172,202	194,181	64,191	6,581	-	437,155
Inter-segment sales	17,200	-	-	-	(17,200)	-
	189,402	194,181	64,191	6,581	(17,200)	437,155
Segment results before impairment losses	(29,189)	10,289	5,346	(33,167)	-	(46,721)
Impairment loss recognised on property, plant and equipment	(3,201)	-	-	-	-	(3,201)
Impairment loss recognised on goodwill	-	(6,736)	-	-	-	(6,736)
Segment results	(32,390)	3,553	5,346	(33,167)	-	(56,658)
Finance costs						(303)
Unallocated other income						4,315
Unallocated corporate expenses						(25,196)
Loss before tax						(77,842)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

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

	Six months ended 30 June	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Hong Kong	504,877	372,964
Other regions of the PRC	217,097	64,191
	721,974	437,155

6. OTHER INCOME

	Six months ended 30 June	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Dividend income from equity instruments at fair value through other comprehensive income – relating to investments held at the end of the reporting period	1,285	175
Interest income	6,586	22,588
Rental income	1,828	1,626
Government grants (Note)	–	4,894
Rent concessions	2,688	4,666
Sundry income	1,561	2,408
	13,948	36,357

Note: During the six months ended 30 June 2020, the Group recognised government grants of approximately HK\$4,894,000 in respect of COVID-19-related subsidies, of which were all relating to the Employment Support Scheme provided by the Hong Kong government under which the Group was required (1) not to implement redundancies from June 2020 to August 2020; and (2) to spend all the wage subsidies on paying wages to their employees. There was no unfulfilled condition or contingency relating to these grants.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

7. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2021	2020
	(unaudited) HK\$'000	(unaudited) HK\$'000
Fair value changes on investment properties	49,175	(42,339)
Fair value changes on financial asset at fair value through profit or loss	(2,732)	(1,115)
Impairment loss recognised on right-of-use assets	(4,144)	–
Impairment loss recognised on property, plant and equipment	–	(3,201)
Impairment loss recognised on goodwill	–	(6,736)
Loss on disposal of and written-off of property, plant and equipment	(114)	–
Loss on disposal of subsidiaries	–	(370)
Reversal of expected credit loss recognised on amount due from an associate	–	2,000
	42,185	(51,761)

8. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	(unaudited) HK\$'000	(unaudited) HK\$'000
Interest on bank borrowing	161	303
Interest on lease liabilities	1,863	2,338
	2,024	2,641



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Hong Kong Profits Tax	17,596	4,421
PRC Enterprise Income Tax	10,066	6,382
Deferred taxation credit	(1,018)	(983)
	26,644	9,820

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

10. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2021 (unaudited) HK\$'000	2020 (unaudited) HK\$'000
Profit (loss) for the period has been arrived at after (crediting) charging:		
Staff costs		
– Directors' remuneration	270	252
– Other staff's salaries, bonus and other benefits	303,279	276,785
– Other staff's retirement benefits scheme contributions	5,236	3,496
	308,785	280,533
Amortisation of intangible assets	5,306	5,166
Depreciation of property, plant and equipment	21,332	24,303
Depreciation of right-of-use assets	34,976	38,651
COVID-19-related rent concessions (note 13)	(2,688)	(4,666)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

11. DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2021 (2020: Nil).

12. EARNINGS (LOSS) PER SHARE

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

	Six months ended	
	30 June	
	2021	2020
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit (loss) for the period attributable to owners of the Company and earnings (loss) for the purpose of calculating basic and diluted earnings (loss) per share	5,518	(93,968)

	30 June	
	2021	
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings (loss) per share	7,526,134,452	7,526,134,452

The denominators used are the same as those detailed above for both basic and diluted earnings (loss) per share. Diluted earnings (loss) per share for both the six months ended 30 June 2021 and 2020 were presented as the same as basic earnings (loss) per share as there were no potential ordinary shares in issue for both the six months ended 30 June 2021 and 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the six months ended 30 June 2021, the Group acquired property, plant and equipment of approximately HK\$6,197,000 (2020: approximately HK\$6,971,000).

During the six months ended 30 June 2021, the Group entered into some new lease agreements for the use of retail shops and office for average of 2.42 years (2020: 2.4 years). The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised approximately HK\$6,714,000 of right-of-use assets and approximately HK\$6,714,000 of lease liabilities (2020: approximately HK\$15,973,000 of right-of-use assets and approximately HK\$15,973,000 of lease liabilities).

During the six months ended 30 June 2021, certain lessors of retail stores provided rent concessions to the Group through rent reductions ranging from 5% to 75% over one to three months. These rent concessions occurred as a direct consequence of COVID-19 pandemic and met all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. During the current interim period, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of approximately HK\$2,688,000 (2020: approximately HK\$4,666,000) were recognised as negative variable lease payments.

The Group's investment properties as at the end of the current interim period were valued by Ascent Partners Valuation Services Limited. The fair value of all investment properties located in Hong Kong was derived using the market comparable approach based on the price per square feet observed in recent market prices and adjusting the observed prices per square feet with certain unobservable inputs including the adjustments in respect of the building age, location, fair market rent and people flows to reflect different locations and conditions. The resulting increase in fair value of investment properties of approximately HK\$49,175,000 has been recognised directly in profit or loss for the six months ended 30 June 2021 (2020: decrease by approximately HK\$42,339,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES (CONTINUED)

During the six months ended 30 June 2021, the management performed impairment testing of right-of-use assets and property, plant and equipment of certain cash-generating units (“CGUs”) which certain medical centres have been suffering from continuous losses. The recoverable amounts of these assets are lower than the carrying amounts of the respective CGUs. Accordingly, impairment losses of approximately HK\$4,144,000 and HK\$nil (2020: HK\$nil and approximately HK\$3,201,000) have been recognised related to right-of-use assets and property, plant and equipment, respectively in the profit or loss for the six months ended 30 June 2021.

14. LOANS RECEIVABLE

	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000
Fixed-rate loans receivable (unsecured)	3,711	4,147
Analysed for reporting purpose as:		
Non-current portion	2,835	3,271
Current portion	876	876
	3,711	4,147

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

15. GOODWILL

During the six months ended 30 June 2021, the recoverable amounts of the CGUs of which carrying amounts of goodwill are allocated were higher than the carrying amounts of the respective CGUs and the management determined that there was no impairment loss recognised on these CGUs for the six months ended 30 June 2021 accordingly.

During the six months ended 30 June 2020, as a result of the changes in the economic environment related to the COVID-19 pandemic, the Group experienced negative conditions of decreased revenues, that indicated that the relevant goodwill might be impaired and impairment loss of approximately HK\$6,736,000 was recognised accordingly. The recoverable amount of the impaired cash-generating unit (1 out of 3 CGUs was impaired) for the six months ended 30 June 2020 was determined based on value in use calculations which used cash flow projections based on most recent financial budgets approved by management covering a five years period and being extrapolated assuming the growth rate ranged from 2.54% to 17.68% using a pre-tax discount rate of 15.54%.

16. INTERESTS IN ASSOCIATES

There was no objective evidence that the interests in associates are impaired during the six months ended 30 June 2021.

During the six months ended 30 June 2020, the performance of Auspicious Idea Corporate Development Limited ("Auspicious Idea"), which is an associate of the Group, was affected by the COVID-19 pandemic and the regulation of mandatory closure of beauty parlour imposed by the Hong Kong government. The Group had performed impairment assessment on interests in Auspicious Idea whereby the recoverable amount of Auspicious Idea was determined based on value in use calculations which used cash flow projections based on most recent financial budgets approved by management of the associate covering a five years period and being extrapolated assuming the growth rate ranged from 1.00% to 57.21% using a pre-tax discount rate of 21.92%. Following the impairment assessment, no impairment loss was recognised in the profit or loss during the six months ended 30 June 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. PROMISSORY NOTES

	Notes	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000
Mr. Dai Hai Dong	(i)	-	-
Profit Castle Holdings Limited	(ii)	38,208	117,763
		38,208	117,763

Notes:

- (i) As at 30 June 2021 and 31 December 2020, a promissory note with a principal amount of HK\$203,705,000 was outstanding, which carried interest of 5% per annum and matured in November 2019. The promissory note was issued by the purchaser, Mr. Dai Hai Dong ("Mr. Dai"), as part of consideration of the acquisition of the Group's interests in Wise Lead Holdings Limited ("Wise Lead") in 2016. The promissory note is secured by the entire issued share capital of Wise Lead. Wise Lead owns 49% interest in Huayao Medical Group Limited ("Huayao"), whose major assets were a rehabilitation-oriented hospital situated in Hangzhou and certain outpatient medical clinics situated in Hangzhou. As disclosed in the annual report of the Company for the year ended 31 December 2017, the Group had reassessed the recoverability of the promissory note receivable as at 31 December 2017 by carrying out credit reviews on the financial condition of the counterparty. During the credit reviews, it was noted upon preliminary inspection conducted by the staff members of the Company that the operations of the hospital and the outpatient medical clinics of Huayao in Hangzhou had ceased. The directors of the Company conducted further credit assessments on Mr. Dai and reassessed the recoverable amount of the promissory note and expected credit loss of approximately HK\$203,705,000 was recognised in consolidated profit or loss during the year ended 31 December 2017 to fully write down the carrying amount of the promissory note.

In 2018, the Group has conducted another credit review on the financial condition of the counterparty. During the credit review, it was noted upon the inspection conducted by the staff members of the Company that the status of the hospital and clinics remained unchanged. The directors of the Company considered the recoverability of the promissory note was still remote.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. PROMISSORY NOTES (CONTINUED)

Notes:

(i) *(Continued)*

On 12 April 2019, the Group announced Mr. Dai failed to repay the interest accrued from 1 January 2019 and considered that the recoverability of the promissory note was remote. On 6 May 2019, the Group initiated legal proceedings in the Court of First Instance of the High Court of Hong Kong against Mr. Dai in respect of all outstanding sums owing by him under the promissory note by the issuance of a writ of summons endorsed with an indorsement of claim. The above legal proceedings in Hong Kong was discontinued by the Group on 6 December 2019. Instead, on 12 December 2019, the Group initiated legal proceedings against Mr. Dai in the Hangzhou Intermediate People's Court of the PRC ("PRC Court"). On 23 April 2021, the Group received a notice and a court summons issued by the PRC Court, pursuant to which, among others, the counterclaim filed by Mr. Dai has been accepted by the PRC Court and will be heard together with the Group's original claim against Mr. Dai. Further details are set out in the Company's announcements dated 4 November 2016, 12 April 2019, 10 May 2019 and 3 May 2021.

During the interim period, the legal proceedings were still in process. Accordingly, the allowance for expected credit loss recognised in the previous years was not reversed.

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

Since the Maturity Date, the management had been in negotiation with Dr. Ip on the extension of the maturity date of the promissory note and the repayment schedule of the principal amount of the promissory note and interest accrued thereon. However, such negotiation fell through in the absence of any viable repayment proposal from Dr. Ip and Profit Castle that is acceptable to the Group. As at 30 June 2021, the promissory note became 444 days (31 December 2020: 263 days) past due, Dr. Ip and Profit Castle failed to pay the principal amount of HK\$330,000,000 (31 December 2020: HK\$330,000,000) while Profit Castle paid the interest accrued of HK\$14,864,000 and HK\$1,000,000 on the promissory note in 2020 and during the current interim period respectively and no repayment was made subsequent to the reporting period and up to the date of this interim report being authorised for issue. The management of the Group considered that the credit risk of the promissory note has been significantly increased accordingly.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. PROMISSORY NOTES (CONTINUED)

Notes:

(ii) (Continued)

Having considered the facts and circumstances, the Group had instructed its legal advisor to issue a final demand letter to each of Profit Castle and Dr. Ip. The Group had taken legal actions against Profit Castle and/or Dr. Ip in respect of, among other things, their default in repayment of the outstanding principal amount of the promissory note and all outstanding interest accrued, including issue of a notice of enforcement to Profit Castle to declare the enforcement of the collateral over all the shares of Bonjour Beauty for securing the repayment of the promissory note and appointment of receivers over all the shares of Bonjour Beauty on 22 April 2021 and 23 April 2021 respectively. On 21 May 2021, Oasis Beauty Limited ("Oasis Beauty"), a wholly owned subsidiary of the Company, was served with a writ of summons together with a statement of claim from Profit Castle and Dr. Ip who are seeking i) damages for deceit or fraudulent misrepresentation and rescission of several agreements in relation to the promissory note and the respective collateral and guarantee, ii) a declaration that the Group is not entitled to enforce the respective collateral and guarantee and iii) declaration that the appointment of receivers and directors for Bonjour Beauty and its subsidiaries be null and void. Oasis Beauty issued the summons for summary judgment and striking out of the claims of Profit Castle and Dr. Ip on 21 July 2021.

As at 30 June 2021, the Group engaged an independent valuer, Ascent Partners Valuation Service Limited ("Independent Valuer") to assess the expected credit loss of the promissory note. When performing the valuation assessment, the management considered various settlement options, which include settling the promissory note by selling or taking over the collateral, the duration of court procedures to be completed and the possibility of liquidation of the collateral. The Independent Valuer adopted scenario analysis based on the Group's decision to proceed to exercise its claims to the shares of Bonjour Beauty. The enterprise value of Bonjour Beauty is determined by using combination of income and market approach and liquidation value. Based on the valuation of different scenarios of the Group's decision to proceed to exercise its claims to the shares of Bonjour Beauty, the recoverable amount of the promissory note is approximately HK\$38,208,000, net of accumulated allowance of expected credit loss of approximately HK\$291,792,000, (31 December 2020: approximately HK\$117,763,000, net of accumulated allowance of expected credit loss of approximately HK\$212,237,000). An expected credit loss of approximately HK\$79,555,000 was recognised during the six months ended 30 June 2021 (for the year ended 31 December 2020: approximately HK\$207,693,000).

The promissory notes are initially recognised at fair value and subsequently measured at amortised cost. The early redemption option is considered as closely related to the host promissory note. The directors of the Company assessed that the promissory notes have been issued within the range of the market borrowing rates of the note issuers and considered the interest rates as fair and reasonable. The principal amounts of the promissory notes are considered as the fair value at the date of issuance.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

18. TRADE AND OTHER RECEIVABLES

	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000
Trade and bills receivables	360,240	230,705
Deposits	39,076	39,689
Other receivables	5,217	19,562
Prepayments	31,329	16,529
	435,862	306,485

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

	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000
0-60 days	189,031	164,099
61-120 days	100,244	45,982
121-180 days	67,323	18,992
181-240 days	3,642	1,632
	360,240	230,705

Most of the patients of the medical and dental practices of the Group settle their payments in cash. Payments arising from use of medical cards by patients will normally be settled within 180 to 240 days (31 December 2020: 180 to 240 days) while settlement by corporate customers of the Group's managed medical network business is from 60 to 180 days (31 December 2020: 60 to 180 days). The Group provides an average credit period of 60 to 240 days (31 December 2020: 60 to 240 days) to its trade customers under its other business activities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

19. TRADE AND OTHER PAYABLES

	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000
Trade and bills payables	123,775	103,601
Other payables	28,119	19,223
Deposits received	4,555	4,674
Accruals	92,026	79,367
	248,475	206,865

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

	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000
0-60 days	84,077	65,509
61-120 days	25,719	24,149
Over 120 days	13,979	13,943
	123,775	103,601

The average credit period on purchase of goods is 60 to 120 days (31 December 2020: 60 to 120 days).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

20. BANK BORROWING

	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000
Secured	16,016	16,623

As at 30 June 2021 and 31 December 2020, the bank borrowing of the Group carried variable interest rates at Hong Kong Interbank Offered Rate (“HIBOR”) +2.25% per annum.

The Group’s bank borrowing contains a repayable on demand clause and therefore has been classified as current liabilities in the condensed consolidated financial statements.

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.

21. SHARE CAPITAL

	Numbers of Shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2020, 31 December 2020 and 30 June 2021	30,000,000,000	300,000
Issued and fully paid:		
At 1 January 2020, 31 December 2020 and 30 June 2021	7,526,134,452	75,261



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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 are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

1. Level 1 fair value measurements are those derived from quoted process (unadjusted) in active market for identical assets or liabilities;
2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
3. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique	Significant unobservable input(s)	Range (weighted average)	Relationship of unobservable inputs for fair value
	30 June 2021 (unaudited) HK\$'000	31 December 2020 (audited) HK\$'000					
1 Financial asset at fair value through profit or loss – listed equity securities in Hong Kong	4,042	6,774	Level 1	Quoted bid prices in an active market	n/a	n/a	n/a
2 Equity instruments at fair value through other comprehensive income	28,657	39,609	Level 3	Discounted cash flow method	Yearly growth rates of revenue	Ranging from 2%-11.39% (31 December 2020: Ranging from 2.07% to 21.01%)	The increase in yearly growth rates of revenue would increase fair value
					Terminal growth rate	2.3% (31 December 2020: 2.07%)	The increase in terminal growth rate would increase fair value
					Pre-tax operating profit margin	10.51% (31 December 2020: 11.00%)	The increase in yearly pre-tax operating profit margin would increase fair value
					Weighted average cost of capital	13.53% (31 December 2020: 12.83%)	The increase in weighted average cost of capital would decrease fair value
					Company specific risk premium	2.5% (31 December 2020: 2.5%)	The increase in company specific risk premium would decrease fair value
					Discount rate for lack of control and marketability	Ranging from 10.15% to 15.8% (31 December 2020: Ranging from 10.15% to 15.8%)	The increase in discount rate would decrease fair value

There were no transfers of financial assets between different levels of the fair value hierarchy in the current period and prior year.

The quantitative information of significant unobservable inputs used in arriving at the Level 3 fair value measurement are set out above.

The directors of the Company consider that except for financial assets as disclosed in the above table, the carrying amounts of remaining financial assets and financial liabilities recognised in the condensed consolidated financial statements approximate their fair values.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

22. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(CONTINUED)

Reconciliation of Level 3 fair value measurements of financial assets

	Equity instruments at fair value through other comprehensive income HK\$'000
At 1 January 2020 (audited)	59,609
Fair value loss	(20,531)
At 30 June 2020 (unaudited)	39,078
At 1 January 2021 (audited)	39,609
Fair value loss	(10,952)
At 30 June 2021 (unaudited)	28,657

The fair value loss for the six months ended 30 June 2021 of approximately HK\$10,952,000 (six months ended 30 June 2020: approximately HK\$20,531,000) included other comprehensive income related to equity instruments at fair value through other comprehensive income held at the end of the reporting period and are reported as changes of “investment revaluation reserve”.

GLOSSARY

AGM	annual general meeting of the Company
Audit Committee	audit committee of the Board
BB Promissory Note	the promissory note with a principal amount of HK\$330,000,000 issued by Profit Castle as part of the consideration for the acquisition of the Group's interests in Bonjour Beauty and its subsidiaries
Board	the board of Directors
Bonjour Beauty	Bonjour Beauty International Limited
Broad Idea	Broad Idea International Limited
Chief Executive Officer	chief executive officer of the Company
China Life Insurance	中國人壽保險(集團)公司 (in English, for identification purpose only, China Life Insurance (Group) Company)
China Life Group	China Life Insurance and its subsidiaries
China or PRC or Mainland China	the People's Republic of China excluding, for the purpose of this interim report only, Hong Kong, the Macao Special Administrative Region of the People's Republic of China and Taiwan
Classictime	Classictime Investments Limited
CLG Subscription	the subscription for 1,785,098,644 Shares by China Life Insurance pursuant to an investment agreement dated 5 January 2015 entered into between the Company and China Life Insurance
CLIZ	中國人壽保險股份有限公司深圳市分公司 (in English, for identification purpose only, China Life Insurance Company Limited, Shenzhen Branch)



GLOSSARY

Company	Town Health International Medical Group Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability whose Shares are listed on the Main Board of the Stock Exchange
Convertible Preference Shares	perpetual non-voting redeemable convertible preference shares of HK\$0.01 each in the share capital of the Company subscribed by Fubon Life, Fubon Insurance and Broad Idea pursuant to the CPS Subscription Agreement
CPS Subscription	the subscription for 212,121,212 Convertible Preference Shares by Fubon Life, 79,545,454 Convertible Preference Shares by Fubon Insurance and 83,333,333 Convertible Preference Shares by Broad Idea, pursuant to the CPS Subscription Agreement
CPS Subscription Agreement	perpetual non-voting redeemable convertible preference shares subscription agreement dated 31 October 2014 and entered into between the Company, Fubon Life, Fubon Insurance and Broad Idea
current ratio	total current assets divided by total current liabilities
Director(s)	the director(s) of the Company
Disposal	the disposal of the entire issued share capital of Wise Lead, which owns 49% interest in Huayao, by the Group
Dr. Cho	Dr. Cho Kwai Chee
Dr. Choi	Dr. Choi Chee Ming, <i>GBS, JP</i>
Dr. Ip	Dr. Ip Chun Heng, Wilson
Framework Cooperation Agreement	the framework cooperation agreement dated 2 July 2021 and entered into between Guangdong Townsfolk and CLIZ in respect of the provision of the Medical & Healthcare Services by Townsfolk Group to CLIZ or its staff and clients

GLOSSARY

Fubon Insurance	Fubon Insurance Co., Ltd.
Fubon Life	Fubon Life Insurance Co., Ltd.
Ganghe Clinic	深圳港和診所 (in English, for identification purpose only, Shenzhen Ganghe Clinic)
gearing ratio	total bank borrowings divided by equity attributable to owners of the Company
Group	the Company and its subsidiaries
Guangdong Townsfolk	廣東港康醫院管理有限公司 (in English, for identification purpose only, Guangdong Townsfolk Hospital Management Co., Ltd.), an indirect wholly-owned subsidiary of the Company incorporated in the PRC
Guarantee	the deed of guarantee dated 13 April 2017 executed by Dr. Ip in favour of Oasis Beauty for securing the repayment of the BB Promissory Note by Profit Castle
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	Hong Kong Special Administrative Region of the PRC
Huayao	Huayao Medical Group Limited
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange
Medical & Healthcare Services	health check services (including but not limited to general health checks, underwriting health checks and VIP customer health checks) and medical services (including but not limited to general practice and specialist medical services, dental health care and treatments, medical beauty and anti-ageing services, Hong Kong medical consultation, vaccination and auxiliary medical services)



GLOSSARY

Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
Nanshi Hospital	南陽南石醫院 (in English, for identification purpose only, Nanshi Hospital of Nanyang)
Nanyang Ruishi Ophthalmology Hospital	南陽瑞視眼科醫院有限公司 (in English, for identification purpose only, Nanyang Ruishi Ophthalmology Hospital Co., Ltd.), a subsidiary of the Company
Nanyang Xiangrui	南陽祥瑞醫院管理諮詢有限公司 (in English, for identification purpose only, Nanyang Xiangrui Hospital Management Advisory Co., Ltd.), a subsidiary of the Company
Nomination Committee	nomination committee of the Board
Oasis Beauty	Oasis Beauty Limited, an indirect wholly-owned subsidiary of the Company
Ordinary Shares Subscription	the subscription of 459,183,673 Shares by Fubon Life, Fubon Insurance and Broad Idea and the allotment and issue of the subscription shares
Power Financial	Power Financial Group Limited
Profit Castle	Profit Castle Holdings Limited
Purchaser	the purchaser in the Disposal, i.e. Mr. Dai Hai Dong
Remuneration Committee	remuneration committee of the Board
RMB	Renminbi, the lawful currency of the PRC
SFO	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)

GLOSSARY

Shanghai United Imaging	上海聯影智慧醫療投資管理有限公司 (in English, for identification purpose only, Shanghai United Imaging Smart Medical Investments and Management Co. Ltd.)
Share(s)	ordinary share(s) of HK\$0.01 each in the share capital of the Company
Share Mortgage	the share mortgage dated 13 April 2017 executed by Profit Castle in favour of Oasis Beauty over the entire issued share capital of Bonjour Beauty for securing the repayment of the BB Promissory Note
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)
SP Agreement	the agreement for sale and purchase dated 30 December 2016 entered into between Profit Castle, Oasis Beauty and Dr. Ip in respect of the disposal of the entire issued share capital of Bonjour Beauty by Oasis Beauty to Profit Castle
Stock Exchange	The Stock Exchange of Hong Kong Limited
TBM	The Beauty Medical
TH (BVI)	Town Health (BVI) Limited, a wholly-owned subsidiary of the Company
Townfolk Group	Guangdong Townfolk and its branches and health service centres
US\$	United States dollars, the lawful currency of the United States of America
Vio	Dr. Vio & Partners Limited, a subsidiary of the Company
Wise Lead	Wise Lead Holdings Limited



GLOSSARY

WL Promissory Note	the promissory note in the principal amount of HK\$203,705,000 issued by the Purchaser, a third party individual, in favour of TH (BVI), being the vendor in the Disposal
Yikang Medical	廣州宜康醫療管理有限公司 (in English, for identification purpose only, Guangzhou Yikang Medical Management Co., Ltd.), a subsidiary of the Company
Yugangxiang Medical	雲南豫港祥醫藥有限公司 (in English, for identification purpose only, Yunnan Yugangxiang Pharmaceuticals Limited), a subsidiary of the Company
Zhongshan Shangfeng Yikang	中山市尚峰宜康醫療管理有限公司 (in English, for identification purpose only, Zhongshan City Shangfeng Yikang Medical Management Co., Ltd.)