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Union Medical Healthcare Limited

香港醫思醫療集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2138)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

INTERIM RESULTS HIGHLIGHTS

- Sales Volume during the period increased by 18.3% from HK\$900.1 million for the six months ended 30 September 2018 to HK\$1,065.1 million for the six months ended 30 September 2019.
- During the Reporting Period, increment of Sales Volume is recorded in every single month.
- Total revenue increased by 28.1% from HK\$873.0 million for the six months ended 30 September 2018 to HK\$1,118.5 million for the six months ended 30 September 2019.
- Net profit increased by 4.0% from HK\$203.0 million for the six months ended 30 September 2018 to HK\$211.1 million for the six months ended 30 September 2019.
- Revenue contributed by mainland China clients represents 39% of the total revenue.
- Basic earnings per share for the six months ended 30 September 2019 amounted to 20.1 HK cents (2018: 19.7 HK cents).
- The Board declared an interim dividend of 15.0 HK cents per Share, which will be payable in cash.

* for identification purpose only

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the Reporting Period together with the comparative figures for the corresponding period in 2018 as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September
(Expressed in Hong Kong dollars)

| | <i>Notes</i> | 2019 <i>HK\$</i> (Unaudited) | 2018 <i>(Note)</i> <i>HK\$</i> (Unaudited) |
|---|--------------|--|---|
| REVENUE | 5 | 1,118,476,628 | 873,048,770 |
| Other net income and gains | 6 | 18,151,907 | 4,196,704 |
| Cost of inventories and consumables | | (129,000,403) | (99,292,452) |
| Registered practitioner expenses | | (142,491,370) | (66,253,271) |
| Employee benefit expenses | | (286,721,250) | (208,007,936) |
| Marketing and advertising expenses | | (102,293,718) | (83,384,502) |
| Rental and related expenses | | (23,281,878) | (78,559,093) |
| Depreciation — right-of-use assets | | (80,673,100) | — |
| Depreciation — owned property, plant and equipment | | (34,496,190) | (19,549,288) |
| Credit card expenses | | (27,053,355) | (23,181,355) |
| Finance costs | 7 | (8,877,721) | (4,634,296) |
| Other expenses | | (53,826,133) | (54,982,708) |
| Share of profit of joint ventures | | 1,000,742 | 1,501,019 |
| PROFIT BEFORE TAX | 8 | 248,914,159 | 240,901,592 |
| Income tax | 9 | (37,840,841) | (37,873,395) |
| PROFIT FOR THE PERIOD | | 211,073,318 | 203,028,197 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 197,510,568 | 194,240,265 |
| Non-controlling interests | | 13,562,750 | 8,787,932 |
| PROFIT FOR THE PERIOD | | 211,073,318 | 203,028,197 |
| EARNINGS PER SHARE | | <i>HK cents</i> | <i>HK cents</i> |
| ATTRIBUTABLE TO EQUITY | | | |
| SHAREHOLDERS OF THE COMPANY | 10 | | |
| Basic | | 20.1 | 19.7 |
| Diluted | | 20.0 | 19.7 |

| | 2019 | 2018 |
|---|---------------------------|--------------------|
| <i>Notes</i> | <i>HK\$</i> | <i>(Note)</i> |
| | (Unaudited) | (Unaudited) |
| PROFIT FOR THE PERIOD | 211,073,318 | 203,028,197 |
| Other comprehensive income for the period (after tax and reclassification adjustments) | | |
| Item that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of subsidiaries outside Hong Kong, net of HK\$nil tax | <u>1,807,677</u> | <u>461,814</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u>212,880,995</u> | <u>203,490,011</u> |
| Attributable to: | | |
| Equity shareholders of the Company | <u>199,318,245</u> | 194,702,079 |
| Non-controlling interests | <u>13,562,750</u> | <u>8,787,932</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u>212,880,995</u> | <u>203,490,011</u> |

Note:

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

| | | As at 30 September 2019 | As at 31 March 2019 (Note) |
|---|-------|-------------------------------|-------------------------------------|
| | Notes | HK\$ (Unaudited) | HK\$ (Audited) |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 11 | 808,793,340 | 294,686,071 |
| Investment properties | | 195,000,000 | 232,000,000 |
| Goodwill | | 165,065,193 | 99,099,208 |
| Intangible assets | | 94,037,880 | 89,493,118 |
| Interest in joint ventures | | 35,722,224 | 37,051,803 |
| Rental and other deposits | 13 | 53,843,931 | 35,847,456 |
| Prepayments | 13 | 98,374,425 | 104,513,425 |
| Financial assets at fair value through profit or loss | 14 | 73,356,812 | 37,356,812 |
| Deferred tax assets | | 16,382,948 | 12,239,612 |
| | | <u>1,540,576,753</u> | <u>942,287,505</u> |
| Total non-current assets | | | |
| CURRENT ASSETS | | | |
| Inventories | | 56,209,656 | 52,080,763 |
| Trade receivables | 12 | 129,524,819 | 104,668,285 |
| Prepayments, deposits and other receivables | 13 | 160,920,437 | 198,690,058 |
| Deferred cost | 5 | 82,618,960 | 80,455,099 |
| Financial assets at fair value through profit or loss | 14 | 108,631,377 | 599,830,857 |
| Pledged time deposits | 15 | – | 2,001,612 |
| Certificate of deposits | 15 | 6,638,114 | – |
| Cash and cash equivalents | 15 | 408,343,054 | 366,969,663 |
| | | <u>952,886,417</u> | <u>1,404,696,337</u> |
| Total current assets | | | |
| CURRENT LIABILITIES | | | |
| Trade payables | 16 | 26,191,288 | 21,879,324 |
| Other payables and accruals | 17 | 137,598,650 | 144,054,378 |
| Bank borrowings | | 130,295,551 | 497,713,680 |
| Lease liabilities | | 166,866,041 | 5,882,739 |
| Deferred revenue | 5 | 407,521,442 | 420,461,620 |
| Current tax payable | | 75,491,526 | 34,936,345 |
| | | <u>943,964,498</u> | <u>1,124,928,086</u> |
| Total current liabilities | | | |
| NET CURRENT ASSETS | | <u>8,921,919</u> | <u>279,768,251</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>1,549,498,672</u> | <u>1,222,055,756</u> |

| | As at 30 September 2019 | As at 31 March 2019 (Note) |
|--|--|-------------------------------------|
| <i>Notes</i> | HK\$ (Unaudited) | HK\$ (Audited) |
| NON-CURRENT LIABILITIES | | |
| | 5,914,982 | 6,159,759 |
| Deferred tax liabilities | | |
| | 347,658,313 | 40,889,102 |
| Lease liabilities | | |
| 17 | 9,110,000 | 9,110,000 |
| Provision for reinstatement costs | | |
| | 362,683,295 | 56,158,861 |
| Total non-current liabilities | | |
| | 1,186,815,377 | 1,165,896,895 |
| NET ASSETS | | |
| CAPITAL AND RESERVES | | |
| | 9,852 | 9,845 |
| Share capital | | |
| 18 | 1,049,344,144 | 1,041,988,419 |
| Reserves | | |
| Total equity attributable to equity shareholders of the Company | 1,049,353,996 | 1,041,998,264 |
| Non-controlling interests | 137,461,381 | 123,898,631 |
| TOTAL EQUITY | 1,186,815,377 | 1,165,896,895 |

Note:

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Group is principally engaged in the provision of medical and healthcare services. The Company is an exempted company with limited liability incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at L50 Langham Place Office Tower, 8 Argyle Street, Mong Kok, Hong Kong.

2. BASIS OF PREPARATION OF THE INTERIM FINANCIAL STATEMENTS

The financial information relating to the six months ended 30 September 2019 and 2018 included in this preliminary announcement of interim does not constitute the Company's interim consolidated financial statements for those periods but is derived from those interim financial statements.

The unaudited interim financial statements (the "Interim Financial Statements") have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2019, except for the adoption of the new and amended Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are relevant to and effective for the Group's financial statements for annual period beginning on 1 April 2019. Details of changes in accounting policies are set out in note 3.

The Interim 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 March 2019.

The preparation of Interim Financial Statements in conformity with all applicable HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Interim Financial Statements are presented in Hong Kong dollars ("HK\$").

3. CHANGE IN ACCOUNTING POLICIES

(a) New and amended standards adopted by the Group

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial announcement. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) *Changes in the accounting policies*

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 15(b).

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value;
- right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value; and
- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(iii) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation (“leasehold investment properties”). The adoption of HKFRS 16 does not have a significant impact on the Group’s financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 March 2019. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iv) Lessor accounting

In addition to leasing out the investment property referred to in paragraph (a)(iii) above, the Group leases out a number of items of machinery as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group’s financial statements in this regard.

(b) *Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies*

(i) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group’s operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group’s control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) *Transitional impact*

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2.5%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 March 2019 as an alternative to performing an impairment review.

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 March 2019.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in ‘property, plant and equipment’ and presents lease liabilities separately in the statement of financial position.

4. OPERATING SEGMENT INFORMATION

For management purpose, the Group is organised into business unit based on their services and products and has three reportable operating segments as follows:

- (a) Medical;
- (b) Aesthetics medical, beauty and wellness and sale of skincare, healthcare and beauty products; and
- (c) Performance marketing.

Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group’s management monitors the results attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investment properties, right-of-use assets, interest in joint ventures, certificate of deposits and financial assets at fair value through profit or loss. Segment liabilities include trade payables, other payables and accruals, provision for reinstatement costs, deferred revenue, current tax payable and deferred tax liabilities.

The segment revenue of the Group is based on the type of services provided to the customers. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group’s profit before tax except that bank interest income, dividend income and net interest income from financial assets at fair value through profit or loss and certificate of deposits, unrealised and realised fair value gain/(loss) on financial assets at fair value through profit or loss, net, rental income from investment properties and head office and other corporate expenses are excluded from such measurement.

For the six months ended 30 September

| | Medical | | Aesthetic medical, beauty and wellness and sale of skincare, healthcare and beauty products | | Performance marketing | | Total | |
|--|--------------------|--------------------|---|--------------------|-----------------------|-------------------|---------------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenue: | | | | | | | | |
| Sales to external customers and segment revenue | <u>323,952,102</u> | <u>160,218,876</u> | <u>733,671,926</u> | <u>692,890,720</u> | <u>60,852,600</u> | <u>19,939,174</u> | <u>1,118,476,628</u> | <u>873,048,770</u> |
| Segment result | 36,153,072 | 21,233,254 | 209,193,376 | 225,374,781 | 2,999,374 | 2,773,476 | 248,345,822 | 249,381,511 |
| Bank interest income | | | | | | | 41,642 | 378,358 |
| Dividend income and net interest income from financial assets at fair value through profit or loss and certificate of deposits | | | | | | | 999,228 | 10,377,852 |
| Unrealised and realised gain/(loss) on financial assets at fair value through profit or loss and certificate of deposits, net | | | | | | | 6,959,908 | (12,066,574) |
| Rental income from investment properties | | | | | | | 2,127,080 | 1,267,045 |
| Share of profits less losses of joint ventures | | | | | | | 1,000,742 | 1,501,019 |
| Others | | | | | | | (10,560,263) | (9,937,619) |
| Consolidated profit before tax | | | | | | | <u>248,914,159</u> | <u>240,901,592</u> |
| As at 30 September 2019/31 March 2019 | | | | | | | | |
| Reportable segment assets | <u>548,814,844</u> | <u>561,868,745</u> | <u>958,969,110</u> | <u>841,034,651</u> | <u>98,366,609</u> | <u>37,840,974</u> | <u>1,606,150,563</u> | <u>1,440,744,370</u> |
| Reportable segment liabilities | <u>93,427,759</u> | <u>82,800,068</u> | <u>551,543,228</u> | <u>543,796,633</u> | <u>16,856,902</u> | <u>10,004,726</u> | <u>661,827,889</u> | <u>636,601,427</u> |

Note:

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

5. REVENUE

Revenue represents the value of services rendered and the net invoiced value of goods sold, excluding value added tax or other sales taxes and is after deduction of trade discounts. An analysis of revenue is as follows:

| | For the six months ended | |
|---|---------------------------------|--------------------|
| | 30 September | |
| | 2019 | 2018 |
| | HK\$ | HK\$ |
| | (Unaudited) | (Unaudited) |
| Revenue | | |
| Medical services | 323,952,102 | 160,218,876 |
| Aesthetic medical services | 462,786,066 | 428,203,074 |
| Beauty and wellness services | 239,274,140 | 222,211,344 |
| Skincare, healthcare and beauty products | 31,611,720 | 42,476,302 |
| Performance marketing and related services | 60,852,600 | 19,939,174 |
| | <u>1,118,476,628</u> | <u>873,048,770</u> |
| Disaggregated by geographical location of customers | | |
| — Hong Kong | 1,051,628,659 | 815,823,693 |
| — Macau | 22,348,181 | 19,488,585 |
| — Mainland China | 44,499,788 | 37,736,492 |
| | <u>1,118,476,628</u> | <u>873,048,770</u> |

All of the above revenue is recognised in accordance with HKFRS 15.

During the six months ended 30 September 2019, the revenue recognised from unutilised prepaid packages after the effect of previously recognised expected breakage amount, amounted to HK\$80,406,308 (2018: HK\$68,644,714).

Deferred balances

The following table provides information about deferred liabilities from contract with customers and related deferred cost.

| | As at | As at |
|------------------|--------------------------|-------------------|
| | 30 September | 31 March |
| | 2019 | 2019 |
| | HK\$ | HK\$ |
| | (Unaudited) | (Audited) |
| Deferred revenue | (407,521,442) | (420,461,620) |
| Deferred cost | <u>82,618,960</u> | <u>80,455,099</u> |

The deferred cost primarily related to the incremental costs of obtaining a contract with a customer, which represent sales commissions and bonus paid or payable to the staff and third party agents, are recognised as deferred costs in the consolidated statement of financial position. Such costs are recognised in profit or loss in the period in which the deferred revenue to which they relate is recognised as revenue.

All of the capitalised deferred costs are expected to be recognised in profit or loss within one year.

6. OTHER NET INCOME AND GAINS

| | For the six months ended | |
|---|--------------------------|------------------|
| | 30 September | |
| | 2019 | 2018 |
| | | (Note) |
| | HK\$ | HK\$ |
| | (Unaudited) | (Unaudited) |
| Bank interest income | 41,642 | 378,358 |
| Dividend income and net interest income from financial assets at fair value through profit or loss and certificate of deposits | 999,228 | 10,377,852 |
| Unrealised fair value gain/(loss) on financial assets at fair value through profit or loss and certificate of deposits, net | 1,436,316 | (12,612,326) |
| Realised gains on disposals of financial assets at fair value through profit or loss, net | 5,523,592 | 545,752 |
| Rental income from investment properties | 2,127,080 | 1,267,045 |
| Others | 8,024,049 | 4,240,023 |
| | <u>18,151,907</u> | <u>4,196,704</u> |

7. FINANCE COSTS

| | For the six months ended | |
|--------------------------------|--------------------------|------------------|
| | 30 September | |
| | 2019 | 2018 |
| | | (Note) |
| | HK\$ | HK\$ |
| | (Unaudited) | (Unaudited) |
| Interests on bank borrowings | 2,738,276 | 4,618,946 |
| Interests on lease liabilities | 6,139,445 | 15,350 |
| | <u>8,877,721</u> | <u>4,634,296</u> |

Note:

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | For the six months ended 30 September | |
|---|--|--------------------|
| | 2019 | 2018 |
| | HK\$ | (Note) HK\$ |
| | (Unaudited) | (Unaudited) |
| Auditors' remuneration | 1,343,000 | 1,598,000 |
| Depreciation | | |
| — owned property, plant and equipment | 34,496,190 | 19,549,288 |
| — right-of-use assets | 80,673,100 | — |
| Amortisation of intangible assets | 8,791,980 | 12,672,442 |
| Foreign exchange differences, net | 213,619 | 2,713,443 |
| Rental income from investment properties | | |
| less direct outgoings of HK\$281,301 | | |
| (six months ended 30 September 2018: HK\$193,174) | <u>(1,845,779)</u> | <u>(1,073,871)</u> |

Note:

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

9. INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

| | For the six months ended 30 September | |
|-----------------------------|--|-------------------|
| | 2019 | 2018 |
| | HK\$ | HK\$ |
| | (Unaudited) | (Unaudited) |
| Current — Hong Kong | | |
| Provision the period | 40,096,833 | 29,862,703 |
| Current — Outside Hong Kong | | |
| Provision for the period | 2,132,121 | 2,931,525 |
| Deferred tax | <u>(4,388,113)</u> | <u>5,079,167</u> |
| Tax charge for the period | <u>37,840,841</u> | <u>37,873,395</u> |

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Hong Kong Profits Tax has been provided at the rate of 16.5% (six months ended 30 September 2018: 16.5%) on the estimated assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY SHAREHOLDERS OF THE COMPANY

(a) Basic earnings per Share

The calculation of basic earnings per Share attributable to ordinary equity shareholders of the Company is based on the following data:

| | For the six months ended 30 September | |
|--|--|-------------|
| | 2019 | 2018 |
| | HK\$ | HK\$ |
| | (Unaudited) | (Unaudited) |
| Earnings for the purposes of basic earnings per Share representing profit for the six months attributable to ordinary equity shareholders of the Company | 197,510,568 | 194,240,265 |
| | For the six months ended 30 September | |
| | 2019 | 2018 |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per Share | 984,955,125 | 983,637,243 |

(b) Diluted earnings per Share

The calculation of the diluted earnings per Share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$197,510,568. The weighted average number of ordinary shares of 988,527,116 used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per Share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options into ordinary shares.

11. PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

As discussed in note 3, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in other property, plant and equipment is also identified as right-of-use assets. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 3.

During the six months ended 30 September 2019, the Group entered into a number of lease agreements for use of retail stores and machinery, and therefore recognised the additions to right-of-use assets of HK\$71,453,197. The leases of retail stores contain variable lease payment terms that are based on sales generated from the retail stores and minimum annual lease payment terms that are fixed. These payment terms are common in retail stores in Hong Kong where the Group operates.

(b) During the six months ended 30 September 2019, additions of property, plant and equipment amounted to approximately HK\$44,292,464 (six months ended 30 September 2018: HK\$35,646,294).

During the six months ended 30 September 2019, an investment property of HK\$37,000,000 was transferred to leasehold land and building at fair value.

12. TRADE RECEIVABLES

An ageing analysis of the trade receivables, based on the invoice date, is as follows:

| | As at 30 September 2019 <i>HK\$</i> (Unaudited) | As at 31 March 2019 <i>HK\$</i> (Audited) |
|----------------|---|---|
| Within 1 month | 108,258,169 | 95,616,865 |
| 1 to 3 months | 18,597,927 | 7,323,003 |
| Over 3 months | 2,668,723 | 1,728,417 |
| | <u>129,524,819</u> | <u>104,668,285</u> |

The Group's trading terms with its customers are mainly on credit card settlements. The credit period is generally 1 to 120 days for the credit card settlements from the respective financial institutions.

As at 30 September 2019, none of the trade receivables were individually determined to be impaired (31 March 2019 (audited): Nil).

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at 30 September 2019 <i>HK\$</i> (Unaudited) | As at 31 March 2019 <i>HK\$</i> (Audited) |
|-----------------------------------|---|---|
| Prepayments | 169,294,067 | 181,687,300 |
| Deposits | 71,128,648 | 64,968,908 |
| Other receivables | 72,716,078 | 92,394,731 |
| | <u>313,138,793</u> | <u>339,050,939</u> |
| Portion classified as non-current | | |
| — Rental and other deposits | (53,843,931) | (35,847,456) |
| — Prepayments | (98,374,425) | (104,513,425) |
| Current portion | <u>160,920,437</u> | <u>198,690,058</u> |

The above assets are neither past due nor impaired. The financial assets included in the above balance relate to receivables for which there is no recent history of default.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets at fair value through profit or loss of the Group disclosed as current assets are unlisted fund investments at fair value in Hong Kong.

The financial assets at fair value through profit or loss of the Group disclosed as non-current assets are unlisted equity investments.

The performance of the Group's financial assets at fair value through profit or loss (excluding non-current unlisted equity investments) for the six months ended 30 September 2019 is as follows:

| Descriptions (with bond interest rate and maturity date if applicable) | ISIN numbers | Percentage of shareholdings at 30 September 2019 | Carrying amount at 1 April 2019 HK\$ | Additions during the period HK\$ | Disposals during the period HK\$ | Net fair value gain/(loss) for the period HK\$ | Carrying amount at 30 September 2019 HK\$ | Percentage of total current financial assets at fair value through profit or loss at 30 September 2019 | Percentage of total assets of the Group at 30 September 2019 HK\$ | Dividend income and interest for the period HK\$ |
|--|---------------|--|---|-------------------------------------|-------------------------------------|---|--|--|--|---|
| | | | | | | | | HK\$ | | |
| Agricultural BK China/HK (3.08875%) | XSI897393200 | - | 1,570,431 | - | (1,566,254) | (4,177) | - | - | - | 5,867 |
| Bank of China Hong Kong (2.77%; 8 MAR 2021) | XSI785829414 | - | 62,811,588 | - | (62,548,912) | (262,676) | - | - | - | - |
| Bank of China Hong Kong (6.75%; 23 OCT 2049) | XSI1122780106 | - | 21,863,737 | - | (24,637,416) | 2,773,679 | - | - | - | 434,094 |
| Bank of China London (3.15%; 7 JUN 2023) | XSI832452103 | - | 15,681,387 | - | (15,808,170) | 126,783 | - | - | - | - |
| Barclays Plc (3.70%; 16 MAY 2024) | US06738EBC84 | - | 11,520,829 | - | (11,670,963) | 150,134 | - | - | - | - |
| BOC Aviation Limited (3.41%; 2 MAY 2021) | US09681MAG33 | - | 23,672,799 | - | (23,832,168) | 159,369 | - | - | - | 15,383 |
| CDBL Funding Two (3.49%; 18 JUL 2021) | XSI845139515 | - | 31,460,949 | - | (31,409,843) | (51,106) | - | - | - | 67,027 |
| CICC HK Finance 2016 Mtn (3.52%; 11 SEP 2021) | XSI852578431 | - | 23,598,618 | - | (23,663,441) | 64,823 | - | - | - | - |
| China Minsheng Bkg (3.11%; 9 MAR 2023) | XSI789639884 | - | 9,423,716 | - | (9,473,340) | 49,624 | - | - | - | - |
| Gam Star Fund Plc | IE00BYLYN74 | - | 8,962,056 | - | (9,067,443) | 105,387 | - | - | - | - |
| Goldman Sachs Group Inc (3.48%; 16 MAY 2024) | US38141GXD14 | - | 27,032,373 | - | (27,202,901) | 170,528 | - | - | - | - |
| HSBC Holdings Plc (6.25%; 23 MAR 2049) | US404280BN80 | - | 29,880,546 | - | (30,418,211) | 537,665 | - | - | - | - |
| ICBC (6.00%; 10 DEC 2049) | USY39656AA40 | - | 23,861,901 | - | (24,326,300) | 464,399 | - | - | - | - |
| ICBC London (3.05%; 14 JUN 2021) | XSI830984628 | - | 48,815,991 | - | (48,656,537) | (159,454) | - | - | - | 275,793 |
| ICBCL Finance Company Limited (3.45%; 15 MAY 2023) | XSI810003928 | - | 62,554,114 | - | (62,741,090) | 186,976 | - | - | - | 322,000 |
| Inventive Global Investment Limited (3.18%; 19 SEP 2021) | XSI879568894 | - | 7,864,322 | - | (7,879,131) | 14,809 | - | - | - | - |
| PIMCO Funds GIS Plc (HKD) | IE00BYXVW909 | - | 60,226,142 | - | (60,338,983) | 112,841 | - | - | - | - |
| Red Arc Term Liquidity Fund | IE00BYZ7Y673 | 0.29% | 107,195,061 | - | - | 1,436,316 | 108,631,377 | 100.00% | 4.36% | - |
| Societe Generale (6.75%; 6 APR 2049) | USF8586CBQ45 | - | 21,834,297 | - | (23,644,648) | 1,810,351 | - | - | - | 26,048 |
| | | | <u>599,830,857</u> | <u>-</u> | <u>(498,885,751)</u> | <u>7,686,271</u> | <u>108,631,377</u> | <u>100.00%</u> | <u>4.36%</u> | <u>1,146,212</u> |

15. CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND CERTIFICATE OF DEPOSITS

| | As at 30 September 2019 <i>HK\$</i> (Unaudited) | As at 31 March 2019 <i>HK\$</i> (Audited) |
|---|---|---|
| Cash and cash equivalents | 408,343,054 | 366,969,663 |
| Time deposits | – | 2,001,612 |
| Certificate of deposits | <u>6,638,114</u> | <u>–</u> |
| | 414,981,168 | 368,971,275 |
| Less: Pledged time deposits for banking facilities as security for credit card instalments programme | <u>–</u> | <u>(2,001,612)</u> |
| | <u>414,981,168</u> | <u>366,969,663</u> |

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying period from one day to one year depending on the Group's immediate cash requirements, and earn interest at the respective time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Included in cash and cash equivalents, HK\$17,546,390 (31 March 2019 (audited): HK\$13,504,197) are denominated in Renminbi and deposited with the banks in the mainland China. These deposits are not freely convertible and the remittance of funds out of the mainland China is subject to exchange restrictions imposed by the Government of the PRC.

16. TRADE PAYABLES

An ageing analysis of the trade payables, based on the invoice date, is as follows:

| | As at 30 September 2019 <i>HK\$</i> (Unaudited) | As at 31 March 2019 <i>HK\$</i> (Audited) |
|----------------|---|---|
| Within 1 month | 15,485,277 | 12,631,726 |
| 1 to 2 months | 1,923,981 | 1,384,677 |
| 2 to 3 months | 1,170,565 | 2,930,877 |
| Over 3 months | <u>7,611,465</u> | <u>4,932,044</u> |
| | <u>26,191,288</u> | <u>21,879,324</u> |

The trade payables are non-interest-bearing and generally have payment terms within 60 days.

17. OTHER PAYABLES AND ACCRUALS

| | As at 30 September 2019 <i>HK\$</i> (Unaudited) | As at 31 March 2019 <i>Note</i> <i>HK\$</i> (Audited) |
|--|---|--|
| Other payables | 78,275,734 | 56,167,679 |
| Accruals | 58,282,916 | 86,846,699 |
| Provision for reinstatement costs | 10,150,000 | 10,150,000 |
| | <u>146,708,650</u> | 153,164,378 |
| Portion classified as non-current — provision for reinstatement costs | <u>(9,110,000)</u> | <u>(9,110,000)</u> |
| Current portion | <u>137,598,650</u> | <u>144,054,378</u> |

Other payables are non-interest-bearing and have an average payment term of three months.

18. SHARE CAPITAL AND DIVIDENDS

(a) Dividends

| | For the six months ended 30 September | |
|---|--|---------------------|
| | 2019 <i>HK\$</i> | 2018 <i>HK\$</i> |
| Interim, declared — 15.0 HK cents (for the six months ended 30 September 2018: 5.0 HK cents) | 147,775,867 | 49,188,247 |
| Special, declared — Nil HK cents (for the six months ended 30 September 2018: 10.0 HK cents) | <u>—</u> | <u>98,376,495</u> |

At a Board meeting held on 26 November 2019, the Directors declared an interim dividend of 15.0 HK cents per Share. The interim dividend will be paid in cash. The declared interim dividend is not reflected as dividend payable in this consolidated interim financial information, but will be recognised in Shareholders' equity for the year ending 31 March 2020.

(b) Share capital

| | Number of shares | <i>HK\$</i> |
|---|---------------------|--------------|
| Authorised | | |
| Ordinary shares of HK\$0.00001 each | 38,000,000,000 | 380,000 |
| Ordinary shares, issued and fully paid | | |
| At 31 March 2019 | 984,519,948 | 9,845 |
| Exercise of share option | 652,500 | 7 |
| At 30 September 2019 | <u>985,172,448</u> | <u>9,852</u> |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per Share at general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

19. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

Certain comparative figures have been re-classified to conform with the current period's presentation. Provision of performance marketing and related services became part of the principal activities of the Group and related income generated is re-classified as revenue in the consolidated statement of profit or loss and other comprehensive income.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group's Sales Volume and total revenue were HK\$1,065.1 million and HK\$1,118.5 million respectively, representing an increase of 18.3% and 28.1% from the Sales Volume and total revenue for the six months ended 30 September 2018, respectively.

The net profit attributable to equity shareholders of the Company increased by 1.7% from HK\$194.2 million for the six months ended 30 September 2018 to HK\$197.5 million for the six months ended 30 September 2019. Basic earnings per Share amounted to 20.1 HK cents as compared to 19.7 HK cents for the previous period.

The Board resolved to declare an interim dividend of 15.0 HK cents per Share, which will be payable in cash.

BUSINESS OVERVIEW

The Group is the largest non-hospital medical service provider in Hong Kong*, achieving strong business growth while maintaining competitive edge. We have evolved to provide a full spectrum of medical, healthcare and related services to create sustainable value to our stakeholders. We are also the largest medical aesthetic service provider in Hong Kong*.

Anticipating the growing demand on private specialty medical services due to pressure on the public healthcare system in Hong Kong and complementing the launch of VHIS since April 2019, the Group has been progressively established various medical disciplines since 2018.

The Group had been deploying additional effort to integration offering one-stop solution to medical and healthcare needs, which are necessity to individuals. The Group was able to deliver remarkably with an increment of Sales Volume in each of the month during the Reporting Period, even with the effects from the recent social unrest in Hong Kong.

In addition to establishing the vaccination centre offering preventive care in our Langham Place Flagship in June 2019, the Group also acquired a paediatric clinic and child development assessment and therapy centre in August 2019. In addition, the Group has acquired a digital marketing company during the Reporting Period to further enhance our capabilities in customer acquisition.

We are well-positioned to broaden the coverage of medical disciplines. As at 30 September 2019, including our two flagships in Hong Kong and seven clinics in mainland China, we operate 56 clinics and service centres occupying an aggregate of approximately 287,000 sq. ft. of floor area with 97 full-time and exclusive Registered Practitioners covering 19 medical disciplines across Hong Kong, mainland China and Macau. During the Reporting Period, the Group's revenue and net profit increased by 28.1% and 4.0% from the previous year to HK\$1,118.5 million and HK\$211.1 million, respectively.

*(*according to the independent research conducted by Frost and Sullivan in terms of revenue in 2018)*

Business developments

Growth driven by medical services

Continuing to extend the services offerings where our clients are in need, the Group strives to setup additional medical disciplines to satisfy the continuous increase in the demand from clients. Medical services continue to be the key growth driver of the Group.

During the Reporting Period, revenue contributed by medical services increased by 102.2% from HK\$160.2 million for the six months ended 30 September 2018 to HK\$324.0 million for the six months ended 30 September 2019. The Group completed the acquisition of a paediatric services business in Hong Kong in August 2019. With additional six Registered Practitioners specialised in paediatric and psychiatry joining the Group, we also commenced to offer paediatric services in our Langham Place Flagship in August 2019.

Growth driven by integration

In addition to establishing additional medical disciplines to be offered by the Group, the Group had been consolidating the market share in various medical disciplines by acquisitions and self development. The Group has been dedicating extra resources for post-acquisition integration to increase in efficiency and effectiveness by integrating client and service flow between multiple medical disciplines into the unified system.

During the Reporting Period, the sales volume contributed by pain management services was HK\$87.1 million, representing an increase of 40.9% comparing to the six months ended 30 September 2018, while the unaudited aggregate revenue contributed by pain management services was HK\$37.3 million for the year ended 31 March 2016 prior to the acquisition. Riding on the integrated multi-discipline strategy, the Group has been able to deepen in additional medical and wellness needs of the existing clients.

Client growth and diversity

The aggregate number of our clients across each discipline continues to increase at a faster pace than the number of total active clients, indicating the effectiveness of our integrated multi-discipline strategy. The total number of clients who made at least one purchase of our services or products was 71,207 (for the six months ended 30 September 2018: 45,179) for the six months ended 30 September 2019.

Business Analysis

Medical and aesthetic medical services continue to be the Group's growth driver.

The table below sets forth our client demographics base on revenue during the Reporting Period:

| | For the six months ended 30 September 2019 |
|--|---|
| Based on treatment delivered | |
| Number of Individual Customers | 69,667 |
| Number of New Customers | 32,923 |
| Number of Existing Customers | 36,744 |
| Contribution to treatment delivered | |
| Number of New Customers | 33% |
| Number of Existing Customers | 67% |

The table below sets forth average spending of our client by key business segment base on sales volume during the Reporting Period:

| | For the six months ended 30 September | | |
|--|--|--------|---------|
| | 2019 | 2018 | Change |
| Number of Clients | | | |
| Medical | 46,277 | 26,446 | 75.0% |
| Aesthetic Medical | 18,877 | 19,890 | (5.1%) |
| Wellness and Beauty | 24,686 | 22,222 | 11.1% |
| Average Spending per Client (HKD) | | | |
| Medical | 7,190 | 8,304 | (13.4%) |
| Aesthetic Medical | 23,205 | 21,550 | 7.7% |
| Wellness and Beauty | 9,457 | 10,454 | (9.5%) |

Our Professionals and Other Staff

We continued to be a reliable partner to the medical experts. As at 30 September 2019, we had 97 full time and exclusive Registered Practitioners, 96 Medical Professionals, 316 relationship managers and 402 Trained Therapists. We had part-time Registered Practitioners including but not limited to, anaesthesiology, clinical oncology and cardiology as at 30 September 2019. The following table summarises our full-time and exclusive Registered Practitioners position as at 30 September 2019:

| Type of Registered Practitioners | Location | Number of Registered Practitioners |
|---|----------------|------------------------------------|
| Registered medical practitioners on the General Registry | Hong Kong | 21 |
| Registered medical practitioners on the Specialist Registry | | |
| Cardio-thoracic Surgery | Hong Kong | 1 |
| Clinical Microbiology & Infection | Hong Kong | 1 |
| Family Medicine | Hong Kong | 1 |
| Gastroenterology & Hepatology | Hong Kong | 1 |
| General Surgery | Hong Kong | 3 |
| Geriatric Medicine | Hong Kong | 1 |
| Neurosurgery | Hong Kong | 2 |
| Orthopaedic & Traumatology | Hong Kong | 5 |
| Otorhinolaryngology | Hong Kong | 1 |
| Paediatrics | Hong Kong | 6 |
| Plastic Surgery | Hong Kong | 2 |
| Psychiatry | Hong Kong | 1 |
| Radiology | Hong Kong | 3 |
| Urology | Hong Kong | 1 |
| Chinese medicine practitioners | Hong Kong | 2 |
| Chiropractors | Hong Kong | 21 |
| Dentists | Hong Kong | 10 |
| Mainland China Doctors | Mainland China | 11 |
| Macau Doctors | Macau | 3 |
| | | 97 |

Internal Control Protocols

Work safety and risk management professionalism have always been our core values. Our experienced and well-trained Registered Practitioners perform and oversee all medical related operations, as well as contributing to our senior management. Both our Registered Practitioners and supporting staff are scheduled to attend medical related trainings regularly to update their knowledge and skill sets. Before performing any procedure to a client, we require our Registered Practitioners and Trained Therapists to explain the procedures and associated risks therein and to obtain a written consent and acknowledgement as set out in a designated form which is to be signed by our clients. We apply certain medical standards even to our non-medical services, such as recommending our clients to consult doctors before receiving any of our services. Internal Control Measures regarding selling practices and unutilised prepaid packages are in place.

We have implemented a series of internal control measures, including a number of measures that refer to applicable “best practice” guidelines issued by governmental bodies (such as the Hong Kong Consumer Council and the Commerce and Economic Development Bureau of Hong Kong), in order to prevent our staff from engaging in coercive selling practices, we ensure we are:

- adopting a refund policy which includes a fourteen-day cooling off period whereby our clients are allowed to request a full refund within fourteen days of purchase of any prepaid packages;
- adopting a policy that commission is not paid to our sales staff for contracted sales which are subsequently refunded;
- establishing procedures for recording and handling complaints;
- having written terms and conditions with clients;
- sharing media reports of forced selling cases with our staff to highlight the potential adverse consequences of such practices.

During the Reporting Period, the refunds and settlement of the material unfavourable feedback represents only 0.28% (for the six months ended 30 September 2018: 0.02%) of the Group’s total revenue.

OUTLOOK AND STRATEGIES

Medical service is essential to an individual. With medical efficacy as a foundation, we are committed to offering the top notch consumer experiences. We contemplate and plan our strategies for growth in a fast moving healthcare environment of rapid technological advancements, studying the development of long-term trends on a global scale.

Competitive Landscape

Hong Kong

The Voluntary Health Insurance Scheme (VHIS) launched in April 2019 is a policy initiative implemented by the Food and Health Bureau to regulate indemnity hospital insurance plans offered to individuals by insurance companies. The Group has become designated medical service centres of various insurance companies for VHIS during the Reporting Period. In addition, we are gradually increasing the coverage of medical disciplines to medical insurance policy holders.

The recent social instability in Hong Kong had affected inbound tourism and domestic spending in the near term. In encountering the current challenges in Hong Kong, the Group (i) adopted proactive client engagement to retain loyal local customers; (ii) continues to develop new medical services to fulfil the essential needs of our customers; (iii) offered additional promotions to drive new local customers or customers from medical tourism; and (iv) implemented further prudent finance management approach with proactive implementation of cost control initiatives. In the long run, the Group believes that its agility will retain through our core competency in brand, services and information technology.

Mainland China

Although the population is covered by public health insurance, it generally does not offer complete coverage. The Chinese government has been undertaking effort to reduce public healthcare costs, initiatives for private health insurances have been facilitated. In order to cater for localisation of aesthetic and medical services, we are exploring acquisition targets as well as partnership opportunities with local players in mainland China proactively, in addition to establish clinics/services centres organically.

Integrated Multi-Discipline Strategy

As the leading medical service provider in Hong Kong, the Group aims to expand the depth of existing medical disciplines and extend the coverage of disciplines with demand. On 31 October 2019, the Group has entered into a non-binding memorandum of understanding (“MOU”) with EuroEyes International Eye Clinic Limited (HKEx stock code:1846, together with its subsidiaries “EuroEyes Group”) to establish a 50-50 joint venture in Hong Kong to develop ophthalmological services and related businesses. Leverage on German ophthalmology excellence of vision correction, the proposed joint venture shall operate an ophthalmologic clinic/service centre in Hong Kong and commence co-operation in mainland China in Guangzhou and Shenzhen. The registered ophthalmologists of EuroEyes Group will be the consultants in the proposed joint venture and all medical treatments at the clinics or service centres in Hong Kong under the proposed joint venture will be provided by Registered Practitioner specialised in ophthalmology in Hong Kong. Personnel and employees who work for the proposed joint venture will have the opportunity to be trained in Germany.

The Group will continue its dedication to improve its brand, service and IT. It is the priority of the Group in improving patient care to provide a high degree of patient satisfaction. We will also continue to enhance productivity through increased digitalisation, innovation and technology.

We will continue to secure new clientele who are health-conscious and will eventually seek easy access to satisfy their medical and healthcare needs. With medical efficacy as a foundation, by enhancing the ambiance of our facilities and client convenience through digitalization, retention of client shall be maintained within our enclosed eco-system where integrated medical services can be offered.

We will expand market share by identifying potential acquisition targets or via an organic expansion in the Greater Bay Area. We are exploring acquisition targets as well as partnership opportunities with local players in mainland China cautiously, including but not limited to reputable medical service and healthcare service providers, suppliers and investors, to fuel our sustainable growth in this market with immense potential.

FINANCIAL REVIEW

Revenue

Our revenue increased by 28.1% to HK\$1,118.5 million for the six months ended 30 September 2019 primarily contributed by the significant increase in the revenue generated from medical services as a result of the increase in the number of active clients during the Reporting Period.

Medical Services

Medical services represents all medical, preventive and health management services (excluding aesthetic medical services and any beauty and wellness Services) offered by the Group. Our revenue from medical services represents 29.0% of revenue (for the six months ended 30 September 2018: 18.4%) and increased significantly by 102.2% from HK\$160.2 million for the six months ended 30 September 2018 to HK\$324.0 million for the six months ended 30 September 2019, primarily attributable to the increase in the variety of medical services that the Group is offering, including but not limited to advanced radiology services, comprehensive range of surgical specialties care offer services in cardiothoracic, ear, nose and throat (ENT), gastroenterology & hepatology, general surgery, paediatric and urology, and an increase in the number of clients receiving medical services during the Reporting Period.

Aesthetic Medical Services

Aesthetic medical services represent medical aesthetics and dental services offered by the Group. Our revenue from aesthetic medical services represents 41.4% of revenue (for the six months ended 30 September 2018: 49.0%) and increased by 8.1% from HK\$428.2 million for the six months ended 30 September 2018 to HK\$462.8 million for the six months ended 30 September 2019, primarily attributable to the increase in the spending by clients obtaining medical aesthetic services during the Reporting Period.

Beauty and Wellness Services

Beauty and wellness services represents traditional beauty, haircare and ancillary wellness services. Our revenue from beauty and wellness services represents 21.4% of revenue (for the six months ended 30 September 2018: 25.5%) and increased by 7.7% from HK\$222.2 million for the six months ended 30 September 2018 to HK\$239.3 million for the six months ended 30 September 2019. The decrease in growth rate of beauty & wellness services was primarily attributable to the reduction in resource allocation to develop beauty and wellness services during the Reporting Period.

Skincare, healthcare and beauty products

Our revenue from the sale of skincare, healthcare and beauty products decreased by 25.6% from HK\$42.5 million for the six months ended 30 September 2018 to HK\$31.6 million for the six months ended 30 September 2019.

Performance marketing and related services

Our revenue from performance marketing and related services represents 5.4% of revenue (for the six months ended 30 September 2018: 2.3%) and increased by 205.2% from HK\$19.9 million for the six months ended 30 September 2018 to HK\$60.9 million for the six months ended 30 September 2019.

Operating Segment Information

An analysis of the Group's revenue and contribution to results by business segments of the operations for the Reporting Period is set out in note 4 to the Condensed Consolidated Financial Statements.

Other net income and gains

For the six months ended 30 September 2019, our other net income and gains was approximately HK\$18.2 million (for the six months ended 30 September 2018: HK\$4.2 million), representing an increase of 333.3% when compared to the same period last year, primarily due to the unrealised fair value gain on financial assets at fair value through profit or loss during the Reporting Period.

Cost of inventories and consumables

Our cost of inventories and consumables increased to HK\$129.0 million for the six months ended 30 September 2019 (for the six months ended 30 September 2018: HK\$99.3 million), representing an increase of 29.9% when compared to the same period last year, primarily attributable to an increase in the volume of medication and service consumables used, yet its proportion to total revenue remains steady at 11.4% for the six months ended 30 September 2018 comparing to 11.5% for the six months ended 30 September 2019.

Registered Practitioner expenses

For the six months ended 30 September 2019, we incurred Registered Practitioner expenses of approximately HK\$142.5 million (for the six months ended 30 September 2018: HK\$66.3 million), representing 12.7% of the total revenue, the significant increase of 115.1% when compared to the same period last year was primarily attributable to the increase in number of Registered Practitioners on the Specialist Registry.

Employee benefit expenses

For the six months ended 30 September 2019, we incurred employee benefit expenses of approximately HK\$286.7 million (for the six months ended 30 September 2018: HK\$208.0 million), representing 25.6% of the total revenue, an increase of 37.8% when compared to the same period last year was primarily attributable to the significant increase in the number of Medical Professionals to 96 (As at 30 September 2018: 19). As at 30 September 2019, we have 1,537 employees (As at 30 September 2018: 1,317).

The Group is aware of the importance of human resources and is dedicated to retain competent and talented employees by offering them competitive remuneration packages. Their salaries and bonuses were determined by reference to their duties, work experience, performance and prevailing market practices. The Group also participates in the Mandatory Provident Fund Scheme in Hong Kong, and provides employees with medical insurance coverage. A share option scheme and a share award scheme are in place to reward individual employees for their outstanding performance and contribution to the success of the Group. With respect to the recent social unrest in Hong Kong, special travelling allowances were offered to employees as well.

Marketing and advertising expenses

For the six months ended 30 September 2019, the Group incurred marketing and advertising expenses of approximately HK\$102.3 million (for the six months ended 30 September 2018: HK\$83.4 million), an increase of 22.7%, representing a decrease to 9.1% of total revenue when compared to 9.6% of total revenue for the six months ended 30 September 2018.

Rental and related expenses

For the six months ended 30 September 2019, the Group incurred rental and related expenses and depreciation of right-of-use assets of approximately HK\$104.0 million (for the six months ended 30 September 2018: HK\$78.6 million), representing 9.3% of the total revenue, an increase of 32.3% when compared to the same period last year. The g.f.a of service centres and clinics increased from approximately 233,000 sq. ft. as at 30 September 2018 to approximately 287,000 sq. ft. as at 30 September 2019.

Credit card expenses

For the six months ended 30 September 2019, the Group incurred credit card expenses of approximately HK\$27.1 million (for the six months ended 30 September 2018: HK\$23.2 million), representing 2.4% of the total revenue, an increase of 16.7% when compared to the same period last year and was in line with the increase in Sales Volume during the Reporting Period.

Other operating expenses

For the six months ended 30 September 2019, the Group incurred other operating expenses of approximately HK\$53.8 million (for the six months ended 30 September 2018: HK\$55.0 million), representing 4.8% of the total revenue, a slight decrease of 2.1% when compared to the same period last year, primarily due to the decrease in amortisation during the Reporting Period.

Profit before tax

For the six months ended 30 September 2019, the Group had profit before tax of approximately HK\$248.9 million (for the six months ended 30 September 2018: HK\$240.9 million), representing an increase of 3.3% when compared to the same period last year.

Income tax expense

For the six months ended 30 September 2019, the Group incurred income tax expense of approximately HK\$37.8 million, representing a slight decrease of 0.1% when compared to the same period last year.

Profit for the period/profit margin

For the six months ended 30 September 2019, the Group recorded profit for the period of approximately HK\$211.1 million, representing an increase of 4.0% when compared to the same period last year and a net profit margin of 18.9% (for the six months ended 30 September 2018: 23.3%).

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources

We continue to maintain a strong financial position with cash and cash equivalents of HK\$408.3 million and certificate of deposits of HK\$6.6 million as at 30 September 2019. Based on our steady cash inflow from operations, coupled with sufficient cash and bank balances, we have adequate liquidity and financial resources to meet the current working capital requirements as well as to fund its budgeted expansion plans in the next financial year.

During the six months ended 30 September 2019, a majority of our cash and bank balances were in Hong Kong dollar.

CAPITAL EXPENDITURE AND COMMITMENTS

As at 30 September 2019, all proceeds from the IPO has been utilised.

Capital Expenditure

Our capital expenditures during the six months ended 30 September 2019 were primarily related to set up of new clinics and services centres, purchases of operation equipment, which primarily included medical, aesthetic and beauty devices, and expenditure in leasehold improvements. We have financed our capital expenditure through cash flows generated from operating activities.

Capital Commitment

As at 30 September 2019, we did not have any capital commitments in respect of acquisition of property, plant and equipment.

INDEBTEDNESS

Interest-bearing Bank Borrowings/Gearing Ratio

As at 30 September 2019, the Group had outstanding interest-bearing bank borrowings in the amount of HK\$130.3 million. The Group's gearing ratio was 11.0%.

Contingent Liabilities and Guarantees

As at 30 September 2018, we had contingent liabilities not provided for in our financial statements of HK\$2.0 million in relation to bank guarantee given to a credit card institution for the use of certain credit card equipment. Save as disclosed herein, the Group had no significant contingent liabilities and guarantees as at 30 September 2019.

Charge of Assets

As at 30 September 2019, investment properties and leasehold land and buildings of HK\$163 million were pledged for certain bank borrowings.

Further, motor vehicles and operation equipment were under finance leases with the principal sum of HK\$1 million and HK\$50 million respectively.

Foreign Currency Risk

The Group undertakes certain operating transactions in foreign currencies, which expose the Group to foreign currency risk, mainly pertaining to the risk of fluctuations in the Hong Kong dollar and U.S. dollar against Renminbi.

The Group has not used any derivative contracts to hedge against its exposure to currency risk. The management manages the currency risk by closely monitoring the movement of the foreign currency rates and considers hedging against significant foreign exchange exposure should such need arise.

Interest Rate Risk

The Group has no significant interest rate risk. The Group currently does not have specific policies in place to manage our interest rate risk and have not entered into interest rate swaps to mitigate the interest rate risk, but will closely monitor the interest rate risk in the future.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, there were no significant investments held by the Company during the Reporting Period, nor were there any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Reporting Period. There is no plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

INTERIM DIVIDEND

The Board declared an interim dividend of 15.0 HK cents per Share, which will be payable to Shareholders whose names appear on the register of members of the Company on Tuesday, 7 January 2020. The interim dividend will be payable in cash and are expected to paid on or around Tuesday, 21 January 2020.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining entitlement to the interim dividend, the register of members of the Company will be closed from Monday, 6 January 2020 to Tuesday, 7 January 2020. In order to qualify for the interim dividend, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the branch share registrar of the Company in Hong Kong at the material time, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F., Central Tower, 28 Queen's Road Central, Central, Hong Kong for registration no later than 4:30 p.m. on Friday, 3 January 2020.

OTHER INFORMATION

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has complied with all applicable code provisions as set out in the CG Code, save and except for deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual.

The role of chairman and chief executive officer of the Company have been performed by Mr. Tang. Although the dual roles of chairman and chief executive officer by Mr. Tang is a deviation from the code provision A.2.1 of the CG Code, the Board considers that having Mr. Tang acting as both the chairman and chief executive officer of the Company provides a strong and consistent leadership to the Company and allows the Company to have more effective planning and management. Further, in view of Mr. Tang's extensive experience in the industry, personal profile and role in the Group and the historical development of the Group, the Board considers that it is appropriate and beneficial to the business prospects of the Group that Mr. Tang continues to act as both the chairman and chief executive officer of the Company. The Board intends to regularly review the operations of the Company under Mr. Tang's leadership, and does not believe that this arrangement will have a negative influence on the balance of power between the Board and the management of the Group.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry, all the Directors confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the Reporting Period.

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

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS

The Audit Committee, which comprises three independent non-executive Directors, has reviewed the unaudited interim condensed consolidated financial statements of the Group for the Reporting Period, and was of the opinion that the preparation of such interim results had been prepared in accordance with the relevant accounting standards and that adequate disclosures have been made in accordance with the requirements of the Listing Rules, the applicable accounting standard and all legal requirements.

The figures in respect of this announcement of the Group's results for the six months ended 30 September 2019 have been reviewed and agreed by the Audit Committee.

DEFINITION

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| “Audit Committee” | the audit committee of the Board |
| “Board” | the board of Directors |
| “CG Code” | the Corporate Governance Code contained in Appendix 14 to the Listing Rules, as amended from time to time |
| “Company” | Union Medical Healthcare Limited (香港醫思醫療集團有限公司*), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange |
| “Director(s)” | the director(s) of the Company |
| “Greater Bay Area” | city cluster cross the Guangdong-Hong Kong-Macau region, consisting of Hong Kong, Macau and nine cities in Guangdong Province, namely, Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai |
| “Greater China” | mainland China, Hong Kong, Macau and Taiwan |
| “Group” | the Company and its subsidiaries |
| “g.f.a” | gross floor area |
| “Healthcare Professionals” | person(s) registered with the respective boards or councils before he/she is allowed to practise in Hong Kong under the relevant laws of Hong Kong as may be amended, supplemented or otherwise modified from time to time. The 13 healthcare professionals comprise Chinese medicine practitioners, chiropractors, dental hygienists, dentists, medical laboratory technologists, medical practitioners, midwives, nurses, pharmacists, occupational therapists, optometrists, physiotherapists and radiographers |
| “Hong Kong” | the Hong Kong Special Administrative Region of the People’s Republic of China |
| “IPO” | initial public offering of the Shares on the Main Board of the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |

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| “Macau” | the Macau Special Administrative Region of the People’s Republic of China |
| “Macau Doctor(s)” | doctor(s) licensed by and registered with the department of health in Macau (澳門特別行政區政府衛生局) |
| “Mainland China Doctor(s)” | medical practitioner(s) with the qualification of a doctor (醫師) or assistant doctor (執業助理醫師) under the PRC Law on Medical Practitioners (中華人民共和國執業醫師法) and is practicing at a medical or healthcare institution |
| “Medical Professionals” | Healthcare Professionals, excluding full-time and exclusive Registered Practitioners |
| “Model Code” | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| “Mr. Tang” | Mr. Tang Chi Fai, the chairman, an executive Director and the chief executive officer of the Company |
| “PRC” | the People’s Republic of China |
| “Registered Practitioner(s)” | registered dentist within the meaning of the Dentists Registration Ordinance (Cap. 156), registered medical practitioner within the meaning of the Medical Registration Ordinance (Cap. 161), registered chiropractor within the meaning of the Chiropractors Registration Ordinance (Cap. 428), listed or registered Chinese medicine practitioner within the meaning of the Chinese Medicine Ordinance (Cap. 549), Macau Doctors and Mainland China Doctors |
| “Reporting Period” | six months ended 30 September 2019 |
| “Sales Volume” | being the total sales volume generated from contracted sales entered into, and all products and services offered by the Group |
| “Share(s)” | ordinary share(s) in the share capital of the Company with par value of HK\$0.00001 each |
| “Shareholder(s)” | holder(s) of Share(s) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |

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| “Trained Therapists” | our employees who have completed mandatory internal training developed by our Doctors to provide quasi-medical services and/or traditional beauty services under our internal licensing programme |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong |
| “%” | per cent. |

By Order of the Board
Union Medical Healthcare Limited
Raymond Siu
Company Secretary

Hong Kong, 26 November 2019

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Tang Chi Fai and Mr. Lee Gabriel, two non-executive Directors, namely Mr. Luk Kun Shing Ben and Dr. Wang Daivd Guowei, and three independent non-executive Directors, namely Mr. Ma Ching Nam, Mr. Look Andrew and Mr. Lam Chi Hang Josekin.