EXTRACTS OF THE NOTES
TO THE FINANCIAL STATEMENTS

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”) under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where estimates and assumptions are significant to the financial statements are disclosed in Note 3.

Going Concern

(a) As at 31 December 2015, the Group’s current liabilities exceeded its current assets by approximately S$212,625,000. Notwithstanding this, the financial statements have been prepared on a going concern basis in view of the following:

(i) Subsequent to the balance sheet date, the Group has successfully:
  a. re-financed its TMK bonds Note 24(c) amounting to S$151,223,000, extending the maturity date from April 2016 to April 2019; and
  b. obtained additional long-term banking facilities of S$8,200,000 maturing in April 2019.

(ii) The Group is in the midst of negotiating an extension of the maturity of S$54,996,000 bank borrowings from August 2016. These bank borrowings are secured on a mortgage of two investment properties in Australia which have a total fair value of approximately S$89,810,000 as at 31 December 2015. The management is of the view that in the event that the Group is not able to extend the maturity of the bank borrowings of S$54,996,000 to a later date, the proceeds from the forced sale of these investment properties will be in excess of the amount required to settle all of the charges placed over these assets based on the information provided by an independent professional valuer.

(b) The appropriateness of the going concern assumption is also dependent on:

(i) The Group’s compliance with certain externally imposed loan covenants, which includes covenants over the value of the consolidated shareholder’s equity, consolidated net debt to consolidated shareholder’s equity ratio, gearing ratio and interest coverage ratio. The Group’s compliance with these loan covenants is dependent on:

  a. The validity of the fair value gains arising from the Group’s China properties (Note 3(a)) amounting to S$46,004,000 for the financial year ended 31 December 2015, which are subject to certain critical estimates and assumptions as disclosed in Note 3(a) to the financial statements; and

EXTRACTS OF THE NOTES
TO THE FINANCIAL STATEMENTS

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

(b) The appropriateness of the going concern assumption is also dependent on:

b. The validity of the management's assumption that no material adjustments are required to be made to the financial statements for the financial year ended 31 December 2015 arising from the receivership action taken by the certain funds (Note 29(a)).

If either b(ia) or b(ib) is invalid, the Group would have breached the following covenants:

- Interest cover ratio (Earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest expense) to be above 1.50
- The ratio of consolidated net debt to consolidated shareholders' equity to be below 1.75
- Gearing ratio (Total Debt to Tangible Networth) to be below 2.50
- Leverage ratio (Total Liabilities to Tangible Networth) to be below 2.50

If the Group and Company were to be in breach of these loan covenants, non-current borrowings of the Group and Company amounting to S$121,687,000 and S$97,808,000 will become payable immediately and be reclassified as current liabilities in the balance sheet of the Group and Company respectively.

(ii) The validity of the management's assumption that the receivership action taken by the Funds (Note 29(a)) will not have a significant impact on the ongoing business operations of the Group.

Should the going concern assumption not be appropriate, adjustments will be made to reflect a situation where the assets may need to be realised other than in the normal course of business and at amounts which could be significantly different from the amounts stated in the balance sheet of the Group and Company. As a result, the Group and the Company may have to provide for further liabilities which may arise, and to classify the non-current assets and non-current liabilities to current assets and current liabilities respectively. The financial statements do not include the above potential adjustments that would result if the Company and the Group are unable to continue as going concerns.

3. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) *Fair value estimation of investment properties and investment properties under development*

Investment properties and investment properties under development are stated at fair value based on valuations performed by independent external professional valuers.

The valuers have considered valuation techniques including the direct comparison method, capitalisation approach and/or discounted cash flows, where appropriate.

The fair value of investment properties and investment properties under development amounts to S$397,942,000 (2014: S$250,465,000) and S$146,966,000 (2014: S$96,839,000) respectively.

Investment properties under development include certain properties located in China that have been recorded at a value of S$87,684,000 ("China properties") as at 31 December 2015 and a corresponding fair value gain amounting to S$46,004,000 was recognised for the financial year ended 31 December 2015 in respect of these China properties. The valuation of these China properties was performed by an external international professional valuer and included certain critical assumptions made by the management as follows:

(1) Plot ratio

Plot ratio represents a building's total floor area (gross floor area) to the size of the piece of land upon which it is built.

The valuation of the land in Wuxi, China as at 31 December 2015 was based on management's assessment that approval will be granted to increase the plot ratio from 2.0 to 4.5 following discussions held between management and the Wuxi City Planning Bureau.

If formal approval to increase in the plot ratio from 2.0 to 4.5 does not materialise, the value of the land in Wuxi, China as at 31 December 2015 and the fair value gains recognized in the income statement for the financial year ended 31 December 2015 may be significantly lower.

(2) Land premium and conversion costs

Land premium represents the payment made to the government for using a land allotment at the stated use for a specified period of time. Additional land premium is applicable should there be increase in the value of land arising from various factors including approved plot ratio increase and change of use.

3. Critical accounting estimates, assumptions and judgements (continued)

(a) Fair value estimation of investment properties and investment properties under development (continued)

(2) Land premium and conversion costs (continued)

The valuation of the land in Wuxi, China as at 31 December 2015 was based on the assumption that the additional land premium payable for the increase in the plot ratio from 2.0 to 4.5 amounted to S$4,136,000 following discussions held between management and the Wuxi city planning bureau. In addition, management has assumed that there would be no conversion costs payable to change the land usage from hospital to commercial use on the premise that the anticipated tenants for the commercial space will be in the pharmaceutical industry which management considers to be in line with hospital use.

If the additional land premium eventually levied by the Wuxi City Planning Bureau is higher or lower than $4,136,000, the value of the land in Wuxi, China as at 31 December 2015 and the fair value gains recognised in the income statement for the financial year ended 31 December 2015 would have been lower or higher by the same amount.

In addition, any conversion costs eventually levied by the Wuxi City Planning Bureau would have the impact of lowering the value of the land in Wuxi, China as at 31 December 2015 and the fair value gains recognised in the income statement for the financial year ended 31 December 2015 by the same amount.

(3) Gross development value

Gross development value is the estimated value that a property or new development would fetch on the open market if it were to be sold in the current economic climate. The 2 key assumptions in arriving gross development value of the China properties are rental rate and rental yield.

The valuations of the China properties as at 31 December 2015 were based on the assumption that the future rental income to be earned by these properties will approximate room rates of service apartments that are on a daily and strata-titled basis whilst the rental yields have been assumed to approximate a business model with longer than daily rental terms which management regards as an appropriate proxy to the future rental income that it will earn when the properties are completed.

If the rental yields were to increase or decrease by 10%, the value of the China properties as at 31 December 2015 and the fair value gains recognised in the income statement for the financial year ended 31 December 2015 will decrease by S$8,039,000 or increase by S$8,898,000 respectively.

3. Critical accounting estimates, assumptions and judgements (continued)

(a) Fair value estimation of investment properties and investment properties under development (continued)

(4) Entrepreneur profit and risk

Entrepreneur profit and risk represents return required by a buyer of the partially completed investment property under development in the market place. This reflects the risks associated with the completion of the construction programme taken into consideration the anticipated income or capital value. It is presented as a percentage of total gross development value.

The value of the China properties is arrived by taking the total gross development value subtracting the entrepreneur profit and other costs to be incurred to complete the China properties (including construction cost).

The valuations of the China properties as at 31 December 2015 were based on an assumption of an entrepreneur profit of 8.5% of the gross development value.

If the entrepreneur profit used in the valuation had been higher by 10% (absolute percentage) from management's estimates, the value of the China properties as at 31 December 2015 and the fair value gains recognized in the income statement for the financial year ended 31 December 2015 will be lower by S$23,449,000.

(5) Construction cost

Construction cost is an estimate by the management.

The valuation of the properties includes an assumption that the average construction cost for Wuxi (China) and Dujiangyan (Chengdu, China) will approximate S$900 and S$500 per square meter, respectively.

In arriving at the average construction cost for Dujiangyan (Chengdu, China) management has relied on quotes from a government approved quantity surveyor.

If the assumed average construction cost of the property in Dujiangyan (Chengdu, China) was similar to that of the property in Wuxi (China) the value of this property as at 31 December 2015 and the fair value gains recognised in the income statement for the financial year ended 31 December 2015 will be lower by S$26,580,000.

3. Critical accounting estimates, assumptions and judgements (continued)

(b) Litigation with certain funds

As disclosed in Note 29(a) to the financial statements, the management has not recorded the additional amounts claimed by the Funds as at 31 December 2015 of approximately S$23,399,000 and S$18,630,000 in relation to the Group and the Company respectively (including the outstanding interest of S$1,432,000 and S$1,281,000 in relation to the Group and Company respectively) in the financial statements of the Group and the Company for the financial year ended 31 December 2015 as the management is of the view that an outflow of economic benefit is less than probable based on legal advice obtained.

If management had recorded the additional amounts claimed by the Funds as at 31 December 2015 of approximately S$23,399,000 and S$18,630,000 in relation to the Group and the Company respectively (including the outstanding interest of S$1,432,000 and S$1,281,000 in relation to the Group and Company respectively), the impact to the financial statements of the Group and Company would include the following:

	31 December 2015 Increase by/(decrease by) S$'000
Group	
Profit before tax	(23,399,000)
Retained earnings	(23,399,000)
Total liabilities	23,399,000
Company	
Profit before tax	(18,630,000)
Retained earnings	(18,630,000)
Total liabilities	18,630,000

In addition, if the adjustments described above were made to the financial statements, the Group and the Company will be in breach of certain loan covenants and accordingly, non-current borrowings of the Group and Company amounting to S$121,687,000 and S$97,808,000 will become payable immediately and be reclassified to current liabilities in the balance sheet of the Group and Company respectively as at 31 December 2015.

Please refer to Note 2.1 to the financial statements on preparation of the financial statements on a going concern basis.

21. Investment properties under development

	Group		
	2015	31 December 2014	1 January 2014
	S$'000	S$'000 (Restated)	S$'000 (Restated)
Beginning of financial year	**96,839**	78,313	46,000
Additions	**6,449**	11,086	15,061
Fair value gain/ (loss) recognised in profit or loss	**50,732**	(1,660)	18,365
Transferred from lease prepayments (Note 18)	**-**	9,803	-
Currency translation differences	**(7,054)**	(703)	(1,113)
End of financial year	**146,966**	96,839	78,313

An investment property under development amounting to S$59,292,000 (2014: S$58,227,000) is mortgaged to secure bank borrowings (Note 24(d)).

Fair value hierarchy - Recurring fair value measurements

	Fair value measurements using		
Description	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	S$'000	S$'000	S$'000
31 December 2015			
- Land – Dujiangyan, Chengdu, China	-	-	31,211
- Land – Wuxi, China	-	-	56,463
- Land – Kuala Lumpur, Malaysia	-	-	59,292
31 December 2014 (restated)			
- Land – Dujiangyan, Chengdu, China	-	-	27,791
- Land – Wuxi, China	-	-	10,821
- Land – Kuala Lumpur, Malaysia	-	-	58,227
1 January 2014 (restated)			
- Land – Dujiangyan, Chengdu, China	-	-	21,244
- Land – Kuala Lumpur, Malaysia	-	-	57,069

21. Investment properties under development (continued)

Valuation techniques and inputs used in Level 3 fair value measurements

The following table presents the valuation techniques and key inputs that were used to determine the fair value of investment properties under development categorised under Level 3 of the fair value hierarchy:

Description	Unexpired term of the leasehold land	Fair value S$'000	Valuation techniques
- Land – Dujiangyan, Chengdu, China	47 years	31,211 (2014: 27,791)	Income Approach
- Land – Wuxi, China	39 years	56,463 (2014: 10,821)	Income Approach
- Land – Kuala Lumpur, Malaysia	92 years	59,292 (2014: 58,227)	Direct Comparison

The key unobservable input used for Land – Kuala Lumpur, Malaysia is the price per square metre, ranging from S$7,800 – S$16,666 (2014: S$8,138 - S$13,511). The relationship between unobservable input and fair value is as follows: the higher the price per square metre of the land, the higher the fair value of the land.

The key unobservable inputs and the relationship of the inputs to fair value for Land – Dujiangyan, Chengdu, China and Land – Wuxi, China are set out in Note 3(a).

Valuation processes of the Group

The Group engages external, independent and qualified valuers to determine the fair value of the Group's properties at the end of every financial year based on the properties' highest and best use.

At each financial year end, the finance department reviews all major inputs to the independent valuation report, assesses property valuation movements when compared to the prior year valuation report and holds discussions with the independent valuer.

EXTRACTS OF THE NOTES
TO THE FINANCIAL STATEMENTS

29. Contingencies

Group

(a) Litigation with certain funds

On or around 7 April 2016, certain funds ("Funds") have appointed receivers over the entire issued share capital of IHC Medical Re Pte Ltd ("HMRE"), IHC Management Pte Ltd and IHC Management (Australia) Pty Ltd, which are wholly owned subsidiaries of the Group, in connection with the notices of default issued by the funds alleging that Company and its subsidiary, HMRE owe the Funds a total amount of S$34,003,000 which included outstanding interest of S$7,912,000 as at the date of the notices of default.

The Group has been legally advised that the notices of default are invalid and consequently, disputes the legitimacy of the appointment of the receivers. The Group has applied to the Supreme Court of Singapore to rescind and/or suspend the appointment of the receivers and/or to enjoin the receivers from selling, transferring and/or disposing any of the shares in the share capital of the relevant subsidiaries of the Group.

As at 31 December 2015, the outstanding amount due to the Funds as recorded in the balance sheet of the Group and Company was S$5,263,000 and Nil respectively. The additional amounts claimed by the Funds as at 31 December 2015 of approximately S$23,399,000 and S$18,630,000 in relation to the Group and the Company respectively (including the additional outstanding interest of S$1,432,000 and S$1,281,000 in relation to the Group and Company respectively) have not been recognised in the financial statements of the Group and the Company for the financial year ended 31 December 2015 as the management, based on legal advice, is of the view that there are no basis and/or merits to the claims and hence an outflow of economic benefit is less than probable.

31. Financial risk management (continued)

(d) Capital risk

The primary objective of the Group's capital management is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to its shareholders, return capital to its shareholders or issue new shares. There were no changes in the Group's approach to capital management from the financial year ended 31 December 2014 and 31 December 2015. The Group and the Company are in compliance with all externally imposed capital requirements for the financial year ended 31 December 2015. Please refer to Note 2.1 for potential breach of certain loan covenants.