

Bangkok Dusit Medical Services Public Company Limited
and its subsidiaries
Report and consolidated financial statements
31 December 2017

Independent Auditor's Report

To the Shareholders of Bangkok Dusit Medical Services Public Company Limited

Opinion

I have audited the accompanying consolidated financial statements of Bangkok Dusit Medical Services Public Company Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and have also audited the separate financial statements of Bangkok Dusit Medical Services Public Company Limited for the same period.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bangkok Dusit Medical Services Public Company Limited and its subsidiaries and of Bangkok Dusit Medical Services Public Company Limited as at 31 December 2017, their financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

Basis for Opinion

I conducted my audit in accordance with Thai Standards on Auditing. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Group in accordance with the Code of Ethics for Professional Accountants as issued by Federation of Accounting Professions as relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matters

I draw attention to Note 22 to the financial statements, the Company and its subsidiary had the medical care programs with a small amount of charges to members who paid membership fees in advance for a lifelong membership. The Company and its subsidiary discontinued the programs due to legal reasons on 20 January 2017 and 2 February 2017, respectively. The Company and its subsidiary have recorded the liabilities in the financial statements as at 31 December 2016, based on the total amounts payable to the members and the compensation expected to be paid to the members in 2017 due to the discontinuation of the program, amounting to approximately Baht 964 million (approximately Baht 820 million in the separate financial statements). During the year ended 31 December 2017, 182 of 334 members whose compensation was recorded in the consolidated financial statements and 151 of 282 members in the separate financial statements have accepted the offers and already received the payment from the Company and its subsidiary. As at 31 December 2017, the liabilities from discontinuation of the lifelong membership for medical care program, based on the total amounts payable to the members and the compensation expected to be paid to the former members who have not accepted the offers, in the consolidated financial statements amounted to approximately Baht 440 million (approximately Baht 380 million in separate financial statements).

During 2017, some former members of the program filed complaints against the Company and its subsidiary with the courts and requesting that the Company and its subsidiary continue the programs while some of the other former members made claims for indemnity from the Company and its subsidiary.

Later in June to December 2017, the court issued orders for a temporary injunction to some of the former members who have filed complaints against the Company. The temporary injunction was for the Company to provide medical services to the former members at a normal rate and without any discount and also to allow the other former members to utilize their rights of the program until the court rules or orders otherwise. Furthermore, the court has ordered the former members who are under the temporary injunction to enter a contract with the court that they agreed to be held liable for the aforementioned bills to the Company, should the court issue a final judgment that the Company is entitled to cease such program. The Company keeps record of the debt owed to the Company for medical services rendered and shall not collect for such medical bills unless the court rules or orders otherwise.

In December 2017, January 2018 and February 2018, the Civil Court ruled on some of the cases between the former members and the Company that the Company is to continue complying with the terms of the program. In February 2018, the Civil Court then ruled on some of the other cases between the former members and the Company that the Company is to continue complying with the terms of the program and also for the Company to make indemnity payment should the Company could not comply with the terms of the program. Some of the other cases are still under the consideration of the Civil Court. Nonetheless, the legal advisor of the Company opined that due to all known facts and the provisions of the law, the program in dispute is deemed insurance contract, rendering the cessation of such program a lawful process. The legal advisor further viewed that there is a good chance of winning the case for the Company's appeal. Therefore, the management of the Company, under the opinion of the Company's legal advisor, proceeded to utilize its legal right to file an appeal against the ruling of the Civil Court for some of the cases on 20 February 2018, for the Court of Appeal's consideration and ruling which shall serve as precedent of future legal processes. Since such cases are currently under the consideration of the Court of Appeal, the Company could not yet assess the impacts of the ruling which is not yet definite nor final. The Company keeps record of the debt owed to the Company for medical services rendered and shall not collect for such medical bills unless the court rules.

My opinion is not qualified in respect of the above matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

I have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report, including in relation to these matters. Accordingly, my audit included the performance of procedures designed to respond to my assessment of the risks of material misstatement of the financial statements. The results of my audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements as a whole.

Key audit matters and how audit procedures respond for each matter are described below.

Revenue recognition

Revenues from hospital operations are considered significant in the financial statements as the amounts are material, representing 91% of the consolidated total revenues and they directly affect the operating result of the Group. In addition, there are various components in revenues from hospital operations which include revenue from sales of medicines and medical supplies, revenue from medical services, revenue from patient rooms, including discounts for counterparties, whereas the agreements contain various conditions for each party. I therefore gave significant attention to the revenue recognition of the Group.

I examined the revenue recognition of the Group by assessing and testing the Group's internal controls with respect to the revenue cycle by making enquiries of responsible executives, gaining an understanding of the controls and selecting representative samples to test the operation of the designed controls. In addition, I applied a sampling method to select revenues from hospital operations transactions occurring during the year to examine the supporting documents.

I requested a balance confirmation from accounts receivable and tested revenue cut-off. I also performed analytical procedures of disaggregated data and significant financial ratios with the past information and industry to detect possible irregularities in revenues from hospital operations transactions throughout the period, particularly for accounting entries made through journal vouchers.

Goodwill

I have focused my audit on the consideration of the impairment of goodwill, as discussed in Note 17 to the financial statements, because the assessment of impairment of goodwill is a significant accounting estimate requiring management to exercise a high degree of judgement in identifying the cash generating units, estimating the cash inflows that are expected to be generated from that group of assets in the future, and setting an appropriate discount rate and long-term growth rate. There are thus risks with respect to the amount of goodwill. I therefore gave significant attention to the amount of goodwill of the Group.

I assessed the identification of cash generating units and the financial models selected by management by gaining an understanding of management's decision-making process and assessing whether the decisions made were consistent with how assets are utilised. In addition, I tested the significant assumptions applied by management in preparing estimates of the cash flows expected to be realised from the assets, by comparing those assumptions with information from both internal and external sources and comparing past cash flow projections to actual operating results in order to evaluate the exercise of management judgement in estimating the cash flow projections. I also evaluated the discount rate applied by management through analysis of the moving average finance costs of the Company and its subsidiaries and of the industry, tested the calculation of the realisable values of the assets using the selected financial model. Moreover, I reviewed the disclosures made with respect to the impairment assessment for goodwill.

Business combination

As discussed in Note 13 to the financial statements, in January 2017 a subsidiary invested in Mayo Polyclinic Co., Ltd, which is engaged in hospital business. As at the date of acquisition, the subsidiary recognised and measured the assets acquired and liabilities assumed at their fair value using the purchase price allocation (PPA) method and recognised goodwill from the business combination. I have focused on this business acquisition since it is material to the financial statements as a whole, and management was required to exercise substantial judgement when appraising the fair value of the assets acquired and liabilities assumed. Therefore, there is a risk with respect to the recognition and measurement of the assets acquired and liabilities assumed.

I reviewed the terms and conditions of the agreement and inquired with management as to the nature and objectives of the acquisition in order to determine whether the acquisition meets the definition of a business combination under Thai Financial Reporting Standard 3 (Revised 2016) Business Combinations. In addition, I checked the value of the acquisition to supporting documents and related payments to ensure that it corresponds to the fair value of the consideration transferred and does not include costs of the acquisition, and I tested the calculation of the fair value of assets acquired and liabilities assumed using the purchase price allocation method. I also reviewed the appropriateness of the significant methods and assumptions used by an independent valuation specialist in calculating fair value and checked the expertise, ability and integrity of the independent valuation specialist. I tested the calculation and reviewed the reasonableness of the goodwill recorded by the Company, and reviewed the completeness and accuracy of the disclosures related to the business combination in the notes to financial statements.

Litigation

As discussed in emphasis of matters and Note 22 to the financial statements, the Company and its subsidiary had contingent liabilities arising from many litigations relating to discontinuation of the lifelong membership programs. During December 2017 to February 2018, the Civil Court judged some cases and the Company lost the cases. However, the Company appealed to the High Court in February 2018, and currently the cases are not yet finalized. The management needs to exercise significant judgement and take into account related laws and regulations in assessing the effects of the litigation, in order to determine the corresponding liabilities. However, the actual outcomes of the litigation may differ from the estimates. There are therefore risks with respect to the recognition of provision or disclosure of contingent liabilities with respect to the litigation. Therefore, I gave significant attention to the audit of this litigation.

I inquired with the Company's management and legal department regarding the procedures followed to collate and monitor lawsuits filed and pending as at the date of the financial statements, reviewed legal consultation fees to check the completeness of the litigation notified by the Company, inquired about the details and progress of cases and the methods applied by the management in estimating liabilities from litigation, and assessed the judgement exercised by the management in estimating these liabilities. To carry out these procedures, I performed the following:

- Reviewed relevant conditions and provisions of agreements, together with the claims and objections submitted by the Company and counterparties to the court for the purpose of providing background of the litigation.
- Reviewed correspondences between the Company and the legal consultants involved in the litigation, including the Civil Court's verdicts, the Company's appeals and relevant supporting documentation used by management and prepared by external experts, and sent confirmation letters to the legal consultants whose services were used by the Company requesting written reports on case details and status, and legal opinions on the possible effects of the litigation on the Company. I also assessed the legal consultants' competence, experiences, independence and objectivity in accordance with relevant auditing standards, and I considered whether the legal principles and regulations and leading cases referred to by the legal consultants were relevant to the Company's litigation.

- I requested the opinion from my legal consultant and I also assessed the legal consultant's competence, experiences, independence and objectivity in accordance with relevant auditing standards, and I considered whether the legal principles and regulations and leading cases referred to by my legal consultant were relevant to the Company's litigation.

In addition, I reviewed the disclosure of information relating to litigation in the notes to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in annual report of the Group, but does not include the financial statements and my auditor's report thereon. The annual report of the Group is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the annual report of the Group, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance for correction of the misstatement.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Thai Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Thai Standards on Auditing, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

I am responsible for the audit resulting in this independent auditor's report.

Kamontip Lertwitworatep
Certified Public Accountant (Thailand) No. 4377

EY Office Limited
Bangkok: 28 February 2018