通用環球醫療集團有限公司

GENERTEC UNIVERSAL MEDICAL GROUP COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Stock code : 2666

ANNUAL REPORT
2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Vice-chairman

Mr. Zhang Yichen *(Chairman)*
Ms. Peng Jiahong
*(Vice-chairwoman)**
Mr. Luo Xiaofang
*(Vice-chairman)***
Mr. Jiang Xin *(Vice-chairman)* #

Executive Directors

Ms. Peng Jiahong
(Chief Executive Officer,*
Chief Financial Officer)
Mr. Yu Gang*
Mr. Guo Weiping
(Chief Executive Officer)##

Non-executive Directors

Mr. Zhang Yichen
Ms. Liu Kun*
Mr. Liu Zhiyong
Mr. Liu Xiaoping
Mr. Su Guang
Mr. Luo Xiaofang**
Mr. Jiang Xin#

Independent Non-executive Directors

Mr. Li Yinquan
Mr. Chow Siu Lui
Mr. Kong Wei
Mr. Han Demin

AUDIT COMMITTEE

Mr. Li Yinquan *(Chairman)*
Mr. Liu Xiaoping
Mr. Chow Siu Lui

REMUNERATION COMMITTEE

Mr. Chow Siu Lui *(Chairman)*
Mr. Liu Zhiyong*
Mr. Han Demin
Mr. Luo Xiaofang**
Mr. Jiang Xin#

NOMINATION COMMITTEE

Mr. Zhang Yichen *(Chairman)*
Mr. Chow Siu Lui
Mr. Kong Wei

STRATEGY COMMITTEE

Ms. Peng Jiahong *(Chairwoman)**
Mr. Zhang Yichen
Ms. Liu Kun*
Mr. Luo Xiaofang *(Chairman)***
Mr. Guo Weiping ##

RISK CONTROL COMMITTEE

Mr. Su Guang *(Chairman)*
Mr. Liu Zhiyong
Ms. Peng Jiahong

COMPANY SECRETARY

Ms. Cheng Pik Yuk

AUTHORISED REPRESENTATIVES

Ms. Peng Jiahong
Ms. Cheng Pik Yuk

REGISTERED OFFICE

Room 702, Fairmont House
8 Cotton Tree Drive
Central
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

8/F, Zhongyi Tower
No. 6 Xizhimenwai Avenue
Xicheng District
Beijing, China

SHARE REGISTRAR

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

AUDITOR

Ernst & Young

LEGAL ADVISER

Wilson Sonsini Goodrich & Rosati

PRINCIPAL BANKERS

Bank of Communications, Beijing
Fuwai Subbranch
Bank of China (Hong Kong)
Limited

COMPANY'S WEBSITE

www.universalmsm.com

STOCK CODE

2666

* Appointed with effect from 30 November 2018
** Appointed with effect from 1 March 2018 and resigned with effect from 28 November 2018
\# Resigned with effect from 1 March 2018
\## Resigned with effect from 28 November 2018

DEFINITION

"2019 AGM"	the AGM to be held on 5 June 2019
"AGM"	annual general meeting of the Company
"Ansteel General Hospital"	Ansteel Group General Hospital (鞍鋼集團公司總醫院), a leading comprehensive Grade III Class A hospital in Anshan City, Liaoning Province, the PRC
"Ansteel Group"	Ansteel Group Corporation Limited (鞍鋼集團有限公司), a state-owned enterprise established in the PRC in May 2010
"Articles"	the Company's articles of association
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of directors of the Company
"CEC"	China Electronics Corporation
"CEC Caihong"	CEC Caihong Group Co., Ltd. (咸陽中電彩虹集團控股有限公司)
"CG Code"	the "Corporate Governance Code" contained in Appendix 14 to the Listing Rules
"CNSG Hong Sifang"	CNSG Anhui Hong Sifang Co., Ltd. (中鹽安徽紅四方股份有限公司), a company incorporated under the laws of the PRC in July 2003
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), which has become effective from 3 March 2014, as amended, supplemented or otherwise modified from time to time
"Company" or "Universal Medical"	Genertec Universal Medical Group Company Limited (通用環球醫療集團有限公司) (formerly known as Universal Medical Financial & Technical Advisory Services Company Limited (環球醫療金融與技術咨詢服務有限公司), Universal Medical Services & Health Management Company Limited (環球醫療服務有限公司) and Universal International Leasing Co., Limited (環球國際租賃有限公司)), a company incorporated with limited liability under the laws of Hong Kong on 19 April 2012

"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"CULC"	China Universal Leasing Co., Ltd.（中國環球租賃有限公司）, a wholly foreign-owned enterprise incorporated in China on 1 November 1984 and a wholly-owned subsidiary of the Company
"CVA"	cerebral vascular accident
"Director(s)"	the director(s) of the Company
"Evergreen"	Evergreen 021 Co., Ltd, a company incorporated under the laws of the British Virgin Islands on 14 August 2014 with limited liability
"First Affiliated Hospital"	First Affiliated Hospital of Xi'an Jiaotong University (西安交通大學第一附屬醫院)
"Group", "our Group", "we" or "us"	the Company and its subsidiaries
"GT-HK"	Genertec Hong Kong International Capital Limited (通用技術集團香港國際資本有限公司), a company incorporated under the laws of Hong Kong on 24 March 1994 with limited liability, an indirect wholly-owned subsidiary of GT-PRC, and one of the controlling shareholders of the Company
"GT-PRC"	China General Technology (Group) Holding Company Limited (中國通用技術(集團)控股有限責任公司), which is a state-owned enterprise under the direct administration of the PRC central government, the controlling shareholder of the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Pangang Chengdu Hospital"	Pangang Group Chengdu Hospital (攀鋼集團成都醫院), a comprehensive Grade II Class A hospital in Chengdu City, Sichuan Province, the PRC
"Pangang General Hospital"	Pangang Group General Hospital (攀鋼集團總醫院), a leading comprehensive Grade III Class A hospital in Panzhihua City, Sichuan Province, the PRC
"Pangang Group"	Panzhihua Iron and Steel (Group) Company Limited (攀鋼集團有限公司), a state-owned enterprise established in the PRC in October 1989
"PRC" or "China"	The People's Republic of China, for the sole purpose of this report, excluding Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus issued by the Company on 24 June 2015
"Remuneration Committee"	the remuneration committee of the Board
"Risk Control Committee"	the risk control committee of the Board
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	The State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"Securities Dealing Code"	the Company's own code of conduct regarding directors' and employees' dealings in the Company's securities
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shaanxi Huahong"	Shaanxi Huahong Medical Company Limited (陝西華虹醫藥有限公司), an indirect subsidiary of the Company

"Share(s)"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of Shares
"SOE(s)"	state-owned enterprise(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	the strategy committee of the Board
"USD"	the lawful currency of the United States
"Wiseman"	Wiseman Hospital Investment Management (Tianjin) Co., Ltd. (融慧濟民醫院投資管理(天津)有限公司), a wholly-owned subsidiary of the Company established in the PRC in 2015
"XD Group"	China XD Group Co., Ltd. (中國西電集團有限公司), a state-owned enterprise established in the PRC in July 1959
"XD Group Hospital"	Xi'an XD Group Hospital (西電集團醫院), a leading comprehensive Grade III Grade A hospital in Xi'an City, Shaanxi Province, the PRC
"Xi'an Aero-Engine Group"	AECC Xi'an Aero-Engine Ltd. (中國航發西安航空發動機有限公司), a company incorporated under the laws of the PRC in March 1998
"Xi'an Ronghui"	Xi'an Ronghui Hospital Construction Management Co., Ltd. (西安融慧醫院建設管理有限公司), a wholly-owned subsidiary of the Company
"Xi'an Wanheng"	Xi'an Wanheng Medical Technology Development Co., Ltd. (西安萬恒醫療科技發展有限公司), a company established jointly by Universal Medical and First Affiliated Hospital of Xi'an Jiaotong University (西安交通大學第一附屬醫院), through their respective wholly-owned subsidiaries, on 13 January 2017
"Yantai Port Group"	Yantai Port Group Co., Ltd. (煙台港集團有限公司), a company incorporated under the laws of the PRC with limited liability in November 1984

CORPORATE PROFILE

Genertec Universal Medical Group Company Limited (通用環球醫療集團有限公司), along with its subsidiaries, is a leading medical and health conglomerate in China. Focused on China's rapid growing healthcare industry, the Company has been committed to practically enhancing its hospitals' comprehensive strength by improving their technical level, service capability, operational efficiency and management effectiveness, with its medical resources and strong financing support.

The largest shareholder of the Company is China General Technology (Group) Holding Company Limited (中國通用技術(集團)控股有限責任公司), which is a backbone state-owned enterprise under direct administration of the PRC central government, focusing on medical healthcare industry.

Based on years of in-depth understanding and service experience in the medical industry, strong financing capacity and business development capabilities since the Company's incorporation, we have accumulated over a thousand hospital customers across the country, established good cooperation with hundreds of well-known medical experts and academic leaders, and formed strategic partnerships with famous medical institutions in China, the United States, the United Kingdom, Germany, etc. By continuously expanding the resources of the medical industry, we have established a unique and innovative business model, providing customers with comprehensive medical services including hospital operation and management, medical finance, medical digitalization and medical technology services. We headquarter in Hong Kong and set up our business operation center in Beijing. To further strengthen the business network centered on certain regions and radiating nation wide, we have established relevant subsidiaries in the hospital project areas, and set up offices in the central cities of various provinces, such as Guangdong, Shaanxi, Shandong, Henan, Hunan, Sichuan and Heilongjiang.

We will strive to firmly seize good opportunities from the growing healthcare industry in China and continue to be committed to promoting the development of China's healthcare service industry. We will establish strategic alliances with a broad range of domestic and foreign leading professional healthcare institutions, well-known experts and international medical equipment suppliers, expand our healthcare resources platform, reinforce our foundation for development and enrich our professional services to fulfil our social responsibilities during our development and enhance our corporate value through continuous innovation.

CEO'S STATEMENT

The year of 2018 marked the 40th year of the reform and opening-up and the 10th year of the new healthcare reform, and witnessed 12th year of our great leap forward. Looking back, "reform" and "doing our best" have been the eternal theme of our development. Instead of resting on our laurels, we continued to be visionary and proactive on new opportunities, which stimulated us to forge ahead. As a result, on the road to further development of medical industry, we have marched ahead with greater commitment and clearer direction and goals.

Over the last year, the Chinese government continued to introduce a series of policies to further the healthcare reform. *Major Tasks on Further Reform on the Medical and Healthcare System for the Second Half of 2018* (《深化醫藥衛生體制改革2018年下半年重點工作任務》) issued by the General Office of the State Council clearly points out that non-governmental medical investment institutions are encouraged to join in efforts to establish medical alliances, and social groups are supported to provide multi-level and diversified medical services, which further stimulates non-governmental investment in medical sector. Based on *the Guidance on Deepening the Reform of Educational and Medical Institutions of State-owned Enterprises (Guo Zi Fa Gai Ge [2017] No. 134)*, *the Notice on Further Promotion of In-depth Reform of Medical Institutions Operated by Central SOEs* (《關於進一步推進中央企業辦醫療機構深化改革有關事項的通知》) issued by the SASAC clearly states that six central SOEs including GT-PRC are designated to participate in the consolidation of medical institutions of SOEs, and has made relevant plans.

The supportive national policies have given us more confidence and courage, and greater sense of responsibility. We firmly seized the opportunities for development and adhered to the strategy of building a leading medical and health conglomerate in China. We further intensified our operation in the medical market to further tap into customer value, and expanded healthcare resources to constantly improve our capabilities to provide integrated healthcare services. Our medical businesses such as hospital operation and management, medical finance, healthcare digitalization and medical technology services have achieved synergetic development and generated good results of operation and development. In 2018, the Company realized a total revenue of RMB4,297 million, representing an increase of 25.7% over the last year. Profit before tax amounted to RMB1,859 million, representing an increase of 17.9% over the last year. We kept our asset quality in a leading position in the industry and continued to improve our financing capacity. Our professional team became stronger, and our influence in the industry further expanded, which has been recognized by the industry and the market.

In the same year, while our medical finance business maintained steady growth, we enhanced our deployment in hospital operation and management business. Significant progress was made in our participation in the spin-off and takeover of medical institutions of SOEs. Up to date, we have signed formal cooperation agreements with seven SOE groups, including Yantai Port Group, XD Group, China National Salt Industry Group Co., Ltd. and Xi'an Aero-Engine Group, covering 8 medical institutions with capacity of about 6,000 beds. A multi-level and conglomerate medical service system is being built up. In the past year, we made progress in the research and development of our proprietary hospital information and management systems products. While accelerating the promotion of our Internet healthcare system projects, to fully prepare for the improvement of the overall digitalization level of our medical group and the construction of smart hospitals, we always keep our eye on the big picture and have gradually made our deployment in integrated solutions of medical digitalization, medical artificial intelligence and big data.

On the basis described above, through conglomerate management, we are building a three-tier medical system with international high-end flagship hospitals at the top, regional-leading hospitals as the hubs, and primary hospitals as branches to allow our lower level hospitals to benefit from the Group's internal high-quality resources and create differentiation advantages to meet different levels of medical health needs. We are establishing medical regional centers to optimize resources integration. With their own service capacity being constantly improved, these regional medical centers will develop close connection with local primary medical institutions to establish a tightly-knit medical system comprising primary hospitals at all levels led by regional medical centers.

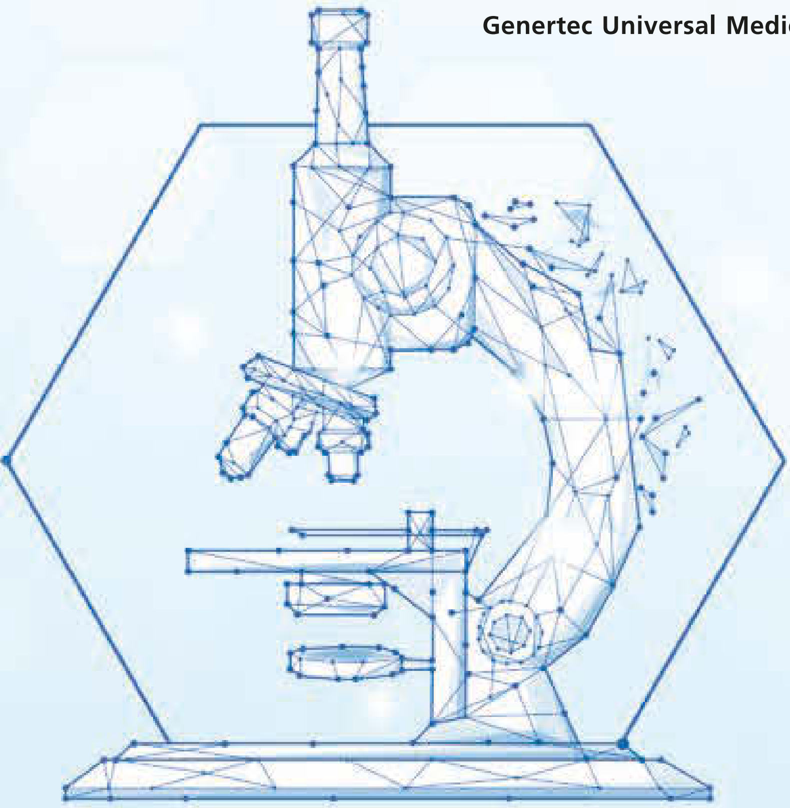
Tailwind is gathering force when we are embarking on a new voyage. Going forward, we will continue to focus on opportunities from government policies and market to efficiently consolidate medical resources and introduce funds, technology, talents and advanced operational management mechanism to the medical institutions within the Group, and steadily promote hospitals' discipline construction, technology, management and service capabilities. At the same time, we will focus on medical services and, surrounding it, develop our medical finance, medical technology, and medical digitalization businesses in a synchronized manner. We will also actively explore medical health insurance and medical and elderly care services to implement integration development strategies, striving to build a leading medical health conglomerate in China.

Lastly, on behalf of the management and all employees of Universal Medical, I would like to express my sincere gratitude to investors, customers and partners who have supported and cared about us throughout the years. In the future, we will always care about people's livelihood and needs, enhance professional capabilities to adapt to market changes, continuously extend the value chain of the medical industry, and contribute to the continuous progress of human health with high-quality medical service.

Best regards,

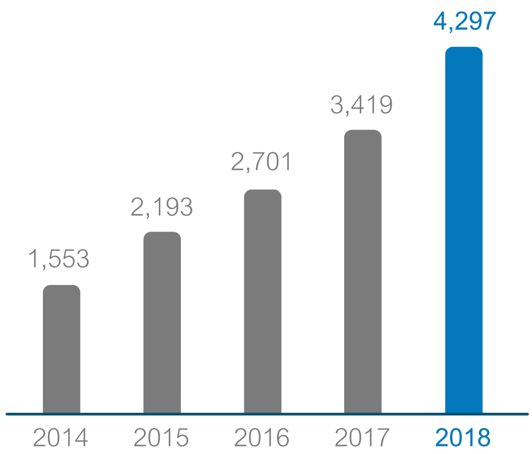
Peng Jiahong

Vice-Chairwoman of the Board,
Executive Director and Chief Executive Officer
Genertec Universal Medical Group Company Limited

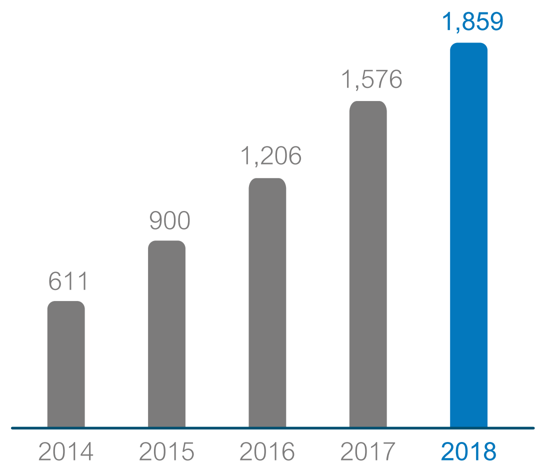


PERFORMANCE OVERVIEW

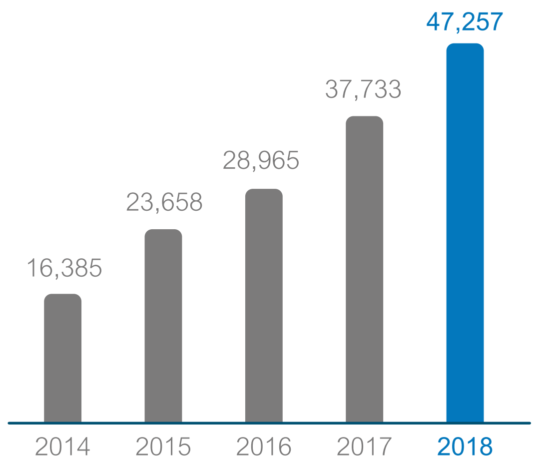
INCOME
RMB million



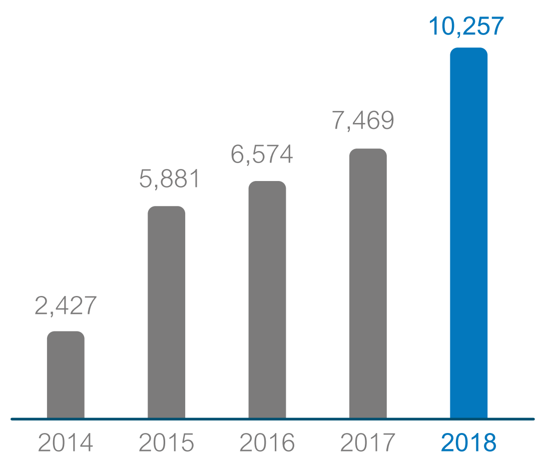
PROFIT BEFORE TAX
RMB million



TOTAL ASSET
RMB million



TOTAL EQUITY
RMB million



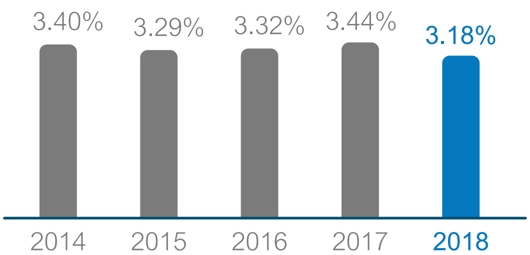
PRECENTAGE OF HEALTHCARE LEASE RECEIVABLES

78.3%

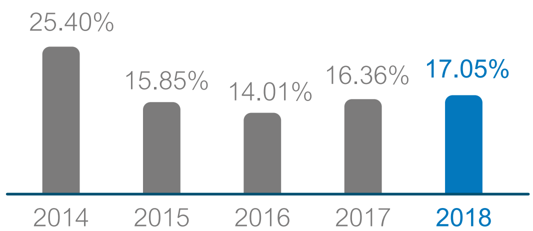
NET ASSETS PER SHARE

4.89 RMB

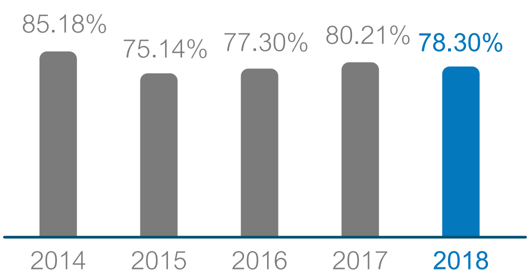
RETURN ON TOTAL ASSETS



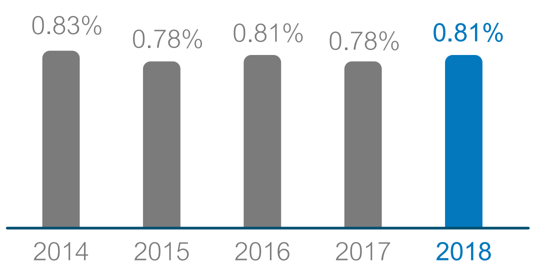
RETURN ON EQUITY



DEBT RATIO



NPA RATIO



EPS (BASIC AND DILUTED)

0.79 RMB

NET INTEREST SPREAD

3.23%

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating Results					
Income	**4,296,866**	3,418,829	2,700,916	2,193,398	1,552,682
Finance lease income*	**3,216,174**	2,457,728	1,941,183	1,462,018	1,032,757
Industry, equipment and financing advisory income*	**784,381**	703,240	601,303	585,555	441,973
Clinical department upgrade services income*	**185,595**	180,135	156,500	143,452	77,514
Hospital operation and management income*	**110,716**	77,468	–	–	–
Cost of sales	**(1,705,442)**	(1,244,640)	(965,970)	(884,851)	(619,594)
Interest expense	**(1,566,721)**	(1,130,294)	(940,155)	(864,165)	(596,954)
Cost of clinical department upgrade services	**(35,740)**	(42,895)	(25,815)	(20,581)	(22,537)
Cost of hospital operation and management	**(102,981)**	(71,451)	–	–	–
Profit before tax	**1,859,039**	1,576,461	1,205,945	900,274	611,082
Profit for the year	**1,350,664**	1,148,679	872,310	658,526	456,638
Profit for the year attributable to the ordinary share holders of the Company	**1,352,173**	1,148,658	872,310	658,526	456,638
Basic and diluted earnings per share (RMB)	**0.79**	0.67	0.51	0.44	0.51
Profitability Indicators					
Return on total assets(1)	**3.18%**	3.44%	3.32%	3.29%	3.40%
Return on equity(2)	**17.05%**	16.36%	14.01%	15.85%	25.40%
Net interest margin(3)	**4.10%**	4.41%	4.36%	3.42%	3.73%
Net interest spread(4)	**3.23%**	3.51%	3.31%	2.56%	2.93%
Net profit margin(5)	**31.43%**	33.60%	32.30%	30.02%	29.41%
Cost to income ratio(6)	**24.37%**	24.09%	25.27%	29.91%	24.76%

* After taxes and surcharges

(1) Return on total assets = profit for the year/average balance of assets at the beginning and end of the year;

(2) Return on equity = profit for the year or during the period attributable to the ordinary share holders of the Company/ average balance of equity at the beginning and the end of the period attributable to the ordinary share holders of the Company;

(3) Net interest margin is calculated by dividing net interest income by average balance of interest-earning assets;

(4) Net interest spread is the difference between average yield of interest-earning assets and average cost rate of interest-bearing liabilities. Average balance of interest-earning assets is calculated based on the average balance of net lease receivables before provision as at each month end within the reporting year; average balance of interest-bearing liabilities is calculated based on the average balance of bank and other borrowings and lease deposits as at each month end within the reporting year;

(5) Net profit margin = net profit/income;

(6) Cost to income ratio = (selling and distribution cost + administrative expenses – provision for loans and accounts receivable)/gross profit.

	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000
Assets and Liabilities					
Total assets	**47,256,927**	37,732,513	28,964,583	23,657,881	16,385,316
Net lease receivables	**44,270,664**	35,021,292	27,160,141	21,600,652	15,850,139
Total liabilities	**37,000,119**	30,263,687	22,390,192	17,776,681	13,957,817
Interest-bearing bank and other borrowings	**32,981,989**	26,882,695	19,485,459	15,458,354	11,408,252
Total equity	**10,256,808**	7,468,826	6,574,391	5,881,200	2,427,499
Equity attributable to the ordinary share holders of the Company	**8,395,611**	7,468,601	6,574,391	5,881,200	2,427,499
Net assets per share (RMB)	**4.89**	4.35	3.83	3.43	1.91
Financial Indicators					
Debt ratio(1)	**78.30%**	80.21%	77.30%	75.14%	85.18%
Gearing ratio(2)	**3.22**	3.60	2.96	2.63	4.70
Current ratio(3)	**1.06**	0.98	1.25	0.98	0.88
Asset Quality					
Non-performing assets ratio(4)	**0.81%**	0.78%	0.81%	0.78%	0.83%
Provision coverage ratio(5)	**190.24%**	189.92%	183.85%	171.47%	166.10%
Write-off of non-performing assets ratio(6)	**0.00%**	0.00%	0.00%	0.00%	0.00%
Overdue ratio (over 30 days)(7)	**0.62%**	0.44%	0.51%	0.46%	0.96%

(1) Debt ratio = total liabilities/total assets;

(2) Gearing ratio = interest-bearing bank and other borrowings/total equity;

(3) Current ratio = current assets/current liabilities;

(4) Non-performing assets ratio = balance of non-performing assets/interest earning net assets;

(5) Provision coverage ratio = provision for impairment of assets/balance of non-performing assets;

(6) Write-off of non-performing assets ratio = assets written-off/non-performing assets at the end of the previous year;

(7) Overdue ratio (over 30 days) is calculated based on net lease receivables which are more than 30 days overdue divided by net lease receivables.

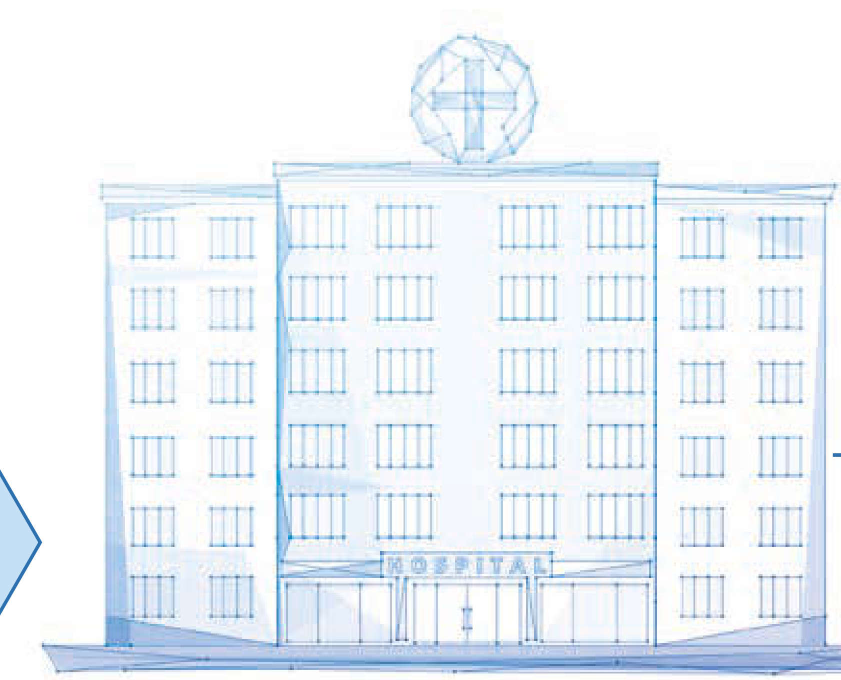
MANAGEMENT DISCUSSION AND ANALYSIS

1. BUSINESS REVIEW AND PROSPECTS

In 2018, the Group further advanced in the medical industry and made significant strategic progress. Guided by the strategic goal of building a leading medical and health conglomerate in China, we seized the golden policy and market opportunities and made great achievements from the spin-off and takeover of medical institutions of SOEs, which laid a solid foundation for building a medical and health conglomerate with synergic advantage. In 2018, the Group innovated and upgraded its strategic layout, solidly optimized various operations, strictly controlled operational risks, improved management ability, and strengthened its comprehensive strength, therefore making steady growth in operating performance. Our revenue increased by 25.7% year-on-year to RMB4,296.9 million. Our profit before tax increased by 17.9% year-on-year to RMB1,859.0 million. The asset size grew steadily and asset quality continued to maintain its leading position in the industry. The corporate credit rating of CULC, a wholly-owned subsidiary of the Group, was successively uprated to AAA by China Cheng Xin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) and Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信投資服務有限公司), which further enhanced the Group's overall financing capabilities.

1.1 Hospital operation and management Business

In 2018, on the one hand, the Group seized the opportunity from the reform policy to comprehensively roll out the reintegration work on spin-off and takeover of medical institutions of SOEs, and made great achievements. On the other hand, it steadily advanced the implementation of the construction and operation cooperation projects and the launch of intended cooperation projects, and initially established a number of region-based medical centers with Shaanxi, Hebei, and Anhui as the core, laying a solid foundation for building a nationwide medical and health conglomerate with synergic advantage.



1.1.1 *Great achievements made on the spin-off and takeover of medical institutions of SOEs*

On 3 August 2017, six ministries and commissions including SASAC jointly issued *the Guidance on Deepening the Reform of Educational and Medical Institutions of State-owned Enterprises* (Guo Zi Fa Gai Ge [2017] No.134). This guidance requires the reform of medical institutions of SOEs by way of spin-off should be substantially completed by the end of 2018, and proposes to support the SOEs primarily engaged in healthcare business to reintegrate the resources of the medical institutions. Subsequently, in order to urge implementation of the reform of medical institutions owned by SOEs, SASAC further issued relevant notices, requiring, among others, all central SOEs should ensure that reform of medical institutions of SOEs be completed by the end of 2018. Six central SOEs including GT-PRC are allowed to participate in resources reintegration of medical institutions of SOEs. As the main operating entity of the medical and health segment of GT-PRC, the Group actively responded to these policies. In 2018, the Group has been in close contact with several state-owned groups and their quality hospitals to participate in the spin-off and takeover of medical institutions of SOEs through formation of joint ventures and open market bidding, and entered into contracts for several projects in the same year.

Yantai Port Hospital

On 14 September 2018, the Group entered into a cooperation agreement with Yantai Port Group in connection with the formation of a joint venture, which will assume all of the practicing licenses, qualifications, management team and business resources of Yantai Port Hospital and be held by the Group as to 65%. Yantai Port Hospital, with a certified capacity of 500 beds, is a non-profit Grade II Class A hospital administered by Yantai Port Group and enjoys the reputation with its comprehensive medical technology in the local area. The registered capital contributed by the Group to the joint venture is intended to be used for increasing beds and procuring equipment for Yantai Port Hospital. The Group will also further enhance medical technology and service capacity of Yantai Port Hospital in a systematic way by upgrading disciplines, introducing advanced technology, training talents, optimizing managerial mechanisms, and etc.

XD Group Hospital

On 19 December 2018, the Group entered into a cooperation agreement with XD Group in connection with the formation of a joint venture, which will become the new promoter of XD Group Hospital and be held by the Group as to 55%. XD Group Hospital, with an actual capacity of 900 beds, is a Grade III Class A comprehensive hospital administered by XD Group with various functions including medical treatment, emergency, training, research, rehabilitation, prevention, community health and physical examination. XD Group Hospital boasts a complete system of disciplines and advanced medical equipment, enjoying the reputation in Shaanxi Province with its comprehensive medical technology in gynecology & obstetrics and neurology. The XD Group Hospital Chest Pain Center, which is directed by cardiovascular department, has obtained an initial certification of national chest pain center network. In the future, the Group will follow the development strategy of "Strong Specialties, Solid Comprehensive Strengths and Multi-platform" and make XD Group Hospital key medical resources in Northwest China. We will establish a comprehensive medical institution with several national well-known outstanding specialties in a central city by introducing capital and medical resources, optimizing remuneration mechanisms, and expanding open bed space for XD Group Hospital.

Hefei Anhua Hospital

In December 2018, the Group participated in the assets delisting procedures of the Hefei Anhua Hospital on Beijing Equity Exchange, and finally won the bid by public tender and became the new promoter of Hefei Anhua Hospital. Hefei Anhua Hospital is a Grade II hospital specialized in rehabilitation with a capacity of 200 beds. It was administered by CNSG Hong Sifang before its listing. China National Salt Industry Group Co., Ltd., the controlling shareholder of CNSG Hong Sifang, is a large central SOE supervised by the SASAC. In the future, Universal Medical will work with Hefei Anhua Hospital to establish the development path of the hospital by step based on its scale, existing resources and characteristics of disciplines and identify key disciplines and relevant development directions. The hospital's rehabilitation department will be built into a rehabilitation medical center, which will be upgraded systematically in terms of talents, technology, equipment, management and services, to build a first-class modern rehabilitation medical center in the province with technical characteristics and excellent diagnosis and treatment services.

Xi'an Aero-Engine Hospital

On 21 December 2018, the Group entered into a cooperation agreement with Xi'an Aero-Engine in connection with the formation of a joint venture, which will assume all of the practicing licenses, qualifications, management team and business resources of Xi'an Aero-Engine Hospital and be held by the Group as to 78.57%. Xi'an Aero-Engine Hospital, with an actual capacity of 300 beds, is a Grade II Class A comprehensive hospital administered by Xi'an Aero-Engine with various functions including medical treatment, research, disease prevention and emergency treatment. In the future, based on the coordination of the epidemiology survey in Xi'an and even the northwest region, the current situation of Xi'an Aero-Engine Hospital, and the prediction of the medical development trends, the Company will enhance the comprehensive strength and brand influence of Xi'an Aero-Engine Hospital by planning hospital development, introducing quality medical resources and promoting development of disciplines, thus laying a solid foundation for the development of the hospital.

Ansteel General Hospital

On 30 January 2019, the Group entered into a cooperation agreement with Ansteel Group in connection with the formation of a joint venture, which will become the new promoter of Ansteel General Hospital and be held by the Group as to 51%. Ansteel General Hospital is a Grade III Class A comprehensive hospital administered by Ansteel Group with various functions including medical treatment, research, training, rehabilitation, disease prevention and emergency treatment. With an actual capacity of 1,445 beds, Ansteel General Hospital boasts a complete system of disciplines and advanced medical equipment, enjoying the reputation in Liaoning Province with its comprehensive medical technology. In the future, the Group will follow the development strategy of "Solid Comprehensive Strengths and Strong Specialties" and make Ansteel General Hospital key medical resources in Northeast China. We will introduce capital, medical resources and optimize its remuneration mechanisms, and expand open bed space for Ansteel General Hospital.

Pangang General Hospital and Pangang Chengdu Hospital

On 31 January 2019, the Group entered into a cooperation agreement with Pangang Group and Panzhihua Pangang Group Mining Company (攀鋼集團礦業有限公司), a wholly-owned subsidiary of Pangang Group, in connection with the formation of a joint venture, which will become the promoter of Pangang General Hospital and the manager of Pangang Chengdu Hospital and be held by the Group as to 53.30%. Pangang General Hospital is a Grade III Class A comprehensive hospital administered by Pangang Group with an actual capacity of 1,300 beds and various functions including medical treatment, research, training, rehabilitation, disease prevention and emergency treatment. Pangang Chengdu Hospital, with an actual capacity of 364 beds, is a Grade II Class A comprehensive hospital and enjoys geographical advantage in central area of Chengdu City. In the future, the Group will follow the development strategy of "Solid Comprehensive Strengths and Strong Specialties" and make Pangang General Hospital and Pangang Chengdu Hospital key medical resources in Southwest China. Through the implementation of a series of measures such as technology introducing, hardware upgrading and personnel training, the Group will promote the overall development of Pangang General Hospital and Pangang Chengdu Hospital.

Xianyang Caihong Hospital

On 18 March 2019, the Group entered into a cooperation agreement with CEC Caihong, a wholly owned subsidiary of CEC, in connection with the formation of a joint venture, which will become the promoter of Xianyang Caihong Hospital and be held by the Group as to 52.63%. Xianyang Caihong Hospital is a Grade II Class A hospital for women and children administered by CEC Caihong with an actual capacity of 579 beds and various functions including medical treatment, emergency treatment, training, research, rehabilitation, disease prevention and health management service. In the future, the Group will provide strong support for the construction of a leading women and children center in the Northwest China through planning hospital development, introducing quality medical resources, promoting discipline development and strengthening the comprehensive strength and brand influence of the hospital.

In addition, the spin-off and takeover of medical institutions by the Group from other SOE groups is also progressing in an orderly manner. Up to the date of this report, we have managed and operated 8 hospitals owned by SOEs in 5 provinces in China, i.e. Shaanxi, Shandong, Anhui, Liaoning and Sichuan (3 Grade III hospitals and 5 Grade II hospitals) with a capacity totaling about 6,000 beds. In the future, based on the coordination of the epidemiology survey in the local area and the current situation of each hospital, and the prediction of medical development trends, the Group will enhance the comprehensive strength and brand influence of these hospitals by planning their development orientation, introducing quality medical resources and promoting discipline development to develop regional medical centers with characteristics.

Table of Hospitals Owned by SOEs under the Group (as of 27 March 2019)

Name of hospital	Time of contract	Partner	Location	Level	Number of bed(s)
Yantai Port Hospital	September 2018	Yantai Port Group	Yantai, Shandong	Grade II Class A	500
XD Group Hospital	December 2018	XD Group	Xi'an, Shaanxi	Grade III Class A	900
Hefei Anhua Hospital	December 2018	CNSG Group	Hefei, Anhui	Grade II specialized hospital	200
Xi'an Aero-Engine Hospital	December 2018	Xi'an Aero-Engine	Xi'an, Shaanxi	Grade II Class A	300
Ansteel General Hospital	January 2019	Ansteel Group	Anshan, Liaoning	Grade III Class A	1,445
Pangang General Hospital	January 2019	Pangang Group	Panzhihua, Sichuan	Grade III Class A	1,300
Pangang Chengdu Hospital	January 2019	Pangang Group	Chengdu, Sichuan	Grade II Class A	364
Xianyang Caihong Hospital	March 2019	CEC	Xianyang, Shaanxi	Grade II Class A	579

The year of 2019 is still a period for the reform of medical institutions of SOEs by way of spin-off. The Group will continue to consolidate quality hospitals owned by SOEs, unfold its layout in key areas, and expand the size of hospital groups. For newly incorporated hospitals, we will launch a series of post-investment management measures in 2019 in terms of discipline construction, operation management, system and mechanism establishment, and cultural integration.

1.1.2 Hospital investment, construction and operation projects were well underway

The cooperation project of the new east district of Handan First Hospital

On 9 August 2018, the Group formally entered into a contract with the Health and Family Planning Committee of Handan and Handan First Hospital in connection with the joint establishment of the new east district of Handan First Hospital. Handan is an important portal city in southern Hebei province and located at the conjunction of Shanxi, Hebei, Shandong and Henan provinces. Handan First Hospital is a large-scale comprehensive Grade III Class A hospital that integrates medical services, teaching, scientific research, disease prevention, health care and rehabilitation. Handan First Hospital plays a leading role in terms of its comprehensive medical strength in the whole city. The new east district planned will operate as a new branch of Handan First Hospital with 2,000 registered beds (to be built in two phases), and position as a comprehensive hospital with top specialized departments. In the future, the new branch will work with Handan First Hospital to provide medical services for approximately 25 million people in Shanxi, Hebei, Shandong and Henan provinces. The Group will invest a total amount of no more than RMB2 billion and is entitled to two rights: a construction and operation right of Handan First Hospital (including the new east district), and an exclusive right to provide medical supplies procurement service to Handan First Hospital (including the new east district). Please refer to the announcement published by the Company on 9 August 2018 for details.

The Group will, on the one hand, use its financial resources and integrate healthcare resources to provide funding, technology, talents and advanced operating and managing mechanisms to Handan First Hospital, and on the other hand, leverage the strengths of Handan First Hospital in medical treatment, education, scientific research and brand, to make Handan First Hospital a high-quality healthcare center in the four neighboring provinces including Shanxi, Hebei, Shandong and Henan, benefiting local people's livelihood through its advanced medical technology and premium services.

By the end of 2018, the preparation of the medical operation planning and design specification for the new east district have been completed; the construction land has been approved; and the approval process for the construction project is underway. The supply chain project working group has prepared the business plan for medicines and consumables. The acquisition of local supply chain companies is progressing in an orderly manner. In 2019, the Group expects to carry out various projects such as project construction and supply chain business.

International Land Port Hospital

The First Affiliated Hospital is a large-scale comprehensive Grade III Class A hospital administered by the National Health Commission (國家衛生健康委員會) with leading medical technology and service quality in Northwest China. International Land Port Hospital is a branch of First Affiliated Hospital. Our total investment amount for this project will be no more than RMB2 billion. In return, we are entitled to the construction and operation right of International Land Port Hospital as well as the exclusive business cooperation right with International Land Port Hospital and First Affiliated Hospital. Please refer to the announcement published by the Company on 30 August 2016 and the circular published on 21 October 2016 for details.

In 2018, progress on the construction project of International Land Port Hospital jointly undertaken by the Group and First Affiliated Hospital achieved further milestones. The Company signed a Sunshine Procurement Service Agreement (《陽光採購服務協議》) with First Affiliated Hospital. A management platform of transparent procurement of medical supplies has been set up to analyze purchasing data such as mix structure and share of suppliers, laying a solid foundation for taking over the supply chain management of the hospital. Meanwhile, the International Land Port Hospital has started the bidding and procurement of cost contract, and completed the medical operation planning, the overall planning of the hospital, the preliminary plan for the layout of the building, and temporary building and preparation for the earthwork on the construction land for cultural relics exploration, on-site geological survey and high-voltage line relocation. The program to deepen the design work was officially launched at the end of 2018. In 2019, on the one hand, the Group will arrange the process in an orderly manner on the basis of solid design work, and actively promote the construction of International Land Port Hospital; on the other hand, it will start to select suppliers and accelerate the implementation of supply chain business operations.

1.1.3 Solid progress was made in hospital operation and management capability

In 2018, while accelerating the development of hospital operation and management business, the Group focused on improving its own strength and continuously enhanced its hospital operation and management capability:

- **Organization:** Taking the development of the hospital as the core, the Group further optimized the organizational structure of the headquarters to output resources and offer effective services. At the same time, we set up managerial groups from headquarters to hospitals, and clarified the respective responsibilities and mutual relations of the headquarters, subsidiaries, regional business departments and hospitals. A group management and control system with smooth communication channels and flexible coordination mechanism was established.

- **Talents:** The Group continued to optimize its talent team and has more than 300 employees with medical background based at the headquarters. On this basis, on the one hand, the headquarters continues to recruit professional talents to consolidate the core team ability of the hospital before and after investment; on the other hand, leading medical talents joined the management to guarantee the professional operation and development of the hospital group.

- **Disciplines:** The Group is building a unique discipline brand which focuses on the development of five core disciplines, namely cardiovascular department, orthopedics department, oncology, neurology, gynaecology and obstetrics. Moreover, based on the specialty of each hospital, key disciplines will be specifically developed in addition to those five ones. We continued to accumulate various types of medical resources, and have established strategic cooperative relationship with dozens of top international medical institutions, top domestic hospitals and medical colleges. We plan to establish clinical medical schools and regional doctors' clubs to broadly attract medical experts and academic leaders in various disciplines. This also helps to establish close ties between regional medical center hospitals and primary medical institutions in the region, and provide a comprehensive medical resource platform to support the development of the hospital group's disciplines.

- **Operation management:** Guided by the concept of delicacy management, the Group established a comprehensive hospital operation management system, including quality and safety management and performance management. We are committed to ensuring medical quality and safety and stimulating the enthusiasm of medical staff through a series of operation management measures, such as establishing standardized quality management system, optimizing performance evaluation system and building hospital brand. By doing this, we will develop a medical group with leading scale, outstanding technology and efficient management. In addition, the Group has also set up an integrated hospital supply chain operation system, which is centrally managed by the headquarters. After the supply chain business reaches a certain scale, the headquarters will set up a centralized procurement center to carry out unified procurement and distribution business for its hospitals, so as to achieve resource sharing and optimal scale effect.

1.2 Medical Finance Business

In 2018, facing changing environment in domestic and international finance markets and even more fierce competition in finance lease market, the Group's staff worked meticulously in their market sectors, continuing to intensify market exploitation and enhance existing customers stickiness by providing differentiated and high-quality services, which helped steadily increase the Group's asset size. Meanwhile, we continued flexible financing strategies to optimize debt structures and control the average cost rate of interest-bearing liabilities. As always, we executed prudent risk control processes and strict asset management measures to ensure that our asset quality maintains the leading position in the industry.

- **Net interest spread remained at an excellent level in the industry.** In 2018, despite the increasingly fierce competition in the financial leasing market, the Group continued to cooperate with high-credit clients by virtue of our strong customer stickiness. The yield of interest-earning assets dropped slightly to 7.95% from 8.14% of the previous year. At the same time, given the tight market funds and rising financing costs, the Group continued to deepen its cooperation with various financial institutions, actively expand financing channels, enrich financing types, and optimize its debt structure. On the premise of ensuring sufficient liquidity, we have controlled our financing cost in a reasonable and effective way. The average cost rate of interest-bearing liabilities increased slightly from 4.63% in 2017 to 4.72%, making the net interest spread of 3.23% still leading the industry.

- **Assets steadily grew with good quality.** As at 31 December 2018, the total assets of the Group amounted to RMB47,256.9 million, representing an increase of 25.2% as compared with the end of 2017. The proportion of healthcare assets in finance lease receivables was 78.3%, showing the Group's assets concentration in healthcare industry. Non-performing assets ratio was 0.81% and the overdue ratio (30 days) was 0.62%, representing a long-term leading position in the industry. We maintained a prudent provision policy and the Group's asset provision coverage ratio reached 190.24% as of 31 December 2018.

1.3 Medical Digitalization Business

The medical digitalization business of the Group is based on member hospitals, features independent research and development technology, and focuses on three aspects, namely Internet-based health services, smart hospital overall solutions, and medical big data and artificial intelligence services, striving for building a leading medical digitalization service system in China. In 2018, the Group further optimized its self-developed Internet-based health platform and provided technical support for member hospitals to implement online medical care. The 1.0 version of the platform was released covering the functions of offering medical advice in image-text, video and audio forms and family doctor contracting. This version came into service firstly in Yantai Port Hospital at the end of 2018. Meanwhile, the Group has gradually developed an independent market, and the medical digitalization business cooperation with People's Hospital of Baoqing (寶清縣人民醫院) has entered the implementation stage. In the future, the medical digitalization sector will bring about a deep integration of the Internet and medical services to improve patient experience, promote disease source management, and ensure the medical quality and safety of patients in a practical way. This sector will facilitate and guarantee hospital management, and become a strategic business pillar of the Group.

1.4 Medical Technology Service

With domestic and international resources diversifying, the Group has further expanded its medical technology services to help partner hospitals access appropriate high-quality medical resources to improve their medical technology and management as a whole. In 2018, the Group further expanded its scope of cooperation in CVA projects, and concentrated efforts on prevention and rehabilitation of chronic diseases with support from medical alliances. It also provided expert resources to organize trainings as technology support to each center in undertaking local prevention and treatment services. In 2018, the Group successively initiated the establishment of several CVA centers, among others, at the People's Hospital of Baihe County (白河縣人民醫院), Zhuhai Golden Bay Centre Hospital (珠海市金灣中心醫院), Zhoukou Yongxing Hospital (周口永興醫院), and Yantai Port Hospital. It assisted Ankang Central Hospital in becoming an advanced CVA center certified by the Stroke Centre of Brain Disease Control Committee of the National Health Commission. Besides, the Group launched a medical consortium project in prevention of CVA of Wuzhou Health and Family Planning Commission, demonstrating the technology upgrading service of the Group transforming from a single hospital and a single department to a specialized association, medical alliance and even multi-discipline system. At the same time, the Group also successfully participated in the organization of the 8th U.S.-China Health Forum and hosted the CVA Prevention Sub-forum. It cooperated with Ansteel Group General Hospital to hold the Third Academic Summit of Cancer Precision Medicine (第三屆腫瘤精準醫學學術高峰論壇), which provided an effective information exchange platform for domestic and foreign experts and scholars.

While promoting the potential market of clinical department upgrade services centered on CVA projects, the Group has continued to select cutting-edge medical devices with a promising prospect in global medical device market, and provided services on registration and introduction of these devices and related services in China. At present, the Group is the exclusive general agent and regional agent in China for 19 categories of medical device products and cooperates with up to 6 medical device suppliers, covering more than 200 products.

1.5 Prospects for the Future

In the future, the Group will continue to focus on the development trends in medical sector, build up its strength, lay a solid foundation for medical finance business and strengthen our market position. It will seize policy and market opportunities to develop hospital operation and management business, constantly expand the scale of medical institutions, and improve their overall capacity. Besides, the Group will actively expand the medical digitalization business, establish differentiated competitive advantages, and extend hospital value chain. It will continue to improve the medical technology service and expand the service scope, striving to build Universal Medical into a leading medical and health conglomerate and make contribution to the "Healthy China" plan.

2. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

2.1 Overview

In 2018, the Group seized the development opportunities in the healthcare industry, continued to consolidate its operational foundation, and achieved a steady growth in operating results. In 2018, the Group recorded a revenue of RMB4,296.9 million, representing an increase of RMB878.0 million or 25.7% as compared to the corresponding period of the previous year. Profit before tax was RMB1,859.0 million, representing an increase of RMB282.6 million or 17.9% as compared to the corresponding period of the previous year. Profit for the year attributable to the ordinary share holders of the Company was RMB1,352.2 million, representing an increase of RMB203.5 million or 17.7% as compared to the corresponding period of the previous year.

The following table sets forth the Group's statement of profit or loss for the indicated years:

	For the year ended 31 December		
	2018	2017	Change %
	RMB'000	RMB'000	
Revenue	**4,296,866**	3,418,829	25.7%
Cost of sales	**(1,705,442)**	(1,244,640)	37.0%
Gross profit	**2,591,424**	2,174,189	19.2%
Other income and gains	**150,740**	60,810	147.9%
Selling and distribution costs	**(387,251)**	(334,203)	15.9%
Administrative expenses	**(244,350)**	(189,620)	28.9%
Impairment losses on financial assets, net	**(145,996)**	(113,667)	28.4%
Financial costs	**(419)**	(122)	243.4%
Other expenses	**(105,109)**	(20,926)	402.3%
Profit before tax	**1,859,039**	1,576,461	17.9%
Income tax expense	**(508,375)**	(427,782)	18.8%
Profit for the year	**1,350,664**	1,148,679	17.6%
Profit for the year attributable to the ordinary share holders of the Company	**1,352,173**	1,148,658	17.7%
Basic and diluted earnings per share (RMB)	**0.79**	0.67	17.7%

2.2 Analysis of Business Revenue

Focusing on the fast-growing healthcare service industry in China while adhering to the integrated development strategy, the Group saw synergetic development in various business segments. In 2018, the Group achieved a stable growth in revenue from all business segments.

The following table sets forth the Group's gross profit by business segment:

	For the year ended 31 December				
	2018		2017		
	Gross profit RMB'000	**% of total**	Gross profit RMB'000	% of total	Change %
Finance lease	**1,649,453**	**63.6%**	1,327,434	61.1%	24.3%
Industry, equipment and financing advisory	**784,381**	**30.3%**	703,240	32.3%	11.5%
Clinical department upgrade services	**149,855**	**5.8%**	137,498	6.3%	9.0%
Hospital operation and management business	**7,735**	**0.3%**	6,017	0.3%	28.6%
Total	**2,591,424**	**100.0%**	2,174,189	100.0%	19.2%

In 2018, the Group's gross profit was RMB2,591.4 million, representing an increase of RMB417.2 million or 19.2% as compared to the corresponding period of the previous year. In particular, interest margin gross profit of finance lease business was RMB1,649.5 million, representing an increase of RMB322.0 million or 24.3% as compared to the corresponding period of the previous year; gross profit of industry, equipment and financing advisory services was RMB784.4 million, representing an increase of RMB81.1 million or 11.5% as compared to the corresponding period of the previous year; gross profit of clinical department upgrade services was RMB149.9 million, representing an increase of RMB12.4 million or 9.0% as compared to the corresponding period of the previous year. The hospital operation and management business achieved a gross profit of RMB7.7 million, representing an increase of RMB1.7 million or 28.6% as compared to the corresponding period of the previous year.

2.2.1 Finance lease business

In 2018, the Group continued developing the finance lease business in a prudent manner, strengthened intra-regional intensive management of business personnel, further enhanced the working team's business development capability, and strived to maintain its leading position in healthcare finance lease market.

The following table sets forth the Group's finance lease income by industry:

	For the year ended 31 December				
	2018		2017		
Industry	**RMB'000**	**% of total**	RMB'000	% of total	Change %
Healthcare	**2,410,688**	**75.0%**	1,704,397	69.3%	41.4%
Other	**805,486**	**25.0%**	753,331	30.7%	6.9%
Total	**3,216,174**	**100.0%**	2,457,728	100.0%	30.9%

The Group's finance lease income is mainly comprised of interest income. In 2018, the Group recorded interest income of RMB3,216.2 million from finance lease business, representing an increase of RMB758.4 million or 30.9% as compared to the corresponding period of the previous year. The Group focused on healthcare sector, and the interest income from healthcare industry was RMB2,410.7 million, accounting for 75.0% over the total interest income in 2018.

The following table sets forth average yield and cost rate of finance lease business:

	For the year ended 31 December					
	2018			2017		
	Average balance RMB'000	**Interest income[(1)]/ expense[(2)] RMB'000**	**Average yield[(3)]/ cost rate[(4)]**	Average balance RMB'000	Interest income[(1)]/ expense[(2)] RMB'000	Average yield[(3)]/ cost rate[(4)]
Interest-earning assets	**40,662,307**	**3,232,943**	**7.95%**	30,320,834	2,468,362	8.14%
Interest-bearing liabilities	**33,226,265**	**1,566,721**	**4.72%**	24,413,022	1,130,294	4.63%
Net interest margin[(5)]	**–**	**–**	**4.10%**	–	–	4.41%
Net interest spread[(6)]	**–**	**–**	**3.23%**	–	–	3.51%

(1) Interest income represents the interest income from finance lease business;

(2) Interest expense represents financing cost of capital for finance lease business;

(3) Average yield = interest income/average balance of interest-earning assets;

(4) Average cost rate = interest expense/average balance of interest-bearing liabilities;

(5) Net interest margin is calculated by dividing net interest income by average balance of interest earning assets;

(6) Net interest spread is the difference between average yield of interest-earning assets and average cost rate of interest-bearing liabilities.

In 2018, the Group's net interest margin of finance lease was 4.10%, representing a decrease of 0.31 percentage point from 4.41% in the corresponding period of the previous year; net interest spread was 3.23%, representing a decrease of 0.28 percentage point from 3.51% in the corresponding period of the previous year, maintaining at a good level in the industry.

Net interest spread is the difference between average yield of interest-earning assets and average cost rate of interest-bearing liabilities: in 2018, the Group's average yield of interest-earning assets was 7.95%, representing a decrease of 0.19 percentage point from 8.14% in the corresponding period of the previous year. In spite of increased competition in finance lease market, in light of good customer loyalty, the Group still insisted on cooperation with high-credit customers to maintain the stable growth of the Group's financial leasing business revenue; in 2018, the average cost rate of interest-bearing liabilities of the Group was 4.72%, representing an increase of 0.09 percentage point from 4.63% in the corresponding period of the previous year. Facing tight market funds and increasing financing costs, the Group continues to deepen cooperation with financial institutions, actively expand financing channels, enrich financing varieties, optimize debt structure, and reasonably and effectively control financing costs on the premise of sufficient liquidity of funds.

2.2.2 Industry, equipment and financing advisory

Industry, equipment and financing advisory services is part of the Group's integrated services. In 2018, the gross profit from industry, equipment and financing advisory services was RMB784.4 million, representing an increase of RMB81.1 million or 11.5% as compared to the corresponding period of the previous year. Leveraging on our expanding healthcare resources platform, we continuously optimized the organization allocation in accordance with the characteristics of hospital operation at all stages and strengthened internal collaboration and staff training so as to provide customers with valuable, flexible and diversified comprehensive services that comprised financial services, equipment replacement, technology and management advisory, and to efficiently assist our customers in improving their service quality.

2.2.3 Clinical department upgrade services

The Group's business of clinical department upgrade services mainly comprises the provision of services regarding CVA and related diseases, such as mid-to-long term planning for hospital development, disciplinary groups planning, speciality business training, approach and strategic consulting for chronic disease prevention and treatment, consulting for innovation in specialized areas and continuing medical education. By providing these services, the Group aimed to enhance the technical service capabilities and management efficiency of partner hospitals with leasing and sales of equipment as supporting business. In 2018, the gross profit from clinical department upgrade services was RMB149.9 million, representing an increase of RMB12.4 million, or 9.0%, as compared to the corresponding period of 2017.

2.2.4 Hospital operation and management business

In 2018, the Group's hospital operation and management business steadily progressed under policy opportunities, brought the hospital operation and management business with income of RMB110.7 million, representing an increase of 42.9%, as compared to the corresponding period of the previous year; and gross profit of RMB7.7 million, representing an increase of 28.6%, as compared to the corresponding period of the previous year.

2.3 Operating cost

In 2018, the Group's sales and distribution costs amounted to RMB387.3 million, representing an increase of RMB53.0 million, or 15.9%, as compared to the corresponding period of the previous year. Administrative expenses amounted to RMB244.4 million, representing an increase of RMB54.7 million, or 28.9%, as compared to the corresponding period of the previous year. The increase in operating cost was mainly due to the Company's continuous promotion of various business segments. On the one hand, the Company strived to constantly attract more professionals. The increase in personnel corresponds to the increase in their salary and welfare expenses and the increase in office rental expenses. On the other hand, according to the needs to undertake the spin-off and takeover of SOE-affiliated hospitals and the needs of hospital management projects, the expenditure of auditing, evaluation and consulting fees increased significantly.

In 2018, the Group continued to remain high operating efficiency and the cost to income ratio was 24.37%, representing a slight increase of 0.28 percentage point as compared to 24.09% for the corresponding period of the previous year.

2.4 Income tax expenses

In 2018, the Group's income tax expenses of RMB508.4 million increased by RMB80.6 million as compared with the same period of the previous year, which was mainly due to the increase of profit before tax.

3. FINANCIAL POSITION ANALYSIS

3.1 Overview of Assets

As at 31 December 2018, the Group's total assets was RMB47,256.9 million, representing an increase of RMB9,524.4 million or 25.2% as compared to the end of the previous year. In particular, our loans and accounts receivable was RMB43,670.3 million, representing an increase of RMB9,100.2 million or 26.3% as compared to the end of the previous year; our cash and cash equivalents was RMB2,173.5 million, representing an increase of RMB423.6 million or 24.2% as compared to the end of the previous year. With respect to assets structure, the cash and cash equivalents accounted for 4.5% of the total assets; and our loan and accounts receivable accounted for 92.4% of the total assets.

The following table sets forth the assets analysis of the Group for the dates indicated:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Restricted deposits	**549,152**	**1.2%**	932,376	2.5%	-41.1%
Cash and cash equivalents	**2,173,473**	**4.5%**	1,749,884	4.6%	24.2%
Inventories	**40,537**	**0.1%**	21,045	0.1%	92.6%
Loans and accounts receivable	**43,670,306**	**92.4%**	34,570,089	91.6%	26.3%
Prepayments, deposits and other receivables.	**71,414**	**0.2%**	145,237	0.4%	-50.8%
Property, plant and equipment[1]	**271,026**	**0.6%**	86,883	0.3%	211.9%
Prepaid land lease payments[2]	**132,134**	**0.3%**	–	0.0%	100.0%
Available-for-sale investments	**–**	**0.0%**	43,961	0.1%	-100.0%
Deferred tax assets	**248,471**	**0.5%**	163,876	0.4%	51.6%
Derivative financial instruments	**81,250**	**0.2%**	5,273	0.0%	1440.9%
Goodwill	**9,211**	**0.0%**	9,211	0.0%	0.0%
Other assets	**9,953**	**0.0%**	4,678	0.0%	112.8%
Total	**47,256,927**	**100.0%**	37,732,513	100.0%	25.2%

(1) The spin-off and takeover of Yantai Port Hospital were completed by the end of 2018, resulting in an increase of RMB222.9 million.

(2) It is the prepaid land lease payments for Yantai Port Hospital.

3.1.1 Restricted deposits and cash and cash equivalents

As at 31 December 2018, the Group had restricted deposits of RMB549.2 million, which mainly comprised pledged project refunds resulting from business such as factoring activities.

As at 31 December 2018, the Group had cash and cash equivalents of RMB2,173.5 million, which mainly comprised the unutilized renewable corporate bonds raised at the end of the year and the balance of funds raised by listing. The balance of cash and cash equivalents will be gradually arranged of use in accordance with the Group's business plan.

3.1.2 Loans and accounts receivable

As at 31 December 2018, the balance of the Group's loans and accounts receivable was RMB43,670.3 million, among which the net lease receivables was RMB43,585.4 million, accounting for 99.8% of the loans and accounts receivable.

Finance lease receivables

In 2018, given the continuing downward trend in China's macro-economic environment, the Group strengthened the risk management and control in a prudent manner by increasing the investment in finance lease business in healthcare industry while ensuring the asset security and laying emphasis on adjustment to finance lease assets structure and risk prevention and control side by side. The scale of finance lease assets continuously increased while the industry distribution of total assets remained stable.

Net finance lease receivables by industry

The following table sets forth the net finance lease receivables by industry:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Healthcare	**34,649,213**	**78.3%**	24,545,511	70.1%	41.2%
Others	**9,621,451**	**21.7%**	10,475,781	29.9%	-8.2%
Net finance lease receivables	**44,270,664**	**100.0%**	35,021,292	100.0%	26.4%
Less: Provision for impairment of assets	**(685,295)**		(518,397)		32.2%
Net finance lease receivables	**43,585,369**		34,502,895		26.3%

As at 31 December 2018, net finance lease receivables of the Group was RMB43,585.4 million, representing an increase of RMB9,082.5 million or 26.3% as compared to the end of last year. The increase was due to a steady increase in both the number of customers served and the number of new contracts entered into by the Group, as a result of the continuous and steady expansion of financial lease business of the Group on a basis of the Group's effective risk control in 2018.

The maturity profile of the net finance lease receivables

The following table sets forth the maturity profile of the net finance lease receivables:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Within 1 year	**11,994,156**	**27.1%**	9,304,757	26.6%	28.9%
1-2 years	**12,441,386**	**28.1%**	8,696,021	24.8%	43.1%
2-3 years	**9,732,913**	**22.0%**	8,024,276	22.9%	21.3%
Over 3 years	**10,102,209**	**22.8%**	8,996,238	25.7%	12.3%
Net finance lease receivables	**44,270,664**	**100.0%**	35,021,292	100.0%	26.4%

The Group formulated reasonable business investment strategies according to the strategic plan so as to ensure the sustained and steady cash inflow. At the end of 2018, the distribution of maturity of the Group's net finance lease receivables was relatively balanced.

Quality of finance lease receivables

The following table sets forth the classification of five categories [Note] of the net finance lease receivables of the Group:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Pass	**37,280,136**	**84.21%**	29,537,050	84.34%	26.2%
Special attention	**6,630,305**	**14.98%**	5,211,287	14.88%	27.2%
Substandard	**318,537**	**0.72%**	231,269	0.66%	37.7%
Doubtful	**–**	**0.00%**	41,686	0.12%	-100.0%
Loss	**41,686**	**0.09%**	–	0.00%	0.0%
Net finance lease receivables	**44,270,664**	**100.00%**	35,021,292	100.00%	26.4%
Non-performing assets[1]	**360,223**		272,955		32.0%
Non-performing assets ratio[2]	**0.81%**		0.78%		

(1) Non-performing assets are defined as those lease receivables having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the estimated future cash flows of lease receivables that can be reliably estimated. These lease receivables are classified as "substandard", "doubtful" or "loss".

(2) The non-performing assets ratio is the percentage of non-performing assets over net lease receivables as at the applicable date.

Note: Please refer to "Management Discussion and Analysis – 7. Risk Management" in this report for the more details of five-category classification.

The Group has been implementing stable asset management policies and continuously adopting stringent and prudent asset classification policies. As at 31 December 2018, the Group had non-performing assets of RMB360.2 million, representing an increase of RMB87.3 million as compared to 31 December 2017, which was mainly due to the increase in total lease receivables resulting from the expansion of the finance lease business of the Group. Meanwhile, the Group continuously improved its risk management system, adopted effective risk prevention measures and increased the effort in the collection of non-performing assets. As at 31 December 2018, the Group's non-performing asset ratio was 0.81%.

Ratio of overdue finance lease receivables

The following table sets forth the ratio of the Group's lease receivables overdue for over 30 days:

	31 December 2018	31 December 2017
Overdue ratio (over 30 days)[1]	**0.62%**	0.44%

(1) Calculated as net lease receivables (overdue for over 30 days) divided by net lease receivables.

In 2018, the Group implemented prudent risk control and asset management policy and continued improving the risk management system. However, certain individual clients were affected by local policy, resulting in poor operation performance and temporarily tightened capital chain. As at 31 December 2018, the overdue ratio (over 30 days) was 0.62%, increased by 0.18 percentage point as compared to 0.44% at the end of last year.

Provision for impairment of finance lease receivables

The following table sets forth the distribution of provisions by the Group's assessment methodology:

	Pass	Special mention	Substandard	Doubtful	Loss	Total
As at 1 January 2018						
Expected loss rate %	0.97%	2.96%	27.78%	83.29%	0.00%	1.54%
Provision (RMB'000)	285,709	154,444	64,246	34,720	–	539,119
Net finance lease receivables (RMB'000)	29,537,050	5,211,287	231,269	41,686	–	35,021,292
As at 31 December 2018						
Expected loss rate %	**1.10%**	**2.28%**	**25.29%**	**0.00%**	**100.00%**	**1.55%**
Provision (RMB'000)	**411,645**	**151,408**	**80,556**	**–**	**41,686**	**685,295**
Net finance lease receivables (RMB'000)	**37,280,136**	**6,630,305**	**318,537**	**–**	**41,686**	**44,270,664**

As at 31 December 2018, the Group's provision coverage ratio was 190.24%, representing an increase of 0.32 percentage point as compared to the end of the previous year. With the expansion of its business, the Group's management believes that it is imperative to take prudent measures to protect the Group against systematic risks and move towards the international standards and practices. As such, the Group maintained its asset provision coverage ratio at an appropriate level. During the reporting period, the Group's loss assets was RMB41.7 million. Despite its effort in collection through judicial means, the Group's exercisable assets were unable to cover risk exposure. The Group will continue to take various ways to recover the leased assets to the maximum extent.

3.2 Overview of liabilities

As at 31 December 2018, the Group's total liabilities was RMB37,000.1 million, representing an increase of RMB6,736.4 million or 22.3% as compared to 31 December 2017.

The following table sets forth the Group's liabilities as at the dates indicated:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Interest-bearing bank and other borrowings	**32,981,989**	**89.1%**	26,882,695	88.8%	22.7%
Trade and bills payable	**482,381**	**1.3%**	264,697	0.9%	82.2%
Other payables and accruals	**3,422,809**	**9.3%**	2,985,135	9.9%	14.7%
Derivative financial instruments	**42,797**	**0.1%**	16,844	0.1%	154.1%
Taxes payable	**70,143**	**0.2%**	70,355	0.2%	-0.3%
Other liabilities	**–**	**0.0%**	43,961	0.1%	-100.0%
Total	**37,000,119**	**100.0%**	30,263,687	100.0%	22.3%

3.2.1 Interest-bearing bank and other borrowings

In 2018, under the complicated domestic and overseas financial environments, the Group actively adjusted financing strategies and enriched its financing channels and optimized its debt structure of diversified financing instruments, decentralized financing areas and multi-level financing arrangements, and continued to maintain competitive cost advantages to reduce dependence on a single market. In the direct financing market, the Group further enriched bond instruments and successfully issued innovative products such as non-publicly oriented debt financing instruments ("PPN") and renewable corporate bonds, and expanded bond registration or filing quotas issuing super-short-term financing bonds, short-term financing bonds, medium-term notes, PPN, corporate bonds and other instruments; in the indirect financing market, the Group continued to establish strategic partnerships with several banks to further financing business. At the same time, we will vigorously expand the overseas financing market and actively carry out the USD and HK$ syndicated business to meet the peak demand for funds.

The Group's interest-bearing bank and other borrowings is mainly used to provide capital for its finance lease business. As at 31 December 2018, the Group's interest-bearing bank and other borrowings was RMB32,982.0 million, representing an increase of RMB6,099.3 million or 22.7% as compared to 31 December 2017. The borrowings of the Group are mainly at fixed interest rates or at benchmark lending interest rates promulgated by the People's Bank of China, the London Interbank Offered Rate, Hong Kong Interbank Offered Rate and other floating rates.

Breakdown of interest-bearing bank and other borrowings by type:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Bank loans	**16,444,054**	**49.9%**	14,785,371	55.0%	11.2%
Due to related parties	**1,994,964**	**6.0%**	3,000,000	11.2%	-33.5%
Bonds	**12,764,358**	**38.7%**	6,102,148	22.7%	109.2%
Other loans	**1,778,613**	**5.4%**	2,995,176	11.1%	-40.6%
Total	**32,981,989**	**100.0%**	26,882,695	100.0%	22.7%

As at 31 December 2018, the balance of the Group's bank loans amounted to RMB16,444.1 million, accounting for 49.9% of its total interest-bearing bank and other borrowings, representing a decrease of 5.1 percentage points as compared to 55.0% as at 31 December 2017. In 2018, the scale of domestic bank loans continued to be tight and the financing costs were high. The Group actively adjusted its financing strategy and tended to obtain funds through the bond market and increase the proportion of bond balances.

Breakdown of interest-bearing and other borrowings by currency:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
RMB	**25,776,703**	**78.2%**	22,949,964	85.4%	12.3%
USD	**4,100,430**	**12.4%**	2,414,831	9.0%	69.8%
HKD	**3,104,856**	**9.4%**	1,517,900	5.6%	104.5%
Total	**32,981,989**	**100.0%**	26,882,695	100.0%	22.7%

As at 31 December 2018, the Group's interest-bearing bank and other borrowings denominated in RMB was RMB25,776.7 million, which accounted for 78.2% of its total interest-bearing bank and other borrowings, representing a decrease of 7.2 percentage points as compared to 85.4% as at 31 December 2017.

In 2018, due to the impact of a series of strict regulation policies, the domestic bank liquidity and the scale of RMB loan of the domestic banks were tight, the difficulty in obtaining domestic capital was increased, and the cost kept rising. Therefore, the Group increased the proportion of foreign currency financing and made relevant financial derivatives to hedge the exchange rate risk.

Breakdown of the interest-bearing bank and other borrowings by region:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Domestic	**25,776,703**	**78.2%**	23,145,990	86.1%	11.4%
Overseas	**7,205,286**	**21.8%**	3,736,705	13.9%	92.8%
Total	**32,981,989**	**100.0%**	26,882,695	100.0%	22.7%

As at 31 December 2018, the Group's domestic financing balance was RMB25,776.7 million, accounting for 78.2% of the total interest-bearing bank and other borrowings, representing a decrease of 7.9 percentage points as compared to 86.1% as at 31 December 2017. Due to the domestic rising financing costs in 2018, the Group actively expanded the overseas financing channels to meet capital demand.

Breakdown of the current and non-current interest-bearing bank and other borrowings:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Current	**12,346,798**	**37.4%**	10,963,552	40.8%	12.6%
Non-current	**20,635,191**	**62.6%**	15,919,143	59.2%	29.6%
Total	**32,981,989**	**100.0%**	26,882,695	100.0%	22.7%

As at 31 December 2018, the total balance of the Group's current interest-bearing bank and other borrowings amounted to RMB12,346.8 million, accounting for 37.4% of its total interest-bearing bank and other borrowings, representing a decrease of 3.4 percentage points as compared to 40.8% as at the end of the previous year. In 2018, the domestic medium and long-term borrowing costs increased significantly. On the premise that sufficient liquidity and reasonable debt structure are ensured, the Group seized the time window to increase the proportion of non-current interest-bearing liabilities and actively optimize liability structure.

Breakdown of the secured and unsecured interest-bearing bank and other borrowings:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Secured	**3,608,940**	**10.9%**	3,970,395	14.8%	-9.1%
Unsecured	**29,373,049**	**89.1%**	22,912,300	85.2%	28.2%
Total	**32,981,989**	**100.0%**	26,882,695	100.0%	22.7%

As at 31 December 2018, the Group's total secured interest-bearing bank and other borrowings amounted to RMB3,608.9 million, accounting for 10.9% of its total interest-bearing bank and other borrowings, representing a decrease of 3.9 percentage points as compared to 14.8% as at the end of the previous year. The Group's secured assets were mainly finance lease assets, and the decrease in its proportion indicated a further improvement of the Group's own financing capabilities.

Breakdown of the direct financing and indirect financing in interest-bearing bank and other borrowings:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Direct financing	**12,764,358**	**38.7%**	6,102,148	22.7%	109.2%
Indirect financing	**20,217,631**	**61.3%**	20,780,547	77.3%	-2.7%
Total	**32,981,989**	**100.0%**	26,882,695	100.0%	22.7%

As at 31 December 2018, among the balance of the Group's interest-bearing bank and other borrowings, the direct financing amounted to RMB12,764.4 million, accounting for 38.7% of its total interest-bearing bank and other borrowings, representing an increase of 16.0 percentage points as compared to 22.7% as at the end of the previous year. As the capital cost in domestic bond market in 2018 was lower than that of indirect financing such as bank loans, the Group adjusted its financing strategy and increased the proportion of direct financing.

3.2.2 Other payables and accruals

Other payables and accruals primarily comprise the lease deposits paid by customers, the accrued interests on borrowings, as well as the accrued salary and welfare payables. As at 31 December 2018, other payables and accruals amounted to RMB3,422.8 million, representing an increase of RMB437.7 million as compared to the end of the previous year.

3.3 Shareholders' Equity

At the end of 2018, the Group's total equity amounted to RMB10,256.8 million, representing an increase of RMB2,788.0 million or 37.3% as compared to the end of last year.

The following table sets forth the equities for the indicated date:

	31 December 2018		31 December 2017		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Share capital	**4,327,842**	**42.2%**	4,327,842	57.9%	0.0%
Reserves	**4,067,769**	**39.7%**	3,140,759	42.1%	29.5%
Equity attributable to the ordinary share holders of the Company	**8,395,611**	**81.9%**	7,468,601	100.0%	12.4%
Renewable corporate bond holders(1)	**1,652,481**	**16.1%**	–	0.0%	100.0%
Non-controlling interest(2)	**208,716**	**2.0%**	225	0.0%	92662.7%
Total	**10,256,808**	**100.0%**	7,468,826	100.0%	37.3%

(1) In December 2018, the Group issued RMB1,660.0 million of renewable corporate bonds with a primary period of 3 years. The Group is entitled to exercise the option to renew at the end of primary period agreed and each of the cycle at the coupon rate of 6.0%.

(2) The spin-off and takeover of Yantai Port Hospital were completed by the end of 2018, forming a non-controlling interest of RMB210.0 million.

At 31 December 2018, the Group's distributable reserves, calculated under Part 6 of the Companies Ordinance, amounted to RMB3,580.4 million.

4. CASH FLOWS ANALYSIS

	For the year ended 31 December		
	2018 RMB'000	2017 RMB'000	Change %
Net cash flows used in operating activities	**(5,728,645)**	(5,072,151)	12.9%
Net cash flows used in investing activities	**358,255**	(90,168)	-497.3%
Net cash flows from financing activities	**5,772,346**	5,724,005	0.8%
Effect of exchange rate changes on cash and cash equivalents	**21,633**	(84,260)	-125.7%
Net increase in cash and cash equivalents	**423,589**	477,426	-11.3%

Due to the Group's business expansion and an increase in the size of interest-earning assets in 2018, net cash outflows from operating activities amounted to RMB5,728.6 million. Net cash inflows from investing activities amounted to RMB358.3 million, primarily due to the Group's recovery of investment principal such as fixed deposits. Net cash inflow from financing activities amounted to RMB5,772.3 million, primarily due to increase in cash inflows including bank and other borrowings of the Group.

5. CAPITAL MANAGEMENT

The primary objective of the Group's capital management activities is to ensure that it maintains healthy capital ratios in order to support the Group's business and maximize its shareholders' benefits. The Group uses debt ratio and gearing ratio to monitor its capital status. In 2018, no changes were made to the Group's objectives, policies or processes for capital management.

Debt ratio

	31 December 2018 RMB'000	31 December 2017 RMB'000
Total assets	**47,256,927**	37,732,513
Total liabilities	**37,000,119**	30,263,687
Total equity	**10,256,808**	7,468,826
Debt ratio	**78.30%**	80.21%

Gearing ratio

	31 December 2018 RMB'000	31 December 2017 RMB'000
Interest-bearing bank and other borrowings	**32,981,989**	26,882,695
Total equity	**10,256,808**	7,468,826
Gearing ratio	**3.22**	3.60

As at 31 December 2018, the Group's debt ratio and gearing ratio decreased slightly as compared to the end of the previous year.

6. CAPITAL EXPENDITURE

The Group's capital expenditure primarily consists of expenditure on the purchase of medical equipment and other equipment relating to the Group's operating lease business, construction expenditure on hospital operation and management projects, and expenditure relating to office facilities. In 2018, the Group had capital expenditure of RMB19.3 million, primarily due to the construction of hospital operation and management projects, the development of digitalization projects, the procurement of equipment and office refurbishment.

Use of Proceeds from the Initial Public Offering

The shares of the Company were listed on the Main Board of the Stock Exchange on 8 July 2015. On 30 July 2015, after deducting underwriting commissions and all related expenses, the net proceeds from the initial public offering amounted to approximately RMB2,775.5 million. As at the date of this report, the Group did not expect to make any change in the proposed use of proceeds set out in the Prospectus.

The Board closely monitored the use of proceeds from the initial public offering with reference to the use of proceeds disclosed in the Prospectus and confirmed that there was no material change in the proposed use of proceeds as previously disclosed in the Prospectus. As of 31 December 2018, RMB1,249.0 million which we planned to use for supporting our finance lease business and RMB277.6 million which we planned to use for funding general corporate purposes, out of net proceeds from the initial public offering of the Group, have been fully utilized according to the usages disclosed in the Prospectus.

In 2018, the Group utilized RMB11.5 million in research, development and operation of hospital digitalization services; RMB143.1 million in the development of our hospital operation and management business; RMB21.9 million in the development of CVA project solutions and department upgrade services in other new areas.

As of 31 December 2018, the remaining net proceeds of the Group which we planned to use for hospital operation and management business, hospital digitalization business, and CVA project solutions and department upgrade services in other new areas was RMB131.4 million, RMB517.5 million and RMB137.4 million, respectively.

The remaining amount of RMB131.4 million for hospital operation and management business will be used for market development and expansion of external medical resources, recruitment of hospital management experts team and professional training to internal personnel for hospitals merged or acquired by the Group in coming years.

The remaining amount of RMB137.4 million for CVA project solutions and department upgrade services in other new areas will be used for further development of CVA project solutions and department upgrade services in other new areas and providing hospital customers with financial support for clinical department upgrade in coming years.

The remaining amount of RMB517.5 million for hospital digitalization business will be used in coming years, according to the Company's development strategy and plan, for the development of our hospital operation and management business, further recruitments to increase the size of our technology solutions team, continuous development of proprietary information management system for hospitals as well as related marketing activities.

7. RISK MANAGEMENT

The Group's principal financial instruments include lease receivables, trade receivables, trade payables, interest-bearing bank and other borrowings, and cash and cash equivalents. The main purpose of cash and cash equivalents and interest-bearing bank and other borrowings is to finance the Group's operations while other financial assets and financial liabilities such as trade receivables and trade payables are directly related to the Group's operating activities.

The Group is exposed to various types of market risks in the ordinary course of business, primarily including interest rate risk, currency risk, credit risk and liquidity risk.

7.1 Interest Rate Risk

Interest rate risk is the risk arising from the fluctuation of financing instrument or future cash flows as a result of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates primarily relates to the Group's interest-bearing bank and other borrowings and lease receivables.

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such risk mitigation measure.

The following table sets forth a sensitivity analysis on the Group's profit before tax affected by a reasonably possible change in interest rate, with all other variables unchanged. The sensitivity of the profit before tax is the effect of the assumed changes in interest rates on profit before tax, based on the financial assets and financial liabilities held at the end of each reporting period subject to repricing within the coming year.

	Increase/decrease in profit before tax	
	31 December 2018 RMB'000	31 December 2017 RMB'000
Change in base points		
+100 base points	**75,794**	28,730
-100 base points	**(75,794)**	(28,730)

7.2 Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in exchange rates. The Group's exposure to the risk of changes in foreign exchange relates primarily to the financing activities of the Group.

The Group conducts its businesses mainly in RMB, with certain financing activities denominated in USD and to a lesser extent, other currencies pegged to the USD. The Group's currency risk mainly arises from the transactions denominated in currencies other than RMB. In order to control currency risk, the Group adopted prudent currency risk management which hedges risk exposures one by one under comprehensive risk exposure management. It proactively hedged against foreign exchange exposure based on the currency and terms through using the operation of financial instruments such as forward exchange transaction. As at 31 December 2018, the Group's exposure to foreign exchange risk amounted to approximately US$981.1 million, US$975.9 million or 99.5% of which had been hedged against by various financial instruments. Thus, the Group's exposure to foreign exchange risk is limited.

The table below sets forth a sensitivity analysis on the Group's profit before tax affected by a reasonably possible change in exchange rate:

	Change in exchange rate %	**Increase/decrease in profit before tax**	
		31 December 2018 RMB'000	31 December 2017 RMB'000
If RMB strengthens against USD/HKD	(1)	**460**	29,997
If RMB weakens against USD/HKD	1	**(460)**	(29,997)

The exchange rate of RMB to USD is managed under a floating exchange rate system. The HKD exchange rate has been linked to the USD and therefore the exchange rate of RMB to HKD has fluctuated and will fluctuate in line with the changes in the exchange rate of RMB to USD. The analysis calculates the effect of a reasonably possible movement in the currency rate against RMB, with all other variables held constant, on profit before tax.

7.3 Credit Risk

Credit risk is the risk of loss arising from a lessee's or counterparty's inability to meet its obligations. The Group enters into transactions only with the recognized and creditworthy third parties. In accordance with the policy of the Group, the Group examines and verifies the credit risk of all customers with whom the Group has credit transactions. Besides, the Group monitors and controls the lease receivables regularly to mitigate the risk of significant exposure to bad debts. Other financial assets of the Group include cash and bank deposits, accounts receivable and other receivables. The credit risk of these financial assets arises from the counterparty's inability to meet its obligations. The maximum exposure to credit risk equals to the carrying amounts of these assets.

In determining the classification of its lease receivables, the Group applies a set of criteria pursuant to its internal policies. These criteria are designed to assess the likelihood of repayment by the borrower and the collectability of principal and interest on lease receivables of the Group. Lease receivables classification criteria of the Group focus on a number of factors, to the extent applicable, and include the following ratings:

Classification criteria

Pass. There is no reason to doubt that the loan principal and interest will not be repaid by the lessee in full and/or in a timely manner. There is no reason whatsoever to suspect that the lease receivables will be impaired.

Special Mention. Even though the lessee has been able to pay the lease payments in a timely manner, there are still some factors that could adversely affect its ability to pay. These factors include changes in economy, policies and regulations and industry environment, changes in property structures, significant negative events and significant fall in key financial indicators occurred to debtors, sharp lag of infrastructure projects behind the original plan, or heavy over-run of budget, impact of changes in core asset value on repayment abilities of the debtors, as well as emerging of position relating to guarantors impacting their financial and operating conditions. In addition, the Group takes into account impacts of subjective factors on asset quality such as changes in repayment willingness of the debtors, for example, if payments have been overdue and the financial position of the lessee has worsened, then the lease receivables for this lease contract should be classified as special mention or lower.

Substandard. The lessee's ability to pay the principal and interests of the lease receivables is in question as it is unable to make its payments in full with its operating revenues and the Group is likely to incur losses notwithstanding the enforcement of any guarantees. For example, if a lease payment that has been categorized as special mention continues to be overdue for a period of time, then the lease receivables for this lease contract should be classified as substandard or lower.

Doubtful. The lessee's ability to pay is in question as it is unable to make lease payments in full and on a timely basis with its operating revenues. Notwithstanding the enforcement of any guarantees underlying the lease contract, we are likely to incur significant losses. For example, if a lease payment that has been categorized as substandard continues to be overdue for a period of time, the lease receivables for this lease contract shall be classified as doubtful or lower.

Loss. After taking all possible steps or going through all necessary legal procedures, lease payments remain overdue or only a very limited portion has been recovered. For example, if a lease payment that has been categorized as doubtful continues to be overdue for a period of time, the lease receivables for this lease contract shall be classified as a loss.

Asset management measures

Under the overall risk management framework, the Group fully participated in the asset management works, with multi-sectorial coordination and collaboration, to maintain the safety of assets and improve the asset quality. The Group took risk management measures to monitor the quality of its asset portfolio, the assets underlying its leases and the efficiency of its credit assessment workflow. These measures are integrated into on-going asset management efforts of the Group with the following key features:

Continuously improving the management process after the lease and regularly monitoring the asset portfolio

The Group continued to improve the management process after lease and strengthened the coordination of various departments to ensure the rent collection and the collateral security, as well as enhancing asset quality. During the period, the Group constantly monitored the collection of rental payments from our customers. For projects with overdue lease receivables, we would adopt a variety of measures to collect the overdue receivables, and collect data to facilitate our classification of risky assets.

On-site customer visits

The Group formulated and implemented an annual on-site visit plan and inspected the business development and financial conditions of its customers on a continuing basis, during which cross-selling opportunities could also be explored for providing more value-added services. Through on-site visits, the customers would be urged to pay the rent on time more consciously and they would be more willing to communicate with the Group.

Material events handling and reporting procedures

The Group implemented a material events reporting system. If any material adverse event occurs to customers, a responsible department should take the lead and collaborate and coordinate with various departments to actively respond to the situation. Meanwhile, such event would need to be reported to the senior management and the Board.

Regular assessments on asset quality and reclassification

The Group adopted the expected credit loss model to classify its assets underlying lease receivables. Under this categorization system, the Group's assets underlying lease receivables are divided into five categories, namely "pass", "special mention", "substandard", "doubtful" and "loss". The last three categories of assets are considered as non-performing assets. The Group applied a series of criteria in determining the classification of each of its assets, which focus on a number of factors, including (1) the customer's ability to make lease payments; (2) the customer's payment history; (3) the customer's willingness to make lease payments; (4) the collateral provided for the lease; and (5) the possibility of legal enforcement in the event of delinquent lease payments. The Group closely monitored the asset quality by focusing on the aforementioned factors, and would decide whether to reclassify such assets and adopt appropriate measures to improve their management. The Group has also established concrete management measures for making relevant provisions for impairment to the extent such impairment is reasonably envisaged.

Credit Risk Analysis

Analysis on industry concentration of finance lease receivables

Credit risk is often greater when lessees are concentrated in one single industry or geographical location or have comparable economic characteristics. Customers of the Group are diversely located in different regions of mainland China, and its lessees are from different industries as follows:

	31 December 2018		31 December 2017	
	RMB'000	**% of total**	RMB'000	% of total
Healthcare	**34,649,213**	**78.3%**	24,545,511	70.1%
Others	**9,621,451**	**21.7%**	10,475,781	29.9%
Total	**44,270,664**	**100.0%**	35,021,292	100.0%

Although the customers of the Group are mainly concentrated in the healthcare industry, there is no significant credit risk concentration within the Group as the healthcare industry relates closely to people's basic livelihood and is weakly correlated to the economic cycle.

The data of exposure to credit risk arises from loans and accounts receivable, deposits and other receivables, and credit commitments. The analysis of financial assets which are neither past due nor impaired is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Net finance lease receivables	**43,588,515**	34,737,651
Accounts receivable	**85,316**	67,194
Deposits and other receivables	**24,431**	114,535
Available-for-sale investment	**–**	43,961
Derivative financial assets	**81,250**	5,273

The analysis of financial assets which are impaired is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Net finance lease receivables	**360,223**	272,955

Impaired finance lease receivables are defined as those having objective evidence of impairment as a result of one or more events that occurred after initial recognition and that event has an impact on the estimated future cash flows of the finance lease receivables that can be reliably estimated.

7.4 Liquidity Risk

Liquidity risk is the risk arising from funds not being available to meet liabilities as they fall due. This may arise from mismatches in amounts or duration with regard to the maturity of financial assets and liabilities.

The Group manages its liquidity risk through daily, monthly and quarterly monitoring with the following objectives: maintaining flexibility in funding by keeping sufficient available loan facilities or loan commitments provided by banks and other financial institutions, making projections of future cash flows and evaluating the appropriate net current asset/liability position, and maintaining an efficient internal funds transfer mechanism.

The table below summarizes the maturity profile of the Group's financial assets and liabilities based on the contractual undiscounted cash flows:

	On demand RMB'000	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
31 December 2018						
Total financial assets	**2,345,585**	**3,817,378**	**11,320,692**	**36,389,135**	**435,276**	**54,308,066**
Total financial liabilities	**(42,315)**	**(3,143,147)**	**(11,817,594)**	**(23,829,627)**	**(21,502)**	**(38,854,185)**
Net liquidity gap(1)	**2,303,270**	**674,231**	**(496,902)**	**12,559,508**	**413,774**	**15,453,881**
31 December 2017						
Total financial assets	1,835,303	3,519,979	8,913,093	28,740,655	650,753	43,659,783
Total financial liabilities	(97,415)	(2,320,075)	(10,593,474)	(28,836,787)	(18,052)	(41,865,803)
Net liquidity gap(1)	1,737,888	1,199,904	(1,680,381)	(96,132)	632,701	1,793,980

(1) A positive net liquidity gap indicates financial assets more than financial liabilities and there is no funding gap, while a negative net liquidity gap indicates otherwise.

The Group will reasonably arrange the term of financial liabilities to control the liquidity risk.

8. PLEDGE OF GROUP ASSETS

As of 31 December 2018, the Group had finance lease receivables of RMB5,643.9 million and cash of RMB441.5 million pledged or paid to banks to secure the bank borrowings.

9. MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 9 August 2018, the Company entered into a cooperation agreement with the Health and Family Planning Commission of Handan and Handan First Hospital in connection with the joint establishment and operation of the new east district of Handan First Hospital. Pursuant to the cooperation agreement, the Company has agreed to (i) establish a wholly-owned project company to construct the new east district, provide a total amount of no more than RMB2 billion in cash to fund the construction, and participate in the management and operation of Handan First Hospital in a manner as agreed by all parties; and (ii) through the project company, make a capital contribution of no more than RMB28 million to establish a joint venture with Handan First Hospital to provide medical supplies procurement service to Handan First Hospital.

On 14 September 2018, the Company and Wiseman, a wholly-owned subsidiary of the Company, entered into a cooperation agreement in relation to restructuring of Yantai Port Hospital with Yantai Port Group in connection with the formation of a joint venture. Upon its establishment, the joint venture will be held by Wiseman and Yantai Port Group as to 65% and 35%, respectively. All of the practicing licenses, qualifications, management team and business resources of Yantai Port Hospital will be succeeded by the joint venture.

On 19 December 2018, the Company and its subsidiary, Wiseman, entered into a cooperation agreement jointly with XD Group in connection with the formation of a joint venture. Pursuant to the cooperation agreement, the total investment of the joint venture is RMB1 billion. Upon its establishment, the joint venture will be held by Wiseman and XD Group as to 55% and 45%, respectively.

10. CIRCUMSTANCES INCLUDING CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

10.1 Contingent Liabilities

	31 December 2018 RMB'000	31 December 2017 RMB'000
Legal proceedings	**–**	–
Claimed amounts	**–**	–

10.2 Capital Commitments and Credit Commitments

The Group had the following capital commitments and credit commitments as at each of the dates indicated:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Capital expenditure under signed contracts but not appropriated(1)	**30,120**	2,377
Credit commitments(2)	**1,722,496**	1,528,274

(1) Capital expenditure under signed contracts but not appropriated during the period represents project funds under signed contracts but not yet paid for hospital operation and management projects.

(2) Credit commitments refer to the amount, conditional and revocable, under approved lease contracts but not appropriated by settlement date.

11. HUMAN RESOURCES

As of 31 December 2018, we had a total of 705 employees, representing an increase of 56 or 8.6%, compared to 649 as of 31 December 2017.

We have a highly-educated and high-quality work force, with about 87.1% of our employees holding bachelor degrees and above, about 43.7% holding master's degrees and above, and about 3% holding doctor's degrees as of 31 December 2018.

We have established and implemented a flexible and efficient employee incentive compensation plan to link the remuneration of our employees to their overall performance and contribution to the Group. We have established a remuneration and award system based on their overall performance and accomplishment of work targets. We promote employees based on their positions, service term and overall performance by categorizing them into professional or managerial group, which provides our employees with a clear career path. We perform a comprehensive performance evaluation over our employees at different positions and levels on an annual basis according to business objective obligations and achievement of key objectives.

In accordance with applicable PRC regulations, we have made contributions to social security insurance funds (including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. We also provide other insurance plans for our employees such as supplementary pension, additional medical insurance and accident insurance in addition to those required under the PRC regulations. As of 31 December 2018, the Group had complied with all statutory social insurance and housing fund obligations applicable to us under the PRC laws in all material respects.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board has been committed to achieving good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company's corporate governance practices are based on the principles and code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules and the Company has adopted the CG Code as its own code of corporate governance.

In the opinion of the Directors, the Company has complied with all code provisions as set out in the CG Code throughout the year ended 31 December 2018 save for the deviation from code provisions A.4.2 and E.1.2 which are explained in the relevant paragraphs of this Corporate Governance Report.

The Board will from time to time, review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Securities Dealing Code on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules.

The Securities Dealing Code applies to all Directors and to all employees of the Company and/or its subsidiaries to whom the code is given and who are informed that they are subject to its provisions.

Specific enquiry has been made to all the Directors (including Mr. Jiang Xin, Mr. Guo Weiping and Mr. Luo Xiaofang who resigned during the year) who have confirmed that they have complied with the Model Code and the Securities Dealing Code throughout the period from 1 January 2018 or the date of his/her appointment as a Director (as the case may be) to the date of this report or the date of his/her resignation as a Director (as the case may be).

No incident of non-compliance of the Securities Dealing Code by the relevant employees was noted by the Company.

BOARD OF DIRECTORS

The Board currently comprises eleven members, which consists of two executive Directors, five non-executive Directors, and four independent non-executive Directors.

The Board of the Company comprises the following directors during the year ended 31 December 2018:

Executive Directors:
Ms. Peng Jiahong *(Vice-chairwoman[(1)], Chief Executive Officer[(1)], Chief Financial Officer)*
Mr. Guo Weiping *(Chief Executive Officer)*[(2)]
Mr. Yu Gang[(1)]

Non-executive Directors:
Mr. Zhang Yichen *(Chairman)*
Ms. Liu Kun[(1)]
Mr. Luo Xiaofang *(Vice-chairman)*[(3)]
Mr. Jiang Xin *(Vice-chairman)*[(4)]
Mr. Liu Zhiyong
Mr. Liu Xiaoping
Mr. Su Guang

Independent Non-executive Directors:
Mr. Li Yinquan
Mr. Chow Siu Lui
Mr. Kong Wei
Mr. Han Demin

Notes:

(1) Appointed with effect from 30 November 2018
(2) Resigned with effect from 28 November 2018
(3) Appointed with effect from 1 March 2018 and resigned with effect from 28 November 2018
(4) Resigned with effect from 1 March 2018

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The biographical information of the Directors are set out in the section headed "Biography of Directors and Senior Management" on pages 74 to 83 of this annual report.

None of the members of the Board is related to one another.

Chairman and Chief Executive Officer

Mr. Zhang Yichen is the chairman of the Company. The position of chief executive officer is held by Ms. Peng Jiahong with effect from 30 November 2018 and was held by Mr. Guo Weiping from 1 January 2018 to 27 November 2018, respectively. The chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The chief executive officer focuses on the Group's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Executive Directors

On 28 November 2018, Mr. Guo Weiping resigned as an executive Director, the chief executive officer and a member of the Strategy Committee. Mr. Yu Gang was appointed as an executive Director on 30 November 2018 to fill the vacancy.

Non-executive Directors

On 1 March 2018, Mr. Jiang Xin resigned as the vice-chairman, non-executive Director, chairman of the Strategy Committee, member of the Remuneration Committee and vice-chairman of CULC, a wholly-owned subsidiary of the Company. Subsequent to his resignation, Mr. Luo Xiaofang was appointed as the vice-chairman, non-executive Director, chairman of the Strategy Committee, member of the Remuneration Committee and vice-chairman of CULC on the same date.

On 28 November 2018, Mr. Luo Xiaofang resigned as the vice-chairman, non-executive Director, chairman of the Strategy Committee and member of the Remuneration Committee. Subsequent to the resignation of Mr. Luo Xiaofang and Mr. Guo Weiping, there were only one member left in the Strategy Committee and two members left in the Remuneration Committee respectively, which failed to satisfy the requirements that there shall be at least three members as stipulated in the terms of reference of the Strategy Committee and the Remuneration Committee.

With effect from 30 November 2018, Ms. Liu Kun was appointed as a non-executive Director and a member of the Strategy Committee, Ms. Peng Jiahong was appointed as the vice-chairwoman of the Board, chief executive officer and chairwoman of the Strategy Committee and Mr. Liu Zhiyong was appointed as a member of the Remuneration Committee.

Accordingly, the Remuneration Committee currently comprises three members (namely, Mr. Chow Siu Lui, Mr. Liu Zhiyong and Mr. Han Demin) in compliance with the terms of reference of the Remuneration Committee and the Strategy Committee currently comprises three members (namely, Ms. Peng Jiahong, Mr. Zhang Yichen and Ms. Liu Kun) in compliance with the terms of reference of the Strategy Committee.

Independent Non-executive Directors

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Ms. Peng Jiahong, and Mr. Guo Weiping (resigned with effect from 28 November 2018), executive Directors, has/had entered into a service contract with the Company for a term of five years while Mr. Yu Gang, an executive Director, has entered into a service contract for a term from 30 November 2018, date of appointment, to the conclusion of the 2019 AGM, and is subject to re-election thereat. Each of the non-executive Directors (other than Mr. Luo Xiaofang and Ms. Liu Kun) and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years, and is subject to retirement provision pursuant to the Articles. Mr. Luo Xiaofang resigned with effect from 28 November 2018. Ms. Liu Kun has entered into a letter of appointment with the Company for a term from 30 November 2018, date of appointment to the conclusion of the 2019 AGM, and is subject to re-election thereat.

Except for executive Directors, at each annual general meeting, one-third of the Directors or the number which is nearest to and is at least one-third, shall retire from office by rotation and be eligible for re-election. The executive Directors are not subject to retirement provision of the Articles, but the Articles shall not prejudice the power of shareholders in general meeting to remove any such Director. To ensure continuity of leadership and stability for growth of the Company, the Board is of the view that the executive Directors should hold office on a continuous basis.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those which may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

The Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and make comprehensive and informed contribution to the Board.

Every newly appointed Director has received formal, comprehensive and tailored-made induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and other relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year, Ms. Peng Jiahong, Mr. Zhang Yichen, Mr. Liu Zhiyong, Mr. Liu Xiaoping, Mr. Su Guang, Mr. Li Yinquan, Mr. Chow Siu Lui, Mr. Kong Wei, Mr. Han Demin, Mr. Guo Weiping (resigned with effect from 28 November 2018) and Mr. Luo Xiaofang (resigned with effect from 28 November 2018) have participated in continuous professional training including viewing the webcast titled "Directors' Responsibilities at IPOs" launched by the Stock Exchange and reading the "Analysis of Environment, Social and Governance Practice Disclosure in 2016/2017", "Consultation Conclusions on the Consultation Paper on Delisting and Other Rule Amendments" and "Guidance for Boards and Directors" published by the Stock Exchange.

Mr. Yu Gang and Ms. Liu Kun have participated in continuous professional training including attending the induction training titled "Continuous Responsibilities of Hong Kong Listed Company & Directors" delivered by Wilson Sonsini Goodrich & Rosati and reading the "Guidance for Boards and Directors" published by the Stock Exchange.

Mr. Jiang Xin (resigned with effect from 1 March 2018) has participated in continuous professional training including viewing the webcast titled "Directors' Responsibilities at IPOs" launched by the Stock Exchange.

BOARD COMMITTEES

The Board has established five committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee, the Risk Control Committee and the Strategy Committee to oversee particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal with their authorities and duties. The terms of reference of the Audit Committee and the Nomination Committee have been amended to reflect updates in the Listing Rules. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee have been posted on the websites of the Stock Exchange and the Company, respectively.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2 of this annual report.

Audit Committee

The Audit Committee consists of one non-executive Director and two independent non-executive Directors, namely Mr. Li Yinquan, Mr. Liu Xiaoping and Mr. Chow Siu Lui. Mr. Li Yinquan is the chairman of the Audit Committee.

The terms of reference of the Audit Committee are no less exacting than those set out in the CG Code. The main duties of the Audit Committee include monitoring the integrity of the Company's financial statements, annual report and interim report, and reviewing significant financial reporting judgements contained therein; reviewing the Company's financial controls, risk management and internal control systems; making recommendations to the Board on the appointment, reappointment and removal of external auditor, and approving the remuneration and terms of engagement of external auditor, as well as reviewing arrangements which can be secretly utilized by employees of the Company, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee is also responsible for performing the functions set out in the code provision D.3.1 of the CG Code which include developing and reviewing the Company's policies and practices on corporate governance and make recommendation to the Board; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; reviewing and monitoring the training and continuous professional development of directors and senior management of the Company; and reviewing the Company's compliance with the CG Code, the Model Code and the Securities Dealing Code adopted by the Company from time to time and the disclosure in the Corporate Governance Report to be contained in the Company's annual reports.

During the year, the Audit Committee held two meetings to review the annual financial results and reports in respect of the year ended 31 December 2017 and the interim financial results and reports in respect of the six months ended 30 June 2018, respectively. The Audit Committee also passed written resolutions during the year to resolve matters relating to the audit fees and terms of engagement of the external auditor.

Together with all the other Directors, the Audit Committee also reviewed the Company's corporate governance policies and practices, Directors' time commitments and contribution, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Securities Dealing Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report, as well as the effectiveness of the shareholders' communication policy.

The Audit Committee met with the external auditor twice during the year for reviewing the Company's annual and interim financial results.

Remuneration Committee

The Remuneration Committee currently consists of one non-executive Director and two independent non-executive Directors, namely Mr. Chow Siu Lui, Mr. Liu Zhiyong (appointed with effect from 30 November 2018) and Mr. Han Demin. Mr. Chow Siu Lui is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are no less exacting than those set out in the CG Code. The primary functions of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and establishing a formal and transparent procedure for developing the remuneration policy; making recommendations to the Board on the remuneration packages of individual executive Directors and senior management; and ensuring that no Director or any of his/her close associates is involved in deciding his own remuneration.

During the year, the Remuneration Committee met three times to review the Company's policy and structure for the remuneration of all Directors and senior management, the remuneration packages of the executive Directors and senior management of the Company and the remuneration of non-executive Directors as well as the service contracts of the executive Directors and the renewed letters of appointment of the non-executive Directors. The meetings also discussed and recommended to the Board the appointment of new Directors and reviewed their service contracts/letters of appointment.

Nomination Committee

The Nomination Committee consists of one non-executive Director and two independent non-executive Directors, namely Mr. Zhang Yichen, Mr. Chow Siu Lui and Mr. Kong Wei. Mr. Zhang Yichen is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are no less exacting than those set out in the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board; identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorship; making recommendations to the Board on the appointment, re-appointment and succession planning of Directors; and assessing the independence of independent non-executive Directors, as well as reviewing the board diversity policy.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board in terms of skills, professional experience, educational background, knowledge, expertise, culture, independence, age and gender. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In accordance with the board diversity policy, a truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other qualities of directors. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments will be based on merit while taking into account diversity (including gender diversity). The Nomination Committee will review the board diversity policy, as appropriate, to ensure the effectiveness of the policy. The Nomination Committee will discuss any revisions that may be required and recommend any each revisions to the Board for consideration and approval.

The Nomination Committee has adopted a set of nomination procedures under the terms of reference of the Nomination Committee for selection of candidates for directorship. The Nomination Committee evaluates candidate(s) based on the criteria by reference to the Company's business and corporate strategy and recommend desirable candidate(s) for directorship(s) to the Board, which include character, qualifications (including professional qualifications, skills, knowledge, experience and diversity of perspective that are relevant to the Company's business and corporate strategy), independence by reference to the Listing Rules (for appointment of independent non-executive Director) and Board diversity policy. The Nomination Committee will review annually the terms of reference and the effectiveness in the discharge of its duties and to make recommendation to the Board any changes it considers necessary.

During the year, the Nomination Committee met three times to review the structure, size and composition of the Board and reviewed and disclosed the board diversity policy and the nomination policy; to discuss and recommend to the Board the appointment of new Directors, re-election of the retiring Directors and to assess the independence of the independent non-executive Directors in accordance with the Listing Rules and the Articles. The Nomination Committee considered that the structure of the Board is reasonable and an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective for implementing diversity on the Board. The Nomination Committee also considered that the Directors are rich in knowledge and experience and their outstanding skills in their respective expertise can meet the development needs of the Company.

Risk Control Committee

The Risk Control Committee consists of one executive Director and two non-executive Directors, namely Mr. Su Guang, Ms. Peng Jiahong and Mr. Liu Zhiyong. Mr. Su Guang is the chairman of the Risk Control Committee.

The principal duties of the Risk Control Committee include conducting research on and making recommendations to the Board on the Group's risk management and control systems, ensuring development and maintenance of the these systems, reviewing and approving risk management policies and guidelines, undertaking an annual review of the risk management framework, monitoring the implementation of risk management measures and procedures and reviewing the effectiveness of the Group's risk management and internal control systems.

During the year, the Risk Control Committee met once to review the effectiveness of the risk management and internal control systems and the internal audit function. It has reviewed the risk management system and framework, the risk management and internal control strategy as well as the 2018 risk management work plan. These include management strategy, systems precautions, process optimization and implementation of risk management measurements. The Risk Control Committee believed that the Group's risk management and internal control systems are well-established as the Company had established appropriate risk identification, control and prevention systems in relation to different risk categories which ensure effective risk management and internal control systems of the Group. The Company should continue to strengthen its risk management and internal control systems. The Risk Control Committee also identified some possible risks faced by the Company and suggested precautionary measures to manage these risks.

Strategy Committee

The Strategy Committee currently consists of one executive Director and two non-executive Directors, namely Ms. Peng Jiahong (appointed with effect from 30 November 2018), Mr. Zhang Yichen and Ms. Liu Kun (appointed with effect from 30 November 2018). Ms. Peng Jiahong is the chairwoman of the Strategy Committee.

The principal duties of the Strategy Committee include conducting research on and making recommendations to the Board on the Group's mid-term and long-term strategies and their feasibility, conducting research and making recommendations to the Board on the Group's investment plans, major business decisions and investment earnings forecast and evaluating and monitoring the implementation of the strategy, plans and measures adopted by the Committee.

During the year, the Strategy Committee met twice to discuss the strategic and business development, market competition and work plan of the Company. The Strategy Committee believed that the Company's active development in hospital operation and management business is the correct direction which has built positive brand image, increased medical resources and sped up business expansion. The Strategy Committee also advised the Company that it should grasp opportunities and be practical during strategies implementation.

ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance records of each Director at the meetings of the Board, Audit Committee, Remuneration Committee, Nomination Committee, Risk Control Committee and Strategy Committee and at the annual general meeting held during the year are set out below:

	Attendance/Number of Meetings during the tenure of directorship						
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Risk Control Committee	Strategy Committee	2018 AGM
Peng Jiahong	9/9	N/A	N/A	N/A	1/1	0/1(4)	1/1
Yu Gang#1	3/3	N/A	N/A	N/A	N/A	N/A	0/0(4)
Zhang Yichen	9/9	N/A	N/A	3/3	N/A	2/2	0/1
Liu Kun#1	2/3	N/A	N/A	N/A	N/A	0/1(4)	0/0(4)
Liu Zhiyong	9/9	N/A	1/2(4)	N/A	1/1	N/A	1/1
Liu Xiaoping	9/9	2/2	N/A	N/A	N/A	N/A	1/1
Su Guang	9/9	N/A	N/A	N/A	1/1	N/A	0/1
Li Yinquan	9/9	2/2	N/A	N/A	N/A	N/A	1/1
Chow Siu Lui	9/9	2/2	3/3	3/3	N/A	N/A	1/1
Kong Wei	9/9	N/A	N/A	3/3	N/A	N/A	0/1
Han Demin	9/9	N/A	3/3	N/A	N/A	N/A	1/1
Jiang Xin#2	0/0(1)	N/A	0/1(1)	N/A	N/A	0/0(1)	0/0(1)
Guo Weiping#3	7/7(3)	N/A	N/A	N/A	N/A	1/1(3)	1/1(3)
Luo Xiaofang#4	5/6	N/A	0/1(2)(3)	N/A	N/A	1/1(2)(3)	0/1(2)(3)

Notes:

#1 Appointed with effect from 30 November 2018

#2 Resigned with effect from 1 March 2018

#3 Resigned with effect from 28 November 2018

#4 Appointed with effect from 1 March 2018 and resigned with effect from 28 November 2018

(1) Up to 1 March 2018

(2) Since 1 March 2018

(3) Up to 28 November 2018

(4) Since 30 November 2018

Apart from the regular Board meetings, Chairman Zhang Yichen also held a meeting with the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors during the year.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the independent auditor's report on pages 134 to 138 of this annual report.

DEED OF NON-COMPETITION OF THE CONTROLLING SHAREHOLDER

Reference is made to the non-competition undertakings given by GT-PRC in favour of the Company disclosed in the Prospectus. GT-PRC has confirmed to the Company that it has complied with the non-competition undertakings during the year. The independent non-executive Directors have conducted such review for the year, and also reviewed the relevant undertakings and are satisfied that such undertakings have been complied with.

AUDITORS' REMUNERATION

During the year ended 31 December 2018, the remuneration paid or payable to the Company's external auditor, Ernst & Young, is set out below:

Service Category	Fees Paid/ Payable RMB'000
Audit Services	2,300
Non-audit Services	1,823
Total	4,123

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board conducts a review on the internal control system of the Group on an annual basis and has the responsibility to maintain an effective internal control system in order to safeguard the Group's assets and shareholders' interests. The Board also reviews and monitors the effectiveness of the risk management and internal control systems on a regular basis to ensure that the systems in place are adequate.

Sound and improved risk management and internal control systems

The Group has comprehensive risk management and internal control systems. The internal control system of the Group fully complies with the requirements under COSO (The Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management Framework and the guidelines provided by the Hong Kong Institute of Certified Public Accountants in relation to risk management. Meanwhile, by drawing experience on benchmark firms and taking into account the actual circumstances and business characteristics of the Group, a control framework has been developed to evaluate the effectiveness and appropriateness of its internal control and risk management systems, which provides reasonable assurance in relation to operational effectiveness, reliability of its financial reports and compliance with laws and regulations.

Internal control department carrying out internal audit function

The Company has set up an internal control department and guaranteed independence in terms of its organization, staffing and work. In performing its duties, the internal control department may inspect all business and meet relevant personnel without restrictions.

Through the use of systematic and standardized audit procedures and approaches as well as regular procedures of assessment on internal control and risks, the internal control department evaluates the comprehensiveness and effectiveness of the internal control system of the Group on an ongoing basis. It reviews the risks identified, identifies potential risks in operation and makes recommendations on management improvement to ensure effective performance of the control system and foster continuous healthy development of the Group.

Features of risk management and internal control systems

The Board identifies risk appetite and level of risk based on features of the industry in which the Group operates, so as to ensure comprehensive and effective risk management and internal control systems. The management of the Company implements policies formulated by the Board in relation to risk management and internal control. The management of the Company is also responsible for identifying and evaluating risks as well as design, operation and supervision of effective risk management and internal control systems. The management assures soundness and effectiveness of systems whereas the Board supervises and holds the management accountable.

Effectiveness of the risk management and internal control systems

Taking into account the result of annual internal control evaluation and risk prioritization carried out annually, the internal control department formulates an annual plan for internal audit and discusses with the management to determine the annual plan for internal audit and deployment of resources.

During the year, the internal control department has enhanced supervision of high risk areas in operation by initiating audit work on business and mitigating operational risks. In the meantime, based on the past foundation, the internal control department has conducted its audit to include financing, "three keys and one large" issues (「三重一大」), signature, board office and IT sectors, which elevates the overall management of the Company. In order to ensure normal functioning of internal control system, the internal control department provides regular or irregular reports on audit work to the management.

To address the issues identified in an audit, the internal control department would make recommendations for rectification and request relevant departments to make commitments, specify plans and approaches for improvements and ensure implementation. The internal control department would monitor and follow up the implementation of its recommendations to ensure improvements are made.

In 2018, in accordance with the *Basic Rules for Corporate Internal Control* (《企業內部控制基本規範》) jointly promulgated by Ministry of Finance of the PRC, China Securities Regulatory Commission, National Audit Office of the PRC, China Banking Regulatory Commission and China Insurance Regulatory Commission on 28 June 2008, the internal control department requested for evaluation on internal control and reviewed the rectification work for internal control issues during internal control assessment in 2017. With emphasis on key areas of concerns and processes, the Board has a better picture of the current conditions of internal control by analyzing various internal control points relating to the business processes and unearthing defects and weaknesses of the internal control system for improvements in a timely manner. It ensures operations and management in compliance with laws and regulations as well as truthfulness and completeness of financial reports and relevant information, enhancing the efficiency and effectiveness of operation and safeguarding strategic development of the Group.

With a comprehensive internal control system, the Group has greatly enhanced its capability of risk management and control. In 2018, the Company established the Risk Prevention and Control and Compliance Committee. Its main responsibilities are to build and improve the Company's comprehensive risk management system, to manage the Company's operational risks and integrity risks as a whole, and to promote the risk prevention and control work of each working group. The office of the committee is set up in the internal control department, which is responsible for supervising the implementation of risk prevention and control work of each working group. According to the specific work division of risk management, the committee has four working groups, including comprehensive working group, financial business group, medical business group and integrity risk group, which are responsible for organizing special risk management in various fields. For each type of substantial risks, the Group has developed monitoring indicators. Related departments are responsible for identification and analysis on relevant risks to determine corresponding risk strategies based on risk tolerance. The internal control department collects information on risk management regularly, and the risks faced by each business unit and its risk management and control system capabilities are reflected to the management, so as to minimize losses and enhance the Group's capability against risks. In 2018, the probability of each type of substantial risks remained stable at a relatively low level as compared with last year, reflecting the effectiveness of the Group's risk management measures.

The Board, as assisted by the Risk Control Committee, assessed the effectiveness of the systems by reviewing the work and findings of the internal audit function. Based on the review results and findings of the management and Risk Control Committee, the Board considered the risk management and internal control systems of the Group are adequate and effective for the year.

Inside information

The Company has developed an effective monitoring system for inside information and reporting processes to ensure prompt identification and evaluation of material information and submission of the same to the Board for determining whether to disclose such information. The Company has strictly complied with the Inside Information Provisions (as defined under the Listing Rules) under the SFO and the Listing Rules. Through the implementation of *Manual on Disclosure of Inside Information and Information Necessary to Avoid a False Market* (《披露內幕消息及避免虛假市場所需消息或資料手冊》) in June 2015, all personnel involved have been aware of such requirements which ensure all market participants could obtain same information on an equal and simultaneous basis.

COMPANY SECRETARY

Ms. Cheng Pik Yuk of Tricor Services Limited, an external service provider, has been engaged by the Company as company secretary. Her primary contact person at the Company is Ms. Peng Jiahong (Vice-chairwoman, Chief Executive Officer and Chief Financial Officer).

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange respectively after each general meeting.

Right to Call a General Meeting

General meetings may be convened by the Directors on requisition of shareholder(s) of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings or by such shareholder(s) who made the requisition (as the case may be) pursuant to Sections 566 and 568 respectively of the Companies Ordinance. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening a general meeting.

Putting Forward Proposals at General Meeting

Pursuant to Section 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders; or at least 50 shareholders (as the case may be) who have a right to vote at the relevant annual general meeting, may request to circulate a resolution to be moved at an annual general meeting. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for circulating a resolution for annual general meeting. Written request can be sent by post to the Company's registered office address at Room 702, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong or by email at ir2666@genertec.cn.

Putting Forward Enquiries to the Board

Shareholders may send written enquiries or requests to the Company for putting forward any enquiries to the Board. Contact details are as follows:

Address: Room 702, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong (for the attention of the Board of Directors)
Email: ir2666@genertec.cn

Shareholders are also welcome to make enquiries via the online enquiry form available on the Company's website at www.universalmsm.com.

For the avoidance of doubt, Shareholders must lodge their questions together with their detailed contact information (including full name, contact details and identification) for prompt response from the Company if the Company deems appropriate. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/ INVESTOR RELATIONS

The Company considers that effective communication with Shareholders (both individual and institutional, and in appropriate circumstances, the investment community at large) is essential for enhancing investor relations and ensuring ready, equal and timely access to balanced and understandable information about the Company (including financial performance, strategic goals and plans, material developments and governance) by investors.

The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. Board members, in particular, the chairmen of Board committees or their delegates, appropriate management executives and external auditors will use all reasonable efforts to attend annual general meetings and to answer Shareholders' questions.

The Chairman did not attend the AGM held on 5 June 2018 due to a business trip. He will use his best endeavours to attend all future general meetings of the Company.

At the 2018 AGM, the Shareholders had passed a resolution to approve the amendments to the Articles. An up-to-date version of the Articles is available on the websites of the Stock Exchange and the Company respectively. Shareholders may refer to the Articles for further details of their rights.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board of the Group is responsible and has general powers for managing and leading the Group's business. Our Board consists of two executive Directors, five non-executive Directors and four independent non-executive Directors.

Mr. Zhang Yichen – Non-executive Director and Chairman of the Board

Mr. Zhang Yichen (張懿宸先生), aged 55, is the chairman of the Board and a non-executive Director as well as the chairman of the Nomination Committee and a member of the Strategy Committee. He is primarily responsible for leading and chairing the Board and providing advice and participating in meetings of the Board in connection with matters requiring Directors' consideration and/or approval. Mr. Zhang was appointed as a Director on 19 June 2012 and was re-designated as a non-executive Director on 6 March 2015.

Mr. Zhang is a member of the 11th and the 12th National Committee of the Chinese People's Political Consultative Conference. Mr. Zhang was the chairman of China Venture Capital and Private Equity Association and is currently an executive committee member of its board of governors. He is also the vice-chairman of Beijing Private Equity Association and Tianjin Private Equity Association, respectively, a member of the China Economic and Social Council and the vice-chairman of the Center for China & Globalisation. Mr. Zhang is also a director of Shenhua Group Corporation Limited.

Mr. Zhang joined CITIC Group in 2000 and was an executive director of CITIC Limited (formerly known as CITIC Pacific Limited, whose shares are listed on the main board of the Stock Exchange (stock code: 267)) from March 2000 to May 2002. Mr. Zhang participated in the formation of CITIC Capital Holdings Limited whose principal business activities include investment and management of private equity fund. He is the chairman and the chief executive officer of CITIC Capital Holdings Limited. Prior to joining CITIC Group, he was a managing director in the debt markets group of Merrill Lynch (Asia-Pacific) Limited from September 1996 to February 2000 and was mainly responsible for the debt markets business.

Mr. Zhang served as a non-executive director of Xiezhong International Holdings Limited ("Xiezhong International"), whose shares are listed on the Stock Exchange (stock code: 3663), from September 2011 to July 2014. Mr. Zhang also served as an independent director of Weibo Corporation, whose securities are listed on the NASDAQ Stock Market, from January 2014 to December 2015. Since May 2002, Mr. Zhang has been serving as a director of Sina Corporation, whose securities are listed on the NASDAQ Stock Market, and since June 2018, he has been serving as a non-executive director of Asiainfo Technologies, whose securities are listed on the Stock Exchange (Stock code: 1675).

Mr. Zhang was awarded a Bachelor of Science degree in Computer Science and Engineering from Massachusetts Institute of Technology, the USA in June 1986.

Ms. Peng Jiahong – Executive Director, Vice-Chairwoman of the Board, Chief Executive Officer and Chief Financial Officer

Ms. Peng Jiahong (彭佳虹女士), aged 48, is an executive Director, the vice-chairwoman of the Board, chief executive officer, chief financial officer of the Company, the chairman of the Strategy Committee and a member of the Risk Control Committee. She is primarily responsible for overall operation of the Group, planning development strategies, business and management systems of the Group and, managing healthcare business of the Group. Ms. Peng was appointed as a Director on 22 December 2014 and was re-designated as an executive Director, chief financial officer and deputy general manager on 6 March 2015, and appointed as the vice-chairwoman of the Board and chief executive officer of the Company on 30 November 2018. Ms. Peng is also a director of certain subsidiaries of the Company. Ms. Peng has several years' working experience in financial services and financial management, including 13 years in medical financing services.

Before joining the Group, Ms. Peng worked as the manager of the finance department from August 1993 to August 2006 in CNTIC and she was mainly responsible for management of financing, fund risk, budgeting and financial reports preparation.

Ms. Peng joined the Group in August 2006 as a deputy general manager of the finance department of CULC. She was then promoted to become the general manager of the finance department of CULC in September 2008. She has been the chief financial officer and the deputy general manager of CULC and the Company since December 2009 and July 2012 respectively. She was appointed as a director of CULC and the Company in December 2014 respectively.

Ms. Peng graduated from the University of International Business and Economics (對外經濟貿易大學), China with a Bachelor Degree in Professional Accounting in June 1993. She also obtained an EMBA Degree from Tsinghua University (清華大學), China in June 2012. She was qualified as a senior accountant (高級會計師) in December 2006 by the Appraisal and Approval Committee for Professional & Technical Qualification of GT-PRC.

Ms. Peng is the sole beneficial owner and sole director of Evergreen. Evergreen is a shareholder of the Company and holds about 0.44% of the total number of issued shares of the Company. By virtue of the SFO, Ms. Peng is deemed to be interested in the Shares owned by Evergreen.

EXECUTIVE DIRECTORS

Mr. Yu Gang – Executive Director

Mr. Yu Gang (俞綱先生), aged 55, is an executive Director. He is primarily responsible for work of party committee, human resources and related administrative affairs. Mr. Yu was appointed as an executive Director on 30 November 2018. Mr. Yu is also a director of certain subsidiaries of the Company.

Before joining the Group, Mr. Yu served as a lecturer in Renmin University of China from 1992 to October 1995. Mr. Yu served in Ministry of Foreign Economic Relations and Trade (currently known as Ministry of Commerce) from October 1995 to July 1998. He served as the director of the discipline inspection office of GT-PRC from July 1998 to November 2003. He served as the deputy general manager and secretary of the discipline inspection committee of China Medicine and Healthcare Products Import and Export Company (中國醫藥保健品進出口總公司), a wholly-owned subsidiary of GT-PRC, from November 2003 to April 2009. He has been serving as a vice leader of the discipline inspection group of the leading party member's group, deputy secretary of the commission for discipline and director of discipline inspection office of GT-PRC, since April 2009. Mr. Yu is also serving as a director of Genertec Investment Management Co., Ltd. (通用技術集團投資管理有限公司), a subsidiary of GT-PRC.

Mr. Yu graduated from Law School of Renmin University of China (中國人民大學) with a master's degree in law in July 1992.

OTHER NON-EXECUTIVE DIRECTORS

Ms. Liu Kun – Non-executive Director

Ms. Liu Kun (劉昆女士) (with former name Liu Bo (劉波)), aged 48, is a non-executive Director and a member of the Strategy Committee. She is primarily responsible for advising on matters that Directors' discussion and/or approval is required and participating in Board meetings. Ms. Liu was appointed as a Director of the Company with effect from 30 November 2018.

Ms. Liu is serving as a member of the twelfth executive committee of All-China Women's Federation, invited consultant of China Council for International Cooperation on Environment and Development, vice director of the management modernization committee of China Enterprise Confederation, vice chairman of Central Enterprise Think Tank Alliance, expert in both of the pools of public-private partnership experts of National Development and Reform Commission and Ministry of Finance, guest professor of China Business Executives Academy, Dalian, which is affiliated to the State-owned Assets Supervision and Administration Commission of the State Council, and guest researcher in Green Finance and Sustainable Development Research Center of University of International Business and Economics (對外經濟貿易大學). She used to be a representative of the 14th Beijing Municipal People's Congress.

Ms. Liu is serving as the general manager of the medical healthcare department of GT-PRC, the controlling shareholder of the Company. She served as the general manager and legal representative of China General Consulting & Investment Co., Limited (中國通用諮詢投資有限公司), a wholly-owned subsidiary of GT-PRC, the chairman and legal representative of General (Beijing) Investment Fund Management Company Limited (通用(北京)投資基金管理有限公司), and the chairman of the Board of China General Consulting & Investment (Hong Kong) Co., Limited (中國通用諮詢投資香港有限公司). She also served as a director and general manager of China Xinxing Group Co., Ltd. (中國新興集團有限責 任公司), a wholly-owned subsidiary of GT-PRC, and the chairman of China General Xinxing Real Estate Co., Ltd. (中國通用新興地產有限公司).

Ms. Liu obtained a bachelor's degree in foreign trade English from University of International Business and Economics in June 1991. She obtained a master's degree in political economics from Jinlin University in December 1999 and a master's degree in business administration from Oxford Brookes University of the United Kingdom in August 2004. She obtained the certificate of senior international business engineer in December 2000 and the certificate of senior economist in October 2010.

Mr. Liu Zhiyong – Non-executive Director

Mr. Liu Zhiyong (劉志勇先生), aged 48, a non-executive Director and currently the member of the Remuneration Committee and Risk Control Committee. He is primarily responsible for providing advice and participating in meetings of the Board in connection with matters requiring Directors' consideration and/or approval. Mr. Liu was appointed as a Director since 19 April 2012 and was re-designated as a non-executive Director on 6 March 2015.

Prior to joining the Group, from July 1992 to May 1998, Mr. Liu was the deputy general manager of the finance department of CNTIC, mainly responsible for finance management. Since May 1998, he has been in service with GT-HK (formerly known as CNTIC Group International Finance Limited) which is principally engaged in assets management.

Mr. Liu is currently the general manager and a director of GT-HK, a controlling shareholder of the Company and is mainly responsible for managing the general operation of that company. He was a non-executive director of Lijun International Pharmaceutical (Holdings) Co., Ltd., whose shares are listed on the main board of the Stock Exchange (stock code: 2005), from December 2004 to October 2011.

Mr. Liu was awarded a Bachelor degree in Accounting from Renmin University of China (中國人民大學) (formerly known as People's University of China), China in July 1992 and obtained an EMBA Degree from Hong Kong University of Science and Technology, Hong Kong in November 2006. He obtained a qualifying certificate from the Examination Committee of Certified Public Accountants of the Ministry of Finance in December 1994.

Mr. Liu Xiaoping – Non-executive Director

Mr. Liu Xiaoping (劉小平先生), aged 63, is a non-executive Director and a member of the Audit Committee. He is primarily responsible for providing advice and participating in meetings of the Board in connection with matters requiring Directors' consideration and/or approval. Mr. Liu was appointed as a Director on 19 June 2012 and was re-designated as non-executive Director on 6 March 2015.

Mr. Liu was a senior managing director of private equity department of CITIC Capital Holdings Limited from December 2005 to February 2017 and he was mainly responsible for leading private equity projects in China. He has been a senior consultant of CITIC Capital Holdings Limited since February 2017.

Prior to joining CITIC Capital Holdings Limited, from August 1998 to August 2002, Mr. Liu was the vice president of direct investment department of China International Capital Corporation (Hong Kong) Limited, whose principal business activities include direct investment. From March 2004 to September 2005, he served as an executive director of Alibaba Health Information Technology Limited (formerly known as CITIC 21CN Company Limited, whose shares are listed on the main board of the Stock Exchange (stock code: 241)). Mr. Liu also served as a non-executive director of Xiezhong International from September 2011 to July 2014. Mr. Liu has been a director of China National Investment and Guaranty Corporation, whose shares are listed on the National Equities Exchange And Quotations (stock code: 834777) since August 2015.

Mr. Liu graduated from Jilin University (吉林大學) (formerly known as Jilin University of Technology (吉林工業大學)), China in January 1980 and studied Mechanical Engineering. He received a Master Degree in Engineering from Beijing University of Aeronautics and Astronautics (北京航空航天大學) (formerly known as Beijing Institute of Aeronautics and Astronautics (北京航空學院)), China in April 1982 and a Doctor Degree of philosophy from the University of Minnesota, the USA in March 1990.

Mr. Su Guang – Non-executive Director

Mr. Su Guang (蘇光先生), aged 39, is a non-executive Director and the chairman of the Risk Control Committee. He is primarily responsible for providing advice and participating in meetings of the Board in connection with matters requiring Directors' consideration and/or approval. Mr. Su was appointed as a Director on 22 December 2014 and was re-designated as a non-executive Director on 6 March 2015.

Mr. Su has served as executive vice president of COSCO SHIPPING Financial Holdings Co., Limited since February 2017, and has served as director of COSCO SHIPPING Development (Hong Kong) Co., Ltd, since 30 March 2018. Mr. Su was vice president of the asset management department of the headquarters of Ping An Bank Co., Ltd. ("Ping An Bank") (whose shares are listed on the Shenzhen Stock Exchange (stock code: 000001)) from March 2016 to November 2016, and is also a vice chief representative of Ping An Bank's representative office in Hong Kong. Before that, Mr. Su was the managing director and head of cross border structured finance of ICBC International Holdings Limited, which is wholly-owned by Industrial and Commercial Bank of China Limited, a company listed on the main board of the Stock Exchange (stock code: 1398) and on the Shanghai Stock Exchange (stock code: 601398), and was mainly in charge of cross-border structured investments and financing business.

Mr. Su obtained a Master of Science Degree in Financial Analysis from the Hong Kong University of Science and Technology in June 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Yinquan– Independent Non-executive Director

Mr. Li Yinquan (李引泉先生), aged 63, was appointed as an independent non-executive Director with effect from 9 June 2015. He is also the chairman of the Audit Committee of the Company.

Mr. Li joined China Merchants Group in March 2000. He served as an executive director of China Merchants Port Holdings Company Limited (formerly known as China Merchants Holdings (International) Company Limited) (whose shares are listed on the main board of the Stock Exchange (stock code: 144)) from June 2001 to March 2015 and a non-executive director of China Merchants Bank Co., Ltd. (whose shares are listed on the main board of the Stock Exchange (stock code: 3968) and the Shanghai Stock Exchange (stock code: 600036)) from April 2001 to June 2016. He was an executive director of China Merchants China Direct Investments Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 133)) from July 2008 to April 2017. He is now a director of China Merchants Group and director of China Merchants Capital Management Co., Ltd. Prior to joining China Merchants Group, Mr. Li worked in the Agricultural Bank of China, and was the vice general manager of the Hong Kong branch before he left that bank. Mr. Li served as an independent non-executive director of Hong Kong Shanghai Alliance Holdings Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 1001)) since July 2018 and served as an independent non-executive director of Million Cities Holdings Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 2892)) since June 2018.

Mr. Li was awarded a Bachelor degree in Economics from Shaanxi Institute of Finance and Economics (陝西財經學院), China in July 1983. He was then awarded a Master Degree in Economics from the PBC School of Finance, Tsinghua University (清華大學五道口金融學院) (formerly known as Graduate School of the People's Bank of China (中國人民銀行總行金融研究所)) in July 1986. In October 1988, Mr. Li obtained a Master Degree in Banking and Finance for Development from Finafrica Institute in Milan, Italy. In August 1989, he obtained the qualification as a senior economist granted by the Appraisal and Approval Committee for Professional & Technical Qualification of the Agricultural Bank of China.

Mr. Chow Siu Lui – Independent Non-executive Director

Mr. Chow Siu Lui (鄒小磊先生), aged 58, was appointed as an independent non-executive Director with effect from 9 June 2015. He is also the chairman of the Remuneration Committee and a member of each of the Nomination Committee and the Audit Committee.

Mr. Chow has a wealth of experience in fund raising and initial public offering activities in Hong Kong and in accounting and financial areas. He is currently the partner of VMS Investment Group (HK) Ltd. and he is responsible for providing advice on issues regarding fund raising, pre-IPO group restructuring and due diligence exercises for investment projects. Prior to that, Mr. Chow was in service with KPMG Hong Kong for about 28 years and was admitted as one of its partners in 1995. He was then mainly responsible for initial public offering advisory services and assisting in fund raising activities in local and overseas Stock Exchanges.

Mr. Chow is now an independent non-executive director of Fullshare Holdings Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 607)), Futong Technology Development Holdings Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 465)) and Shanghai Dazhong Public Utilities (Group) Co., Ltd. (whose shares are listed on the main board of the Stock Exchange (stock code: 1635)), and China Everbright Greentech Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 1257)), respectively. He acted as an independent non-executive director of Kong Shum Union Property Management (Holding) Limited (whose shares are listed on GEM of the Stock Exchange (stock code: 8181)) from February 2015 to October 2015, and acted as an independent non-executive director of Sinco Pharmaceuticals Holdings Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 6833)) from September 2015 to November 2018.

Mr. Chow was awarded a Professional Diploma in Accountancy from the Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic), Hong Kong in November 1983. By profession, he became a fellow of the Association of Chartered Certified Accountants in July 1991, the ICSA and HKICS both in October 2009, and the HKICPA in December 1993.

Mr. Kong Wei – Independent Non-executive Director

Mr. Kong Wei (孔偉先生), aged 46, was appointed as an independent non-executive Director with effect from 9 June 2015. He is also a member of the Nomination Committee of the Company.

Mr. Kong has been practising Chinese laws for more than 20 years and he is now a partner of Zhong Lun Law Firm, specialising in capital markets, mergers, acquisitions and financing of companies and project financing. Mr. Kong is in charge of the capital market and corporate business of the firm's Shanghai branch.

Mr. Kong was awarded a Bachelor Degree in Law from Gansu Institute of Political Science and Law (甘肅政法學院), China in July 1993 and was admitted as a practicing lawyer by Department of Justice in Gansu Province in the same year.

Mr. Han Demin – Independent Non-executive Director

Mr. Han Demin (韓德民先生), aged 67, was appointed as an independent non-executive Director and a member of the Remuneration Committee on 13 April 2016.

Mr. Han is an academician of Chinese Academy of Engineering and expert in otolaryngology-head and neck surgery. He is now the head of otolaryngology-head and neck surgery department of Beijing Tongren Hospital, Capital Medical University and the dean of Otolaryngology School, Capital Medical University. He is also a director of Collaborating Center for Prevention of Deafness and Hearing Impairment of the World Health Organisation, president of the World Chinese Society of Otolaryngology-Head and Neck Surgery* (世界華人耳鼻咽喉頭頸外科學會), honorary chairman of Otolaryngology-Head and Neck Surgery Branch under Chinese Medical Association, chairman of the Otolaryngology-Head and Neck Surgeons Branch under Chinese Medical Doctor Association and chairman of China International Exchange and Promotive Association for Medical and Health Care and head of National Guidance Team for Prevention and Treatment of Deafness.

In 1990, Mr. Han was awarded a Doctor Degree of Medicine from China Medical University and a Doctor Degree of Medicine and a Doctor Degree of Philosophy in Medicine from Kanazawa Medical University, Japan. In 1991, he did his post-doctoral research in Beijing Institute of Otolaryngology and Otolaryngology Department of Beijing Tongren Hospital. In 1994, he was promoted to professor and doctoral supervisor of Capital Medical University. He was also a former superintendent of Beijing Tongren Hospital. Mr. Han was awarded three Second Prizes for National Science and Technology Progress Award. He also won 14 provincial prizes for science and technology achievements and granted 10 patents for practical inventions. He led 9 main projects and general projects in the 10th and 11th Five-year Plan Periods of Ministry of Science and Technology and Natural Science Foundation of China as well as 21 provincial research subjects. He has been granted a special allowance from the State Council of China since 1992 and was titled "Young and Middle-aged Expert with Remarkable Achievements" by the Ministry of Human Resources of China and the Beijing Municipal Government. In 2007, he won "He Liang & He Li" Prize for Science and Technology Progress. In 2012, he was awarded "UN South – South International Humanism Spirit Prize", the first doctor winner ever in history. In 2013, he was titled as "Beijing Scholar" and "Academician of Chinese Academy of Engineering".

* for identification purpose only

SENIOR MANAGEMENT

Mr. Yang Jingyao – Deputy General Manager

Mr. Yang Jingyao (楊景耀), aged 52, joined our Group in January 2015. He is mainly responsible for managing our medical equipment sourcing, sales and technical services and hospital supply chain business.

Mr. Yang was awarded a Bachelor Degree in Economics in July 1987 from the Guangdong University of Foreign Studies (廣東外語外貿大學) (formerly known as the Guangzhou Institute of Foreign Trade (廣州對外貿易學院)). He obtained a degree of Executive Master of Business Administration in May 2006 from the University of Texas at Arlington, the U.S..

Before Mr. Yang joined our Group, he was in service with China Meheco Co., Ltd. (中國醫藥健康產業股份有限公司 (formerly known as 中國醫藥保健品股份有限公司)) from July 1987 to December 2009. Mr. Yang's last position in that company was deputy general manager and he was mainly responsible for the management and supervision of international trade of medicine and medical products. He was the manager of General Office of GT-PRC from December 2009 to December 2014, mainly responsible for the overall coordination, internal and external promotion of that company, and communication with external parties.

Mr. Wang Wenbing – Deputy General Manager

Mr. Wang Wenbing (王文兵), aged 45, joined our Group in December 2016 and is the deputy general manager of the Group. He is mainly responsible for managing the internal risk control of the Group.

Mr. Wang was awarded a Bachelor degree in Accounting in July 1996 from the Central University of Finance and Economics (中央財經大學金融學院). He obtained a postgraduate degree in accounting from the Postgraduate Section of the Research Institute for Fiscal Science of the Ministry of Finance in September 2008. He also obtained a postgraduate degree in finance in December 2016 from School of Finance, Central University of Finance and Economics. In 2017, he was qualified as a senior accountant (高級會計師) by the Appraisal and Appraisal Committee for Professional & Technical Qualification of GT-PRC.

Before Mr. Wang joined our Group, he was in service with China National Technical Import and Export Corporation Export Corporation from July 1996 to May 2002 and his last position in that company was the chief of the finance department. He was the manager of the finance department of Genertec Europe Temax GmbH (歐洲德瑪斯公司) from May 2002 to September 2004, and the manager of the finance department of Genertec Italia S.R.L. (德瑪斯義大利有限責任公司) from September 2004 to September 2006. He was in service with the financial management department of GT-PRC from September 2006 to December 2012, serving as the manager of accounting department and the manager of capital management department successively. From December 2012 to December 2016, he was the deputy general manager of finance department of GT-PRC and the deputy managing director of Genertec Finance Co., Ltd..

Mr. Niu Shaofeng – Deputy General Manager

Mr. Niu Shaofeng, aged 42, joined the Group in February 2019 as a deputy general manager of the Group. He is mainly responsible for managing the medical leasing business of the Group.

Mr. Niu obtained a bachelor's degree in economics from School of Economics, Hebei University in June 1998, a master's degree in economics from Peking University in June 2002 and a doctoral degree in economics from Graduate Department of the People's Bank of China (now known as PBC School of Finance, Tsinghua University) in June 2013.

Before joining the Group, Mr. Niu worked in Bureau for Complete Plants of Machinery and Equipment in Hebei Province from July 1998 to August 1999. From August 2002 to September 2016, he worked in Monetary Policy Department for the Head Office of the People's Bank of China (中國人民銀行總行貨幣政策司) and Financial Market Department, and left as director of Golden Market Administration for Financial Market Department (金融市場司黃金市場管理處處長). From November 2014 to January 2016, he served his temporary positions as the dean assistant and the head of Financial Service Bureau of Central Business District Administrative Committee in Binhai New Area of Tianjin (天津市濱海新區中心商務區管委會) in a temporary. From October 2016 to August 2017, he worked in China Huarong Asset Management Co., Ltd. as the assistant general manager of its financial market department. From October 2017 to December 2017, he served as an executive director and the assistant general manager of Huarong Investment Stock Corporation Limited (02277. HK). From December 2017 to January 2018, he served as an executive director and the assistant general manager of Huarong International Financial Holdings Limited (00993. HK). From January 2018 to February 2018, he served as an executive director and deputy general manager of Huarong International Financial Holdings Limited. From March 2018 to November 2018, he was the deputy director of overseas business management headquarters (international business department) of China Huarong Asset Management Co., Ltd (中國華融資產管理公司海外業務管理總部(國際業務部)) and the executive director of Huarong International Financial Holdings Limited. From November 2018 to February 2019, he was the deputy general manager of international department of China Huarong Asset Management Co., Ltd (中國華融資產管理公司國際部).

COMPANY SECRETARY

Ms. Cheng Pik Yuk – Company Secretary

Ms. Cheng Pik Yuk (鄭碧玉), was appointed as the Company Secretary of our Company on 6 March 2015. She is mainly responsible for the provision of corporate secretarial services.

Ms. Cheng is a director of the corporate services department in Tricor Services Limited. She has over 30 years of experience in the corporate secretarial field, providing corporate secretarial services to Hong Kong listed companies and multi-national companies.

Ms. Cheng obtained a Higher Diploma in Company Secretaryship and Administration from The Hong Kong Polytechnic University (formerly known as The Hong Kong Polytechnic), Hong Kong in November 1980. She was admitted as a fellow of both the HKICS and the ICSA, both in June 1996.

DIRECTORS' REPORT

The Board is pleased to present the Directors' Report of the year 2018 together with the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL BUSINESS ACTIVITIES

The Group is a leading medical and health conglomerate in China. Our business can be divided into four major sectors, mainly hospital operation and management, medical finance, medical digitalization and medical technology services.

BUSINESS REVIEW

Part of the business review as required under Schedule 5 of the Companies Ordinance is included in the section headed "Management Discussion and Analysis" in this annual report on page 16 to 57 and the section headed "Environmental, Social and Governance Report" in this annual report on page 104 to 133, and such contents form part of this Directors' Report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 139 of this annual report.

The Board recommends the payment of a final dividend of HK$0.27 per Share in respect of the year ended 31 December 2018 to shareholders whose names appear on the register of members of the Company on 14 June 2019. The proposed final dividend will be paid on 25 June 2019, subject to approval at the 2019 AGM.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy"), which aims to set out the principles and guidelines that the Company applies to the declaration and distribution of dividends to the Shareholders. The Company may by ordinary resolution declare dividends as the Directors consider appropriate. The determination to pay dividends will be based on the Company's profits, cash flows, financial condition, capital requirements and other conditions that the Board deems relevant. No dividend shall be payable except out of the profits or other distributable reserves of the Company available for distribution. Except as otherwise provided by the Articles or the rights attached to Shares or the terms of issue thereof, all dividends shall be declared and paid according to the amounts paid up on the Shares on which the dividend is paid. The Company may pay dividends by any method that the Directors consider appropriate.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) from Friday, 31 May 2019 to Wednesday, 5 June 2019, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the 2019 AGM. In order to be eligible to attend and vote at the 2019 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Thursday, 30 May 2019; and

(ii) from Wednesday, 12 June 2019 to Friday, 14 June 2019, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining Shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 11 June 2019.

PROPERTY, PLANT AND EQUIPMENT

The movements in the Group's property, plant and equipment for the year are set out in Note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 26 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2018.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 143 to page 144 of this annual report and Note 27 to the financial statements, respectively.

As at 31 December 2018, the reserves of the Company available for distribution to Shareholders amounted to approximately RMB3,580.4 million.

DIRECTORS

During the financial year ended 31 December 2018 and up to the date of this report, our Directors were as follows:

Executive Directors
Ms. Peng Jiahong
Mr. Guo Weiping (Resigned with effect from 28 November 2018)
Mr. Yu Gang (Appointed with effect from 30 November 2018)

Non-executive Directors
Mr. Zhang Yichen
Ms. Liu Kun (Appointed with effect from 30 November 2018)
Mr. Luo Xiaofang (Resigned with effect from 28 November 2018)
Mr. Jiang Xin (Resigned with effect from 1 March 2018)
Mr. Liu Zhiyong
Mr. Liu Xiaoping
Mr. Su Guang

Independent Non-executive Directors
Mr. Li Yinquan
Mr. Chow Siu Lui
Mr. Kong Wei
Mr. Han Demin

DIRECTORS OF SUBSIDIARIES

	Name of Subsidiaries	Directors of our subsidiaries as at 31 December 2018
1	CULC	Peng Jiahong Yu Gang Wang Wenbing
2	Genertec Universal International Financial Leasing (Tianjin) Co., Ltd. (通用環球國際融資租賃(天津)有限公司)	Peng Jiahong Yang Jingyao Yu Gang
3	Universal Medical HarmoCare Technology Service (Tianjin) Co., Ltd. (通用環球醫療技術服務(天津)有限公司)	Peng Jiahong
4	Wiseman	Peng Jiahong
5	Sinosound Healthcare Technology (Tianjin) Co., Ltd. (惠民華康醫療信息技術(天津)有限公司)	Guo Weiping Qiao Guibin Peng Jiahong
6	Xi'an Ronghui	Peng Jiahong
7	Xi'an Wanheng	Peng Jiahong Yu Gang Wang Shuo Shi Bingyin Geng Jianping Ma Xinge
8	Shaanxi Huahong	Peng Jiahong Yu Gang Wang Shuo Shi Bingyin Ma Xinge

	Name of Subsidiaries	Directors of our subsidiaries as at 31 December 2018
9	Universal Number One Co., Ltd.	Peng Jiahong
10	Genertec Universal Medical Development (BVI) Co., Ltd.	Peng Jiahong
11	Universal International Financial Leasing (Hengqin) Co., Ltd. (環球醫療融資租賃(橫琴)有限公司)	Peng Jiahong Yu Gang Yang Jingyao
12	Genertec Universal Hospital Management Handan Co., Ltd. (通用環球醫院管理邯鄲有限公司)	Li Peng
13	Anhui Huankang Hospital Management Co., Ltd. (安徽環康醫院管理有限公司)	Liu Yihong
14	Genertec Universal (Xi'an) Co., Ltd. (通用環球醫療(西安)有限公司)	Peng Jiahong Du Wenzhao Wang Shuangquan Wang Shuo Zhou Haisha
15	Yantai Port Hospital Co., Ltd. (煙台海港醫院有限公司)	Peng Jiahong Yang Jingyao Guo Xiaolian Zhang Tianyu Zhang Haijun Zhao Jiandong Meng Fanxue

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management are set out on pages 74 to 83 of this annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2018, none of the Directors had a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation other than statutory compensation.

The Directors' remuneration is determined with reference to the remuneration of the comparable companies, the Directors' time contribution, duties and responsibilities and individual performance as well as the results of the Group.

Executive Directors

Each of Ms. Peng Jiahong and Mr. Guo Weiping entered into a service contract with the Company pursuant to which he/she agreed to act as an executive Director for an initial term of five years with effect from 22 December 2014. Pursuant to the resolutions in writing of the shareholders passed on 10 June 2015, the form and substance of each of the service contracts (including the duration thereof) made between Ms. Peng Jiahong/Mr. Guo Weiping and the Company were approved.

Mr. Guo Weiping resigned with effect from 28 November 2018. Mr. Yu Gang has entered into a service contract with the company as an executive Director, pursuant to which he was appointed since 30 November 2018, and he shall hold office until the conclusion of the next annual general meeting of the Company following his appointment, and shall then be eligible for re-election at that general meeting. The aggregate amount of the basic annual salaries of Ms. Peng Jiahong, Mr. Guo Weiping and Mr. Yu Gang is RMB3.3 million. In addition, each of the executive Directors is also entitled to a discretionary management bonus taking into consideration the financial performance of the Group and the relevant executive Director's individual contribution to the Group for the financial year concerned. An executive Director may not vote on any resolution of Directors regarding the amount of the management bonus payable to him/her.

Non-executive Directors and Independent Non-executive Directors

Each of the non-executive Directors, other than Mr. Luo Xiaofang and Ms. Liu Kun, has entered into a letter of appointment with the Company on 1 March 2018 to renew his service in the Company for a term of three years commencing from 6 March 2018. Mr. Luo Xiaofang resigned with effect from 28 November 2018. Ms. Liu Kun has entered into a letter of appointment with the Company, pursuant to which she was appointed as a non-executive Director since 30 November 2018, and she shall hold office until the conclusion of the next annual general meeting of the company following her appointment, and shall then be eligible for re-election at that general meeting.

Each of the independent non-executive Directors, other than Mr. Han Demin, has entered into a letter of appointment with the Company on 1 March 2018 to renew his service in the Company for a term of three years commencing from 9 June 2018. Mr. Han Demin has entered into a letter of appointment with the Company to extend his appointment as an independent non-executive Director until the conclusion of the 2019 AGM on 13 April 2019.

The non-executive Directors are not entitled to any director's fee (except Mr. Liu Xiaoping and Mr. Su Guang. Each of them is entitled to a director's fee of HK$200,000 and an allowance of HK$10,000 per annum). Each of the independent non-executive Directors is entitled to a director's fee of HK$200,000 and an allowance of HK$10,000 per annum.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers that each of the independent non-executive Directors, namely Mr. Li Yinquan, Mr. Chow Siu Lui, Mr. Kong Wei and Mr. Han Demin, is independent.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Details of the remuneration of the Directors and the senior management of the Group for the year ended 31 December 2018 are set out in Note 7 to the consolidated financial statements of the Company. The remuneration of each of the two senior management personnel fell within the band from HK$3,500,001 to HK$4,000,000. One senior management personnel fell within the band from HK$30,000,001 to HK$31,500,000.

PERMITTED INDEMNITY PROVISION

In accordance with the definition of section 469 of the Companies Ordinance, the permitted indemnity provision in relation to the director's and officer's liability insurance was in force during the financial year ended 31 December 2018 and remains in force as at the date of this report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

The Company has entered into certain continuing connected transaction framework agreements with GT-PRC, as set out in the section headed "Continuing Connected Transactions" on page 94 to page 101 of this annual report. Each of Ms. Liu Kun (appointed with effect from 30 November 2018), Mr. Luo Xiaofang (resigned with effect from 28 November 2018), Mr. Jiang Xin (resigned with effect from 1 March 2018) and Mr. Liu Zhiyong (all non-executive Directors) holds positions in GT-PRC or its close associates, but they do not hold any management position within the Company and are not involved in the daily management of the Company.

Save as disclosed above, no Director or an entity connected with a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the controlling shareholder of the Company or their respective subsidiaries was a party during the year.

COMPETING BUSINESS

The compliance of the controlling shareholder of the Company of the non-competition undertakings entered into in favour of the Company on 10 June 2015 is set out in the Corporate Governance Report.

During the year, none of the Directors or the controlling shareholder of the Company or their respective close associates are considered to be interested in businesses which compete or are likely to compete, either directly or indirectly, with our core businesses.

DISCLOSURE REQUIRED UNDER RULE 13.18 OF THE LISTING RULES

As at 31 December 2018, other than the circumstances as disclosed in the Prospectus, and the announcements of the Company dated 13 August 2015, 22 April 2016, 6 January 2017, 11 December 2017 and 4 September 2018, respectively, there were no other circumstances that give rise to a disclosure required under Rule 13.18 of the Listing Rules.

PENSION SCHEME

Details of the pension scheme of the Company are set out in the paragraph headed "Pension Obligations" in Note 2.4 to the financial statements.

SHARE OPTION SCHEMES

The Company has not adopted any share option schemes under Chapter 17 of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management or administration of the whole or any substantial part of the business of the Group was entered into or subsisted during the year.

ARRANGEMENTS FOR THE DIRECTORS TO PURCHASE SHARES OR DEBENTURES

At no time during the year were there any arrangements to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporate entity.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES

As at 31 December 2018, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares as recorded in the register of the Company required to be kept under Section 336 of the SFO:

Long Positions in the Shares and the underlying Shares of the Company:

Name of shareholder	Nature of interest	Number of Shares Interested	Approximate percentage of interest held in the Company
GT-HK *(Note)*	Beneficial owner	584,000,395	34.03%
GT-PRC *(Note)*	Interest of controlled corporation	647,478,700	37.73%
Brandes Investment Partners, L.P.	Investment manager	87,654,000	5.11%

Note:

Among the 647,478,700 Shares, 584,000,395 Shares are registered under the name of GT-HK and 63,478,305 Shares are registered under the name of China General Consulting & Investment (Hong Kong) Co., Limited ("CGCI-HK"). The entire issued share capital of GT-HK is ultimately owned by GT-PRC and the entire issued share capital of CGCI-HK is directly held by China General Consulting & Investment Co., Limited, which in turn, is wholly-owned by GT-PRC. By virtue of the SFO, GT-PRC is deemed to be interested in a total of 647,478,700 Shares held by GT-HK and CGCI-HK.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in Shares:

Name	Nature of interest	Position	Number of Shares Interested	Approximate percentage of interest held in the Company
Peng Jiahong *(Note)*	Interest of controlled corporation	Executive Director	7,617,400	0.44%

Note:

Ms. Peng Jiahong is the sole legal and beneficial owner of Evergreen which is the beneficial owner of the said 7,617,400 Shares. By virtue of the SFO, Ms. Peng is deemed to be interested in the Shares owned by Evergreen.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

PUBLIC FLOAT

Based on the information publicly available to the Company and as far as the Directors are aware as at the date of this report, at least 25% of the total issued share capital of the Company is held by the public pursuant to the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The customer base of the Group mainly consists of hospitals and other healthcare institutions, and educational and other public institutions. Customers of the Group also include medical equipment suppliers for whom the Group acts as exclusive sales agent and provides equipment in-licensing services. Suppliers of the Group primarily consist of financial institutions that provide the Group with loan facilities and other forms of financing and medical equipment suppliers.

The information of the customers and suppliers is as follows:

	Percentage of the total income (before business taxes and surcharges) for the year ended 31 December 2018
Five largest customers	6.0%
The largest customer	1.3%

	Percentage of the total cost of sales for the year ended 31 December 2018
Five largest suppliers	38.3%
The largest supplier	17.6%

As far as the Directors are aware, none of the Directors, their close associates or shareholders holding more than 5% of the issued Shares of the Company had any interest in the five largest customers or five largest suppliers of the Group.

EMPLOYEES

As at 31 December 2018, the Group has a total of 705 employees, including 633 full-time employees, 55 dispatched employees and 17 project workers. Most of employees of the Group are located in Beijing.

For the year ended 31 December 2018, the Group did not experience any strikes or significant labor disputes which materially affected the operation of the Group. The Group maintained good relationship with its employees.

CONTINUING CONNECTED TRANSACTIONS

The Group entered into certain continuing connected transactions with GT-PRC and its associates, as defined in the Listing Rules, which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for these continuing connected transactions.

The Group has complied with the pricing policy of the Group in respect of the continuing connected transactions for the year ended 31 December 2018.

GT-PRC holds approximately 37.73% of the total issued Shares through its wholly-owned subsidiaries and is the controlling shareholder of the Company. Therefore, GT-PRC and its associates constitute connected persons of the Company.

Advisory Service Purchase Framework Agreement

To renew the advisory service purchase framework agreement entered into between the Company and GT-PRC on 10 June 2015, the annual caps of which were revised on 20 November 2015, the Company entered into an advisory service purchase framework agreement ("Advisory Service Purchase Framework Agreement") with GT-PRC on 1 December 2017, pursuant to which the Company and/or its subsidiaries shall purchase advisory services from GT-PRC and/or its associates. The Advisory Service Purchase Framework Agreement commenced from 1 January 2018 until 31 December 2020 and may be renewed by mutual consent.

The Company entered into the above agreement due to that GT-PRC is a large conglomerate with extensive service networks in both domestic and international markets and it has established companies or representative offices in various countries in Europe and Americas, including Germany, Italy and the United States, which are the key areas or countries where the Company intends to carry out cooperation with internationally renowned medical industry peers. Its associates are specialized in providing various services including consultancy and tender & bidding services. Meanwhile, GT-PRC also has a large customer base and extensive sales networks in the domestic market. By leveraging the resources and experience of GT-PRC and its associates in both domestic and international markets, the Company can better develop its businesses, in particular, the hospital operation and management business.

For the three years ending 31 December 2018, 2019 and 2020, total service fees payable by the Group to GT-PRC and/or its associates are not expected to exceed RMB15.0 million, RMB25.0 million and RMB35.0 million, respectively. The above annual cap is based on the following factors: (i) the increase in the Company's operational need driven by new business initiatives in hospital operation and management, medical technical service and hospital digitalisation service businesses, which typically require expertise from outside advisors. In particular, the Company has progressed steadily in the development of hospital operation and management business. The design of the main building of International Land Port Hospital is expected to be completed by the end of the year with the construction work to be rolled out subsequently. The Company has also entered into framework agreements with a number of hospitals in various regions, where several projects are under negotiation. The Company plans to continue using the abundant network resources of GT-PRC in domestic and overseas markets to implement the planning and construction of the departments International Land Port Hospital and other hospitals that may be invested and managed by the Company and build up their technology, including the selection of designer and contractor with professional services and the strategic cooperation opportunities with professional medical organizations that may be introduced by GT-PRC and its associates. The Company also plans to leverage the project consulting experience of the specialized subsidiaries of GT-PRC to further explore potential opportunities for the Company's hospital management business; and (ii) the estimated increase in the service fees to be charged by GT-PRC due to inflation and expected cost increase. For the year ended 31 December 2018, the actual transaction amount did not exceed the annual caps under the Advisory Service Purchase Framework Agreement.

Please refer to the announcement of the Company dated 1 December 2017 relating to this transaction.

Property Lease Framework Agreement

To renew the property lease framework agreement entered into between the Company and GT-PRC on 10 June 2015, the Company entered into a property lease framework agreement ("Property Lease Framework Agreement") with GT-PRC on 1 December 2017, pursuant to which the Company and/or its subsidiaries shall lease properties from GT-PRC and/or its associates for office and warehousing purposes. The Property Lease Framework Agreement commenced from 1 January 2018 until 31 December 2020 and may be renewed by mutual consent.

The Company entered into the above agreement due to that it has been leasing certain properties from GT-PRC and/or its associates for office and warehousing purposes. Compared to independent third parties, GT-PRC and its associates (especially Genertec Real Estate Management Co., Ltd. (通用技術集團物業管理有限公司), as a professional property management company affiliated to GT-PRC) have a better understanding of the Company's requirements for office and warehousing properties. In addition, relocating the offices or warehouses of the Company to other premises will also incur unnecessary expenses.

For the three years ending 31 December 2018, 2019 and 2020, total rental payable by the Group to GT-PRC and/or its associates is not expected to exceed RMB20.0 million, RMB40.0 million and RMB45.0 million, respectively. The above annual cap is based on the following factors: (i) the total property area leased by the Group from GT-PRC and its associates as of the date of the Property Lease Framework Agreement; (ii) the unit rental stipulated in individual property lease agreements between the Group and GT-PRC or its associates, which is normally adjusted by GT-PRC and its associates on an annual basis with reference to the prevailing market conditions; and (iii) the increase in the demand for office premises as a result of the establishment of new subsidiaries and the substantial number of employees to be recruited as a result of the development of the Company's business, in particular, the hospital operation and management business. For the year ended 31 December 2018, the actual transaction amount did not exceed the annual cap under the Property Lease Framework Agreement.

Please refer to the announcement of the Company dated 1 December 2017 relating to this transaction.

Advisory Service Provision Framework Agreement

To renew the advisory service provision framework agreement entered into between the Company and GT-PRC on 10 June 2015, the Company entered into an advisory service provision framework agreement ("Advisory Service Provision Framework Agreement") with GT-PRC on 1 December 2017, pursuant to which the Company and/or its subsidiaries shall provide advisory services to GT-PRC and/or its associates. The Advisory Service Provision Framework Agreement commenced from 1 January 2018 until 31 December 2020 and may be renewed by mutual consent.

The Company entered into the above agreement due to that it is an integrated healthcare services provider offering a variety of solutions, including healthcare industry, equipment and financing advisory services, and clinical department upgrade services, all of which constitute an important part of the Company’s business scope. The Company has a large customer base in the healthcare industry and has a team comprising internal and external industry experts. In ordinary course of business of the Company, GT-PRC and its associates need to cooperate with the Company to broaden their customer base, develop new business opportunities and obtain financing and technical support.

For the three years ending 31 December 2018, 2019 and 2020, total advisory service fees payable to the Group from GT-PRC and/or its associates are not expected to exceed RMB5.0 million, RMB7.5 million and RMB10.0 million, respectively. The above annual cap is based on the following factors: (i) although the Group did not charge any advisory service fees from GT-PRC and/or its associates for the two years ended 31 December 2015 and 2016, and the eleven months ended 30 November 2017, the Company expects that in the process of the Company’s development as an integrated healthcare services provider, the service demand of GT-PRC and its associates is expected to increase with the implementation of the Company’s several hospital operation and management projects, from which the Company can gain more expertise in medical technology; (ii) with the Group’s finance lease business growing steadily, the Company expects that GT-PRC and its associates will maintain their demand for the Group’s consultation services that are ancillary to the Group’s finance lease transactions with GT-PRC and its associates in the future; (iii) the Company continues to expand its service scope pertaining to integrated healthcare solutions, which will broaden the scope of services that the Group is able to provide to GT-PRC and its associates; and (iv) the estimated increase in fee to be charged for these services due to inflation and expected cost increase. For the year ended 31 December 2018, the actual transaction amount under the Advisory Service Provision Framework Agreement did not exceed the annual cap under the Advisory Service Provision Framework Agreement.

Please refer to the announcement of the Company dated 1 December 2017 relating to this transaction.

Product Procurement Framework Agreement

To renew the product procurement framework agreement entered into between the Company and GT-PRC on 10 June 2015, the Company entered into a product procurement framework agreement (“Product Procurement Framework Agreement”) with GT-PRC on 1 December 2017, pursuant to which the Company and/or its subsidiaries shall purchase relevant products and ancillary services from GT-PRC and/or its associates. The Product Procurement Framework Agreement commenced from 1 January 2018 until 31 December 2020 and may be renewed by mutual consent.

The Company entered into the above agreement due to that GT-PRC and its associates have abundant business resources and extensive experience in integrating and introducing international advanced technology and major equipment. All import and export companies under GT-PRC are large state-owned enterprises engaged in the importation of equipment and instruments in the PRC. The Company has maintained a long-term cooperative relationship with GT-PRC and its associates. Leveraging on such cooperative relationship, the Company believes that continuing to procure products from GT-PRC and its associates is more efficient and can better satisfy the need of the Group for providing customized services to its customers. In addition, pharmaceutical and equipment manufacturing companies under GT-PRC are also leading manufacturers in their respective sectors. The Company procures products from these companies from time to time to satisfy the needs of its non-healthcare industry customers.

For the three years ending 31 December 2018, 2019 and 2020, the total amount payable by the Group for product procurement from GT-PRC and/or its associates is not expected to exceed RMB15.0 million, RMB30.0 million and RMB35.0 million, respectively. The above annual cap is based on the following factors: (i) the historical transaction amounts for the procurement of equipment and devices by the Company from GT-PRC and its associates; (ii) the development of the Group's clinical department upgrade services to help hospitals in the PRC establish, modernize and upgrade their clinical department capabilities in medical areas with high and growing demand, and the Group's supply chain business under hospital operation and management projects, all of which will in turn result in the Group's growing demand for the procurement of medical equipment and devices and medical consumables and medicine; and (iii) the expected increase in the production or trade costs of relevant products with reference to the general growth trend in healthcare industry. For the year ended 31 December 2018, the actual transaction amount under the Product Procurement Framework Agreement did not exceed the annual cap under the Product Procurement Framework Agreement.

Please refer to the announcement of the Company dated 1 December 2017 relating to this transaction.

Product Sales Framework Agreement

To renew the product sales framework agreement entered into between the Company and GT-PRC on 10 June 2015, the Company entered into a product sales framework agreement ("Product Sales Framework Agreement") with GT-PRC on 1 December 2017, pursuant to which the Company and/or its subsidiaries shall sell exclusively distributed medical devices and proprietary hospital information and management systems to GT-PRC and/or its associates. The Product Sales Framework Agreement commenced from 1 January 2018 until 31 December 2020 and may be renewed by mutual consent.

The Company entered into the above agreement due to that as of 1 December 2017, the Group is the exclusive sales agent in China for 19 medical equipment product categories covering a total of 194 medical equipment product models. The associates of GT-PRC purchase these exclusively distributed medical devices from the Group in the ordinary course of business from time to time. Since the Group owns the exclusive sales agency right for these medical devices in China, the Company expects that the associates of GT-PRC will continue to purchase these medical devices from the Group. With the development of hospital digitalization services of the Group, the Company expects that the associates of GT-PRC will also need to purchase hospital information management systems from the Group.

For the three years ending 31 December 2018, 2019 and 2020, total amount of purchases receivable by the Group from GT-PRC and/or its associates is not expected to exceed RMB5.0 million, RMB8.0 million and RMB10.0 million, respectively. The above annual cap is based on the following factors: (i) although GT-PRC and/or its associates made no purchase in the recent years, the Group expects to continue the expansion of its product portfolio and the strengthening of the Group's global medical equipment in-licensing capability, which it believes would potentially motivate the demand from GT-PRC and its associates; and (ii) the estimated increase in product price to be charged by the Group due to inflation and expected cost increase. For the year ended 31 December 2018, the actual transaction amount did not exceed the annual cap under the Product Sales Framework Agreement.

Please refer to the announcement of the Company dated 1 December 2017 relating to this transaction.

Finance Lease Framework Agreement

To renew the finance lease framework agreement entered into between the Company and GT-PRC on 10 June 2015, the Company entered into a finance lease framework agreement ("Finance Lease Framework Agreement") with GT-PRC on 1 December 2017, pursuant to which the Company and/or its subsidiaries shall provide finance lease services to GT-PRC and/or its associates. The Finance Lease Framework Agreement commenced from 1 January 2018 until 31 December 2020 and may be renewed by mutual consent.

The Company entered into the above agreement due to that the Group provides finance lease services in respect of various equipment and devices such as medical devices and machineries. Associates of GT-PRC seek finance lease services from the Group from time to time in their ordinary course of business to support their business development. Since the Group is able to provide customized finance lease service to customers, and is familiar with finance lease requirements of GT-PRC and its associates, the Company expects that GT-PRC and its associates will continue to seek finance lease services from the Group.

For the three years ending 31 December 2018, 2019 and 2020, the total amount of lease principal to be provided by the Group to GT-PRC and/or its associates is not expected to exceed RMB100.0 million, RMB150.0 million and RMB200.0 million, respectively, and the total amount of lease interest to be received is not expected to exceed RMB10.0 million, RMB15.0 million and RMB20.0 million, respectively. The above annual cap is based on the following factors: (i) the historical transaction amount of finance lease services provided by the Group to GT-PRC and its associates; (ii) the expected increasing finance lease demand from GT-PRC and its associates in diversifying business structure; and (iii) the expected changes in the Group's financing cost. For the year ended 31 December 2018, the actual transaction amount did not exceed the annual cap under the Finance Lease Framework Agreement.

Please refer to the announcement of the Company dated 1 December 2017 relating to this transaction.

Deposit and Intermediary Business Service Framework Agreement

To renew the deposit and intermediary business service framework agreement entered into between the Company and GT-PRC Finance on 29 March 2016, the Company entered into a deposit and intermediary business service framework agreement ("Deposit and Intermediary Business Service Framework Agreement") with GT-PRC Finance on 1 December 2017, pursuant to which GT-PRC Finance shall provide deposit and intermediary business services to the Group. The Deposit and Intermediary Business Service Framework Agreement commenced from 1 January 2018 until 31 December 2020 and may be renewed by mutual consent.

The Company entered into the above agreement due to that GT-PRC Finance is a non-bank financial institution approved and regulated by the PBOC and the CBRC. Its objectives are to strengthen centralized management of corporate group funds and increase utilization efficiency. The Company uses GT-PRC Finance as a fund management platform to help centralize management and more efficiently allocate funds. Since GT-PRC Finance only provides financial services to member companies of GT-PRC, it has acquired in-depth knowledge about the Company over the years and good understanding on its capital structure, business operation, capital requirements and modes of cash flows, so as to anticipate its business needs and provide customized services for the Company. Moreover, entering into the Deposit and Intermediary Business Service Framework Agreement will not prevent the Group from using financial services from independent commercial banks in China. The Group may still select at its own discretion independent commercial banks in China to act as its financial service provider as it deems fit and in the interest of the Group.

For the three years ending 31 December 2018, 2019 and 2020, the daily maximum deposit (including accrued interest) of the Group to be placed with GT-PRC Finance is not expected to exceed RMB2,200.0 million, RMB2,400.0 million and RMB2,500.0 million, respectively, and the total service fees for intermediary business services payable by the Group to GT-PRC Finance are not expected to exceed RMB1.0 million, RMB1.2 million and RMB1.5 million, respectively.

The above proposed daily maximum deposit (including accrued interest) is based on: (i) the Group's daily maximum deposits with GT-PRC Finance for the two years ended 31 December 2015 and 2016, and the eleven months ended 30 November 2017; (ii) the expected increase in cash flows from the Group's business development; (iii) the expected increase in cash flows from the Group's financing activities, including debt financing. The Company is seeking to diversify its funding source. In 2017, the Group issued domestic short-term and super short-term financing bonds with a total principal amount of RMB1,900.0 million. The Group may deposit part or all of the proceeds from the Group's diversified financing activities with GT-PRC Finance for temporary cash management; and (iv) the percentage of cash and cash equivalents in total assets of the Group in the recent three years. The above annual caps on fees for intermediary business services are based on the expected increase in demand for intermediary business service as a result of the Group's business expansion. For the year ended 31 December 2018, the actual transaction amount did not exceed the annual cap under the Deposit and Intermediary Business Service Framework Agreement.

Please refer to the announcement of the Company dated 1 December 2017 relating to this transaction.

RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, certain related parties entered into transactions with the Group which are disclosed in Note 33 "Related Party Transactions" to the consolidated financial statements of the Company. Save as disclosed in the section headed "Continuing Connected Transactions," the Board confirmed that none of these related party transactions constitutes a connected transaction or a continuing connected transaction that is subject to disclosure requirements under chapter 14A of the Listing Rules.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 14A.55 of the Listing Rules, the continuing connected transactions disclosed in the section headed "Continuing Connected Transactions" have been reviewed by the independent non-executive Directors, who confirmed that the aforesaid continuing connected transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

CONFIRMATION OF THE AUDITOR

The auditor of the Company has been engaged to report on the connected transactions of the Company disclosed in accordance Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Board has received an unqualified letter from the auditor of the Company in accordance with Rule 14A.56 of the Listing Rules containing the auditor's findings and conclusion on the aforesaid continuing connected transactions of the Group, stating that the auditor has not noticed anything that causes it to believe that any of these continuing connected transactions:

(a) has not been approved by the Board;

(b) was not, in all material respects, in accordance with the pricing policies of the Group for the connected transactions involving the provision of goods or services by the Group;

(c) was not entered into in accordance with the relevant agreements governing such continuing connected transactions in all material aspects; and

(d) has exceeded the relevant annual caps for the financial year ended 31 December 2018.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was listed on the Stock Exchange on 8 July 2015 and the over-allotment was completed on 5 August 2015. We received net proceeds (after deduction of underwriting commission and related costs and expenses) from the global offering of approximately RMB2,775.5 million. As at 31 December 2018, we have partially utilized such proceeds in accordance with the use of proceeds as disclosed in the Prospectus. Detailed information is set out under "Capital Expenditure" in the section headed "Management Discussion and Analysis" on page 46 to page 47 of this annual report.

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules. It comprises three members, including Mr. Li Yinquan (chairman), Mr. Liu Xiaoping and Mr. Chow Siu Lui, among whom, Mr. Li Yinquan and Mr. Chow Siu Lui are independent non-executive Directors (including one independent non-executive director who possesses appropriate professional qualifications or expertise in accounting or relevant financial management).

The Audit Committee has discussed with the management and reviewed this annual report and the financial results of the Group for the year ended 31 December 2018.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2018 have been audited by Ernst & Young, the auditor of the Company.

DONATIONS

During the year ended 31 December 2018, the Group made charitable donations in the amount of RMB1.0 million.

AUDITOR

The Company re-appointed Ernst & Young as the auditor of the Group in 2018. The Company has not changed the appointment of the auditor in the past 3 years. The proposal of re-appointing Ernst & Young as the auditor of the Company will be put forward at the Company's 2019 AGM for consideration and approval of the Shareholders.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2018, the Group is in compliance with the relevant laws and regulations that have a significant impact on the Group in all material respects.

THE PUBLICATION OF THE ANNUAL REPORT

This annual report, in both English and Chinese versions, is available on the Company's website at www.universalmsm.com and the website of the Stock Exchange at www.hkexnews.hk.

Shareholders who have chosen or have been deemed consent to receive the corporate communications of the Company via the Company's website, and who for any reason have difficulty in receiving or gaining access to the corporate communications posted on the Company's website will promptly upon request be sent the annual report in printed form free of charge. Shareholders may at any time change their choice of the means of receipt and language(s) of corporate communications.

Shareholders may request for printed copy of the annual report or change their choice of means of receipt and language of the corporate communications by sending at least a 7-day notice in writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or by sending an email to unimedical.ecom@computershare.com.hk.

On behalf of the Board

Peng Jiahong
Executive Director

Hong Kong
27 March 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report is the third environmental, social and governance report issued by Genertec Universal Medical Group Company Limited (hereinafter referred to as the "Company" or "Universal Medical"), which aims to report the social responsibility and the sustainability practices of the Company and its subsidiaries (hereinafter referred to as the "Group" or "We"), as well as to respond to the material issues concerned by our key stakeholders. For more information on corporate governance of the Group, please refer to the "Corporate Governance Report" section in this annual report.

REPORTING FRAMEWORK

The report is prepared by the Group in accordance with the materiality, quantitative, balance and consistency principles of Appendix 27 *Environmental, Social and Governance Reporting Guides* (the "ESG Guide") *to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* issued by the Stock Exchange of Hong Kong Limited ("SEHK"). This report complies with the "comply or explain" provisions of the ESG Guide, and correspondingly describes the environmental and social impacts of the Group's business and operational activities.

REPORTING SCOPE AND PERIOD

Organization Scope: This report covers the business locations of Universal Medical and its wholly-owned subsidiary China Universal Leasing Co., Ltd. (hereinafter referred to as "CULC") in Beijing.

Time Scope: Unless other stated, the time scope of this report is from 1 January 2018 to 31 December 2018 (hereinafter referred to as "this year")

Release Cycle: This report is expected to be published simultaneously with the annual report. The last report was released in April 2018.

CONFIRMATION AND APPROVAL

The Group's Board of Directors is responsible for formulating the ESG strategy, identifying the ESG related issues and risks with the Group's healthcare services business as well as establishing an appropriate and effective ESG risk management and internal control system through establishing the daily communication mechanism with stakeholders. This report allows us to share the social responsibility practices and achievements of the Group, and we hope that the community will give support and encourage.

READERS FEEDBACK

We attach great importance to your views on this report. If you have any inquiries or valuable comments on this report, welcome to contact us through the following ways:
Email: jianyijiandu@126.com
Tel: (+86) 010-88316840

1 PURSUING SOCIAL RESPONSIBILITY AND PROMOTING SUSTAINABLE DEVELOPMENT

As a leading health and medical conglomerate in China, we have been grasping good opportunities from China's health industry development and leveraging on its diversified healthcare resources and financial strength to provide excellent integrated healthcare services for hospitals. We are committed to shouldering responsibilities for staff, clients, shareholders and the whole society, contributing to promote human health.

1.1 Enterprise Culture

Core values: Integrity, Dedication, Efficiency and Innovation

Mission: Promoting the development of human health through quality healthcare services

Vision: Building up a world-leading health and medical group by focusing on the healthcare industry

1.2 Responsibility Philosophy

The Group always adheres to the core responsibilities as "Innovative development, service for all, and sustainable socio-economic development", and actively responds to the stakeholders' concerns. By closely following the development trend of international health industry, Universal Medical takes the responsibility to promote the development of domestic healthcare business, constantly enhance the social progress and enhance well-being of the public.

1.3 Responsible Communication

Stakeholder communication is an important step for the Group to implement its corporate social responsibility. Over the past year, we have kept in full communication with stakeholders through a variety of daily communication channels and platforms to understand their comments and expectations, and to respond in a timely manner so that we can more objectively examine the problems that need attention and resolution in sustainable development work and improve the internal management of the Group.

Step 1: Identify key stakeholders and establish a daily communication mechanism

Key Stakeholders	Material Issues	Communication Channels	Response Pattern
Shareholders/ Investors	❖ Corporate governance and operating strategies ❖ Corporate development prospects ❖ Returns on investment ❖ Timeliness and transparency of information disclosure ❖ Corporate compliance	– General meetings – Results presentations – Financial reports – Roadshows – Telephone & email consultation	– Issue notices and proposals of general meetings according to the regulations – Disclose information on schedule – Disclose announcements and release periodic reports according to regulations – Handle comments and demands
Clients	❖ Service quality ❖ Client information security ❖ The value of service	– Customer research – After-sale service and complaints – Regular visits – Suggestion and supervision emails and telephones	– Conduct customer surveys – Enhance service management – Handle complaints and other after-sale problems timely
Employees	❖ Remuneration package ❖ Training and development ❖ Working environment ❖ Corporate operation	– Labor union – Employee training – Employee activities – Staff meetings	– Establish a fair remuneration and promotion system – Organize occupational training and various activities for employees – Provide a healthy and safe working environment

Key Stakeholders	Material Issues	Communication Channels	Response Pattern
Government and regulators	❖ Pay taxes according to law ❖ Timeliness and standardization of information disclosure ❖ Corporate governance ❖ Resource conservation	– Institution investigation – Report on the work – Information disclosure	– Abide by laws and regulations strictly – True and accurate information disclosure – Legitimate operation – Routine governmental and regulatory inspection
Partners (Suppliers, Distributors, etc.)	❖ Fulfillment of contract obligations on schedule ❖ Long-term stable Cooperation ❖ Corporate reputation ❖ Corporate operating Strategies ❖ Sustainable operation ability ❖ Timeliness of information Disclosure ❖ Corporate compliance	– Trade fairs – Daily communication – Results presentations – Financial reports – Distributor conferences	– Fulfillment of contract obligations – Sustain long-term partnership with outstanding suppliers – Disclose corporate information on schedule – Disclose announcements and release periodic reports according to regulations – Create effective communication channels
Community and the public	❖ Social welfare ❖ Environmental protection ❖ Business ethics	– Community/public service activities – Suggestion and supervision emails and telephones	– Hold community service and academic exchange activities – Create communication channels for suggestion and supervision

Maintaining a good relationship with investors has always been a key work for Universal Medical. On the one hand, we can deepen understanding of investors' needs, grasp the market trends and hot issues and report to senior management for more prompt feedback to investors. On the other hand, frequent and multi-layered communications bring about more exposure to the capital market and recognition from investors. In this year, we continually strengthened the communication and interaction with investors through various channels, such as conference calls, one-on-one meetings, group meetings, press conferences/interviews, as well as investor conferences.

Universal Medical 2018 Interim Results Presentations

On 21 August 2018, Universal Medical announced its 2018 interim results to investors in Hong Kong, providing a comprehensive explanation of the Company's operational condition, financial performance, development prospects and objectives, and detailedly answers to the investors' questions on site. The atmosphere of the venue was warm.

Step 2: Verify and review material issues

Based on the ESG Guide and the material issues of peer companies, the Group evaluated and reviewed the issues concerned by Group's stakeholders, to ensure that they are in line with the sustainable development philosophy. The relevant material issues will be disclosed in subsequent chapters in this report.

In the future, the Group will deepen and extend the investigation and research on stakeholders and continue to evaluate and review the material issues concerned by stakeholders, as well as, further clarify the focal point of information disclosure.

1.4 Honor Awards

In this year, the Group seized the policy and market opportunities of the healthcare industry, pursuing the goal of being a leading medical and health conglomerate in China and continued to enrich and integrate our domestic and overseas medical resources. We also expanded the network of hospital clients and continued to advance the synergetic development of various businesses to achieve a steady improvement in business performance, a steady growth in asset size, and maintain good asset quality.

Golden H Share Prize for the Best Investor Relationship Management Listed Company

2018"Jinyi Prize"The Most Valuable H Share

Universal Medical entered the most valuable H share List of "Jinyi Prize", awarded "The Most Attractive Stock-Connect Companies for Institutional Investors", and continuously won the "Golden H Share Prize for the Best Investor Relationship Management Listed Company" and other awards. CULC was upgraded to AAA Credit Rating by two authoritative rating agencies.


信用评级结果通知书


信用等级通知书

With a good business performance, stable financial position and extensive prospects, Universal Medical has received high attention from the investment community and unanimous recognition from the industry and market.

2 ADHERING TO BUSINESS ETHICS AND ACHIEVING SINCERE COOPERATION

For enterprises, integrity is the eternal power to achieve survival and development. Over the years, Universal Medical has been committed to sound corporate citizenship and making "serving people's livelihood and boosting the development of China's healthcare industry" its mission. With an in-depth understanding of customers' need, Universal Medical keeps perfecting its service mechanism and fulfills its social and economic responsibility, making positive contributions in the field of healthcare and other public undertakings.

2.1 Integrity Management

In order to solidly promote the Group's integrity culture development, guide all staff to stick to the concept of "Integrity, Self-discipline and Honesty", the Group takes the *Guiding Opinion of Promoting the construction of Integrity Culture of Central Enterprises* as guidance, formulating the *Implementation Plan for Promoting the Construction of Universal Medical Integrity Culture*, and specifying the key work of building good style of party work and political integrity and anti-corruption. The Group also formulate the *Measures for Integrity Risk Prevention*, implementing a series of management measures for risk screening, identification, evaluation and prevention, and timely investigation and accountability for violations of discipline. At the same time, in order to promote justice and equitable business environment, the Group has opened a channel for reporting complaints, and informers can report through letters, telephone calls or emails on discipline inspection and supervision visiting platform.

In this year, we confirmed to abide by *Criminal Law of the People's Republic of China, Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues concerning the Application of Law in Criminal Cases of Embezzlement and Bribery, of the People's Republic of China, Anti-Money Laundering Law of the People's Republic of China*, and other relevant laws and regulations. We also have not received any lawsuit related to corruption and bribery.

2.2 Transparent Procurement

We fully understand that maintaining the steady development of our business is inseparable from the support and cooperation of our suppliers. We work together with our suppliers to influence each other and contribute to the environment and society. The Group's suppliers are mainly financial institutions that provide loan financing and other forms of financing and medical equipment suppliers, as well as law firms, consulting companies, auditors, and hardware or software suppliers. Given the broad scope of business both at home and abroad, when selecting suppliers, the Group will choose in accordance with local laws and regulations qualified, legitimate, well-performing suppliers which actively undertake the social and environmental responsibilities.

In order to regulate and strength the procurement management of the Group, prevent and control the procurement risk, and safeguard the interests of the Group in accordance with the law, the Group formulated *the Measures for Centralized Purchasing Management* in accordance with *Company Law of the People's Republic of China, The Bidding Law of the People's Republic of China, Regulation on the Implementation of the Bidding Law of the People's Republic of China*, combining with the actual situation of the Group. It specifies the centralized procurement principle of "transparency, fair and just", detailedly stipulates the corresponding duties of all relevant management bodies in respect of procurement process. In order to fulfill the social responsibilities and ensure the service quality, the Group regulates the cooperative suppliers shall have no record of materially violating the relevant social and environmental laws in their business activities during the recent three years, and arranges specially-assigned staff to assess and evaluate the service and quality of the suppliers annually. The environmental performance and social risks of the suppliers are reviewed and assessed in multiple dimensions. The Group hopes to encourage suppliers of theirs and their subsidiaries to fulfill the environmental and social responsibilities and minimize the relevant risk of the Group and suppliers by regulating and managing the supply chain system so as to achieve the goal of win-win cooperation. In addition, when the Group signs the purchase contracts with suppliers, it requires suppliers to sign the *Supplier Integrity Agreement* at the same time, to ensure law-abiding and honest cooperation.

2.3 High-quality Service

While pursuing innovation and development, the Group continues to improve its management mechanism to provide customers with high-quality services. We have formulated *Customer Service Management System* to regulate, optimize and specify the technical service process, improving the customer service quality and satisfaction. In this year, we have strictly abided by *Trademark Law of the People's Republic of China, Measures for the Administration of Medical Advertisements, Patent Law of the People's Republic of China, Regulation on the Implementation of the Trademark Law of the People's Republic of China,* and *Rules for Implementation of the Patent Law of the People's Republic of China*, to ensure that the use of advertising and labels of the Group would not mislead customers.

To ensure the security and confidentiality of the Group's information and data, the Group has also formulated *Measures for Central Computer Room*, regulating that the employees shall strictly supervise and inspect the security and confidentiality of the daily operational management of the central computer room in accordance with the measures. The department of central computer room management backs up substantial data and system logs regularly according to the backup requirements and inspects and maintains backup storage devices daily to ensure the functioning of the backup storage system. In this year, we didn't violate *Law of the People's Republic of China on the Protection of Consumer Rights and Interests*, and *Several Provisions on Prohibiting Infringements upon Trade Secrets* and other relevant provisions.

2.4 Industrial Development

Universal Medical, as a central state-owned medical and health conglomerate focusing on health-related industry, has been committed to promoting "Medical Internationalization" for years and connecting China's medical technology to world standards while introducing China's excellent medical technology and successful experience to the outside world.

The Stroke Sub-forum of the China-U.S. Health Forum

In October 2018, the Stroke Sub-forum was hosted by Universal Medical, bridging the bilateral exchanges on major topics in health sector between leaders and experts from China and the U.S., which was of great significance to the development of health-related industry in China and boosting the development of global health sector.

3 RECRUITING TALENTS AND CREATING DEVELOPMENT OPPORTUNITIES

The Group deeply understands the importance of talents in corporate development. By recruiting talents and proactively planning and deploying professional talent team, the Group is committed itself to developing a professional team with global insight, professional knowledge and a deep understanding of the comprehensive healthcare services industry, promoting efficient and orderly operation of the Group's business and creating sustained and stable economic benefits.

3.1 Employee Rights

The Group is committed to protecting the rights of employees and attaches importance to the needs of employees to create an inclusive, equal and collaborative working environment with mutual trust for employees.

Recruitment and dismissal

The Group enters into legal and valid labor contracts with employees in compliance with *Labor Law of the People's Republic of China* (hereinafter referred to as the "*Labor Law*"), *Labor Contract Law of the People's Republic of China* (hereinafter referred to as the "*Labor Contract Law*"), *Law of the People's Republic of China on the Protection of Minors* and other relevant laws and regulations and subject to the principle of equality, voluntariness and negotiations for consensus. Universal Medical has also formulated an internal system, including *Administrative Measures for Labor Contract, Administrative Measures for Employee Recruitment, Administrative Measures for College Graduates Reception and Operation Manual for Positions Recruited* (hereinafter referred to as the "*Recruitment Manual*"). We strictly comply with the relevant requirements in staff recruitment. The Group strictly conforms to standard procedures in plan formulation, recruitment standard setting, interviews, written tests, appointments, probation feedback and assessment, assuring procedural justice and rigorous management. All candidates are recruited on a fair and stringent basis. To avoid the selection of minors under 16 years of age by mistake, the Group requires all new employees to provide actual and valid identity documents, registers of families and the certificate of social security payment for verification. Any candidate providing false information will not be hired. The Group formulated *Regulations on Separating Employee Management* based on *Labor Law* and *Labor Dispute Mediation and Arbitration Law of the People's Republic of China*, to safeguard employees' legitimate rights, secure the safety of corporate information and files, standardize check-out procedures and reduce labor disputes in the event of contract termination and employee dismissal. The regulation standardizes procedures on different types of leaving and protection measures for involved parties. In this year, the relevant system operated smoothly, and no violation of relevant national laws or regulations was reported.

Remuneration package

We place great emphasis on and secure the legitimate rights of employees, and strictly comply with Labor Law and relevant local laws and regulations in determining wages of employees. In this year, the salaries payment and other operations of the Group complied with the requirements of systems and procedures. In addition, the Group pays social insurances and housing provident fund for all types of employees in strict compliance with *Labor Contract Law, Payment of Wages Tentative Provisions, Regulations on Management of Housing Provident Fund, Regulations of Paid Annual Leave of Employees* and relevant laws and regulations. Apart from statutory benefits, we continue to implement middle and long term plans for talent incentive mechanism, improve supplementary pension insurance scheme for employees, and implement corporate annuity and additional medical insurance scheme for staff.

Working hours and leave

The Group formulates *Administrative Measures for Employees Attendance, Administrative Measures on Paid Annual Leave of the Employees and Administrative Measures on Working Overtime* in compliance with *Labor Law*, *Regulations of Paid Annual Leave of Employees* and relevant local requirements and taking into account practical situation, to make sure rights and responsibilities are clearly stated and employees' lawful rights of rest and annual leave are safeguarded.

Diversity, equal opportunity and anti-discrimination

The Group's business covers all over the country, and we not only introduce talents from a variety of places and nationalities of China, but also encourage internal exchange and communication to foster cultural diversity and cohesion within the Group. The Group takes pride in its well-structured workforce with a balanced proportion of different sectors and posts. To fully undertake its social responsibility, the Group creates jobs open to public equally and offers opportunities for veterans. In this year, there was no case of discrimination identified within the Group.

3.2 Growing Together

We always pay attention to the career development and personal growth of our employees and adhere to the principle of "People-oriented and Talents Come First", to provide employees with a stage to show their talents. The Group has established a relatively complete training system for employees of different levels and types, including face-to-face lectures, quality development, and E-learning online platform, thereby boosting employees' growth and assisting them in working out short, medium and long-term targets and directions by focusing on the job career planning and talent pool management of employees.

In order to strengthen the education and training management of employees, enhance the leadership standard, managerial capacity and professional skills of leaders of all levels, and improve the working capabilities, skills and comprehensive quality of employees, the Group has formulated humanized policies and systems, respected employees' values and built a mature career development pathway by establishing an open, equal, competitive and merit-based employee development mechanism to provide organizational and institutional guarantee for the rapid growth of talents at all levels and the improvement of the quality of all employees. According to the "*Measures for Employee Training*" (hereinafter referred to as the "Measures on Training"), the organization and management responsibilities of different training categories and training objects are regulated in detail, and the discipline requirements for training activities are set out for participants.

Efficient and High-quality Special Training Activities

In order to enhance the talent pool for the Group, and to cultivate advanced talents for the development of healthcare medical service, the Group has developed a various levels of employee training on, among others, business capability and management skills. At the same time, to further promote the implementation of the strategy of the healthcare industry, continue to improve the staff's professional ability in hospital operation and management, we invited industrial experts to give dedicated trainings on hospital operation management.

In addition, the Group attaches great importance to attracting talents, by providing the young generation a platform to show their talent and achieve self-value. In this year, the Group completed 1 session of orientation training for graduates and 4 sessions for new employees from social recruitment.

Key Employees Training

General Skills Training

Technical Skills Training

New Employees Orientation Training

In this year, we strengthened the training intensity in management strategy, general skills, professional skills, and party member education. Based on the past diversified training activities and combined with the business need of this year, we launched efficient and high-quality special training courses, which were recognized with positive feedback by employees. The actual number of employees trained, and average hours of training are shown below:

Types of Employees		Percentage of Employees Trained	Average Hours of Training Received per employee
Gender	**Male**	75.13%	51 hours
	Female	77.95%	33 hours
Category	**Senior**	100%	133 hours
	Middle	87.10%	135 hours
	Junior	75.37%	33 hours

3.3 Caring for Employees

We attach great importance to humanitarian concern and stick to the philosophy of "Happy Work, Healthy Work". We care for our staff's physical and mental health and strive to provide staff with comprehensive welfare benefit programs. Based on the statutory welfare benefits, the Group established a welfare benefit system with multiple dimensions and levels, covering supplementary medical insurance, supplementary pension, personal accident insurance, diversified group insurance, health checks and health lectures, to ease the physical and mental pressure of staff, alleviate their concerns, and enhance their sense of belongings and happiness. In this year, there was no case of work-related injury or fatalities occurred.

Colorful Staff Club Activities

To further enrich the recreational and sports activities for employees in spare time and strengthen cultural exchange and integration, the Group organized and carried out a variety of community activities based on employees' interests, such as table tennis competition, basketball team, and dancing team and so on.

In August 2018, Universal Medical established an 8-member table tennis team to represent the Company to participate in the "China General Technology Group 5th Staff Table Tennis Competition". The excellent performance of the team members showed the good spirit of the Company.

In this year, the basketball team members actively organized basketball training activities, and constantly improved the sports skills and physical fitness, and enhanced friendship through mutual learning with external basketball enthusiasts.

We received enthusiastic support from all staff at the beginning of the establishment of the dancing team. Team members actively organized dancing training after work, which not only improved their physical fitness but also enhanced the cohesion among colleagues.

Medical First Aid Training Seminar

In order to care for the health and safety of the staff, make them have medical knowledge of self-rescue and mutual rescue, and improve the first aid skills, Universal Medical organized first aid training activities for employees to enhance their sense of self-protection, and improve their ability to deal with emergencies on the scene.

Fire Safety Seminar and Safety Hazards Inspection

In order to further enhance the safety awareness of all employees, the Company invited Beijing Public Security Bureau to give fire-fighting and safety training lectures, and organized safety hazards inspection to ensure the safety of employees.

International Women's Day Activity

Each year on International Women's Day, Universal Medical organizes welfare activities for female employees. In this year, we took "Pretty Women Festival" as the theme and invited handcrafting instructors to explain the manual tutorial personally. This activity received a warm response from participants.

4 FULFILLING THE ENVIRONMENTAL PROTECTION RESPONSIBILITY AND PROMOTING THE GREEN DEVELOPMENT

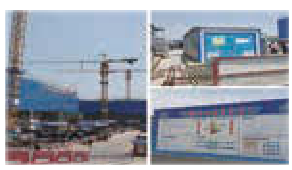
Environmental protection is an important pillar for the sustainable development of enterprises and society. However, as the main business premises of the Group are offices, there is no significant impact on the environment and natural resources in our daily operation. We are committed to enhancing employee's awareness of energy conservation and emission reduction, cultivating their green living lifestyle, and striving to create a good atmosphere for energy savings and emissions reduction, so as to contribute to the protection of the earth's ecology. In this year, we have strived to implement the green development concept, carried out many publicity and education activities on energy savings, effectively promoted the energy savings and emission reduction, and boosted green development.

4.1 Promotion on Environmental Protection

In response to the *Notice on 2018 National Energy Conservation Publicity Week and National Low-Carbon Day Activities* jointly issued by National Development and Reform Commission, State-owned Assets Supervision and Administration Commission of the State Council and other 14 departments, the Group formulated *Building A Beautiful China and Promoting Green Development – Proposal for Calling on All Employees in Energy Saving and Emission Reduction*, and in accordance with the *Notice on 2018 Implementing Energy Saving Publicity Activities*, organized energy saving publicity week activities to call on all employees to shape the consciousness of "Saving Energy is Everyone's Responsibility", reduce the uncivilized behavior of energy wasting.

In this year, we organized several environmental protection publicity activities with rich content and various forms, which effectively promoted and implemented the work of energy savings and emission reduction.

Broadcasting a Short Publicity Video on Energy Savings and Emission Reduction



Visiting the Green Building Construction

Employees actively join the discussion through WeChat Platform

4.2 Green Management

We attach importance to resource conservation and environmental protection. In this year, the Group's business and management were in compliance with the requirements of *Environmental Protection Law of the People's Republic of China* and our project constructions were implemented under the laws and regulations such as the *Law of the People's Republic of China on Environmental Impact Assessment, Energy Conservation Law of the People's Republic of China* and *Regulation on Environmental Impact Assessment of Planning*, as well as relevant local environmental protection requirements.

The Group advocates a moderate energy saving, low-carbon, civilized and healthy lifestyle. The following are the implementation details:

4.2.1 Rational use of electricity

We have made corresponding regulations on office electricity consumption and other aspects, including:

- ❖ Use energy-saving appliances and lamps as much as possible. Make full use of natural light in venues such as offices and meeting rooms and do not turn on the lights when it is bright enough for the room. Also, we strictly follow the discipline of "Turning Off the Lights When People Leave" and eliminate behaviors of "Turning On the Lights All the Time" and "Turing On the Lights During Daytime" and other wasting behaviors.

- ❖ Only start computers, printers, fax machines, and photocopiers and other equipment when we use them or set them up in the automatic energy-saving mode, in order to reduce the time of standby or prevent them from being in standby mode for a long time. After working hours, we shut down the power of all kinds of electric appliances.

- ❖ Set reasonable temperature for air-conditioners. Set the indoor temperature of air-conditioners at not lower than 26 degrees centigrade during summer and not higher than 20 degrees centigrade during winter. Make sure that the air-conditioner remains turn-off when no one is around; the windows and doors are shut when the air-conditioner is on. Advocate to reduce the running time of air-conditioners by one hour each day. The fan coil, filter and other devices of air-conditioner systems were cleaned regularly in order to improve the energy efficiency.

4.2.2 Water conservation

The Group's daily water mainly comes from the municipal water supply network, so there is no difficulty in obtaining water. We advocate and encourage employees to save water during daily work. The main measures are as follows:

- ❖ Enhance the awareness of water conservation. If the water equipment in offices is found evaporating, emitting, dripping, leaking or flowing for a long time, the staff should timely contact the property management for maintenance.

- ❖ Develop good habits of water use and control water usage during daily washing. Do not wash vehicles with high-pressure clean water. Learning to recycle water and reduce water consumption while meeting basic needs.

4.2.3 Green office

The Group formulates and implements the following policies relating to green office:

- ❖ Regulate equipment, procurement and use of office supplies and try to choose environmentally friendly, good-quality suppliers with low-energy consumption.

- ❖ Try to implement a paperless office. Drafting, revising and circulating documents and materials should be done through office software, e-mail and other means, in order to prevent printing out papers and using faxes as much as possible. For the issuance of documents and materials, we strictly limit the number of copies issued to avoid overprinting and promote double-sided printing.

- ❖ Lower the brightness of monitors without affecting the sense of sight and turn off the monitor when leaving for a long time.

- ❖ Encourage staff to recycle waste paper and other recyclable materials; waste electrical appliances, batteries, and ink cartridges will be safely and properly recycled by the qualified third party.

4.2.4 Low-carbon travels

We strictly implement *Measures on Driver and Vehicle Management* to scientifically manage the Group's vehicles, reduce the fuel consumption and save resources, including:

- ❖ For a short distance of commute and trip, we travel on foot, by bicycle or public transport such as subway and bus as much as possible. For going out by car, we should plan the route in advance and reduce the frequency as much as possible. When driving cars, we should avoid cold start, reduce the duration of idle speed and avoid sudden acceleration as much as possible. For manual gear vehicles, we should choose the right gear and avoid fast driving in low gear. We should use lubricating oil with the lowest viscosity and regularly replaces oil and check tire pressure.

❖ We advocate that we should choose a day without driving for each week. When purchasing new vehicles, we suggest choosing cars or new energy vehicles with low price, low fuel consumption and few pollution.

4.3 Environmental Performance

The Group manages to achieve a balance between business development and environmental protection and calls on all employees to enhance the awareness of energy saving and emission reduction, establishes the idea of diligence and thrift, and gradually forms a low-carbon and environmentally friendly working atmosphere. In this year, we collected the environmental data on the emissions and resource usage at office premises of the Group (located in Zhongyi Building and Sichuan Building).

4.3.1 Emission management

With the emergence of global warming, glacier melting, sea level rise, and other issues, climate change has become a global problem faced by all mankind. The Chinese government takes addressing climate change as an inherent requirement for its sustainable development and a responsibility to build a community of shared future for mankind, and always actively participates in international cooperation on climate change. We also pay attention to global warming and other climate issues, and actively respond to *13th Five-Year Plan for Controlling Greenhouse Gas Emissions*, implementing energy saving and emission reduction work.

The greenhouse gas emissions in various scopes of the Group mainly come from fuel oil used by office vehicles (Scope 1) and indirect emissions caused by purchased electricity (Scope 2).

Greenhouse gas	Emission amount in 2018	Emission density in 2018	Emission density in 2017
Carbon dioxide (CO_2) emission (Scope 1)[1]	15.62 tons	0.02 tons per person	0.04 tons per person
Carbon dioxide (CO_2) emission (Scope 2)[2]	485.22 tons	0.76 tons per person	0.83 tons per person
Total carbon dioxide (CO_2) emission equivalent	500.84 tons	0.78 tons per person	0.87 tons per person

1 The calculation method of the greenhouse gas emissions (Scope 1) is referring to the *Guidelines for accounting and reporting of greenhouse gas emissions from land-based transportation enterprises (Trial)* issued by Ministry of Environmental protection of the People’s Republic of China.

2 The calculation method of the greenhouse gas emissions (Scope 2) is referring to *2011- 2012 Average CO2 Emission Factors of China’s Sub-national Grids* issued by National Development and Reform Commission.

In this year, air pollutants mainly came from exhaust emissions of office vehicles by the Group. We complied with *Atmospheric Pollution Prevention and Control Law of the People's Republic of China*, strictly requiring drivers to comply with official vehicle policy, controlled the vehicle establishment and equipment standard for rational use of official vehicles, and reduce the individual use of vehicles. Under the influence of a series of measures, such as reducing the damage of vehicle parts and reducing vehicle fuel consumption, the air pollutants emissions of this year are significantly lower than those of 2017.

Air pollutants[3]	The amount generated in 2018	The density generated in 2018	The density generated in 2017
Nitrogen oxide (NOx)	2,004.86 grams	3.13 grams per person	93 grams per person
Sulfur oxide (SOx)	101.44 grams	0.16 grams per person	0.20 grams per person
Carbon monoxide (CO)	36,190.68 grams	56.55 grams per person	1,440 grams per person
Particulates ($PM_{2.5}$)	191.03 grams	0.30 grams per person	7.69 grams per person
Particulates (PM_{10})	199.54 grams	0.31 grams per person	8.30 grams per person

3 The calculation method of the air pollutants emission is referring to *National Emission Inventory Guidebook for On-road Vehicles (Trial)* by Ministry of Environmental protection of the People's Republic of China

The main non-hazardous waste generated during our daily operation is office paper. In order to protect the privacy of customers, the waste paper must be shredded before recycling. The major hazardous waste mainly includes waste lamp, waste ink cartridges and waste batteries, which are regularly recycled and properly disposed of by third parties.

Solid waste	The amount generated in 2018	The density generated in 2018	The density generated in 2017
Non-hazardous waste			
Paper	29.72 tons	0.05 tons per person	0.04 tons per person
Hazardous waste			
Waste lamp	121	0.19 per person	0.23 per person
Waste ink cartridges	578	0.90 per person	0.78 per person
Waste batteries	1,596 kilograms	2.49 kilograms per person	/

4.3.2 Resource usage

In this year, our resources usage mainly included water, electricity, gasoline for office vehicles and office paper.

Resources usage	Consumption in 2018	Per capita consumption in 2018	Per capita consumption in 2017
Total water consumption	7,485.80 tons	11.70 tons per person	9.76 tons per person
Total electricity consumption[4]	548,701 degrees	857.34 degrees per person	935.87 degrees per person
Gasoline consumption	6,785.05 liters	10.60 liters per person	13.70 liters per person
Office paper	99 tons	0.15 tons per person	0.13 tons per person

4 As the Group does not have independent water and electricity meters in the office premises of Beijing Zhongyi Building, the water consumption and electricity consumption listed in the above table are estimated values. The specific calculation method is as follow:

$$\text{Water and Electricity Consumption of the Group} = \text{The Total Average Electricity Consumption or Water Consumption of the Building} \times \frac{\text{(Area of the Office Premises of the Group)}}{\text{(The Total Floor Area of the Building)}}$$

5 FOCUSING ON HEALTHCARE SERVICE AND GIVING BACK TO SOCIETY ACTIVELY

Adhering to the responsibility of a central enterprise, Universal Medical has been proactively implementing national policies for years and continues fulfilling the mission of central enterprises and, through our unremitting efforts, giving back to the society while creating economic benefits. We keep pace with the academic frontier, give a full play to the advantage of abundant and international medical resources, and carry out the cooperation and communication actively, sharing the fruits of development and continuing improving the capabilities to provide medical services. We are committed to benefiting patients, promoting the harmonious development of enterprises and society, and contributing to national healthcare development.

Ten years of Efforts in Prevention and Treatment of CVA

CVA, also known as cerebrovascular accident, has become the number one cause of death in China, due to its high incidence, high disability rate, and high mortality rate, high recurrence rate and high economic burden. Diagnosis, prevention, and treatment of CVA have already been a significant national health intervention project.

Prevention and treatment of CVA is one of the most important medical services of Universal Medical. Since 2010. Universal Medical has cooperated with several Chinese hospitals in CVA projects, covering 23 cities with many benchmarking bases up to now. Prevention and treatment of CVA has been supported by all social sectors as a long-term systematic project for people's well-being. The initiative of "CVA Project Cooperation among Chinese Primary Hospitals" provides support in technology, management, training, equipment and fundings for prevention and treatment of CVA in local hospitals, enhance managerial expertise and optimize multi-discipline cooperation model, which plays a significant part in the development of CVA prevention and treatment in China.

Universal Medical Launched the CVA Project with Yantai Port Hospital

In March 2018, in order to further integrate the healthcare resources, strengthen specialized hospital development and promote the regional medical service quality, Universal Medical and Yantai Port Hospital jointly initiated the "CVA Project", and planned to build a professional demonstration base integrating treatment and rehabilitation in accordance with standards of the CVA center in state-level.

Universal Medical Initiated Baihe CVA Center Construction Project in Shaanxi

In June 2018, Universal Medical initiated the "CVA Center Project" in Baihe People's Hospital in Shaanxi Province. The Baihe CVA Center Project will provide a series of comprehensive and systematic training to assist Baihe People's Hospital to improve the healthcare resources allocation and standardize the medical treatment of acute cerebrovascular disease.

Universal Medical Helped Ankang Central Hospital Become A National Advanced CVA Center

In November 2018, the cooperative hospital of Universal Medical under the prevention and treatment pilot plan, Ankang Central Hospital, was titled as "National Advanced CVA Center". Ankang Central Hospital entered into a formal CVA project cooperation agreement with Universal Medical in late 2016. Through systematically training and in-depth promotion, and two years' joint efforts with our Group, Ankang Central Hospital finally became a national-level CVA center.

Healthcare Informatization Construction

Universal Medical is devoted to researching and developing integrated healthcare digitalization solutions with advanced standard and helping hospital customers in resources distribution, service quality and potentials exploring, so as to ensure healthcare security effectively and provide assistance to deepen China's healthcare reform. In this year, "Application of Online Diagnosis and Treatment System in Health Alliance" developed by the healthcare informatization team of the Group won the third prize in 2018 Smart Healthcare Innovation Competition co-sponsored by Mobile Medical Education Ministry-China Mobile Joint Laboratory (移動醫療教育部一中國移動聯合實驗室).

Universal Medical launched an Online Diagnosis Treatment Platform Project with Heilongjiang Baoqing People's Hospital

In October 2018, Universal Medical officially launched an online diagnosis treatment platform project with Heilongjiang Baoqing People's Hospital. This cooperation project would fully play a supporting role of informatization in healthcare, achieving deep integration of internet and medical care and providing an effective communicating channel for patients, doctors, and hospitals. Through this diagnosis treatment platform, doctors are connected with the public, saving the cost of medical treatment and providing more quality and effective medical service to local people.

Fixed-point Poverty Alleviation

Universal Medical Went to Shangdu Inner Mongolia to Carry out the Fixed-point Poverty Alleviation

From 11 to 12 December 2018, in order to implement the determined deployment of Party Central Committee on poverty alleviation, Mr. Yang Jingyao, the deputy general manager of Universal Medical, led a team of 7 people to Shangdu county, Inner Mongolia, with which we are paired to research on medical related projects. During this fixed-point poverty alleviation project, we donated RMB1 million in total.

Universal Medical based on its own business characteristics and superior resources, adapted to local conditions and proactively promoted the implementation of targetted poverty alleviation, benefiting the local people and contributing to poverty alleviation in Shangdu county.

The Group actively fulfills its social responsibilities as an enterprise and cares for the vulnerable group. Through tree-planting, donation to education, poverty alleviation, helping people suffering from disasters and voluntary services, Universal Medical promotes harmonious development of enterprise and society.

APPENDIX 27: CONTENT INDEX OF "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE"

Items		Descriptions	Reference Chapters/Remarks
A. Environmental			
Aspect A1: Emissions			
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Green Management
Comply or Explain	**A1.1**	The types of emissions and respective emissions data	Environmental Performance
	A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	Environmental Performance
	A1.3	Total hazardous waste produced and, where appropriate, intensity	Environmental Performance
	A1.4	Total non-hazardous waste produced and, where appropriate, intensity	Environmental Performance
	A1.5	Description of measures to mitigate emissions and results achieved	Environmental Performance
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Green Management/ Environmental Performance

Items		Descriptions	Reference Chapters/Remarks
Aspect A2: Use of Resources			
General Disclosure		Policies on the efficient use of resources	Green Management
Comply or Explain	**A2.1**	Direct and/or indirect energy consumption by type in total and intensity	Environmental Performance
	A2.2	Water consumption in total and intensity	Environmental Performance
	A2.3	Description of energy use efficiency initiatives and results achieved	Environmental Performance
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Green Management
	A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	Not Applicable
Aspect A3: Environmental and Natural Resources			
General Disclosure		Policies on minimizing the issuer's significant impact on the environment and natural resources	Green Management
Comply or Explain	**A3.1**	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Promotion on Environmental Protection/Green Management

Items		Descriptions	Reference Chapters/Remarks
B. Social			
Aspect B1: Employment			
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Employee Rights
Recommended Disclosures	**B1.1**	Total workforce by gender, employment type, age group and geographical region	Disclosure Will be Considered in the Future
	B1.2	Employee turnover rate by gender, age group, and geographical region	Disclosure Will be Considered in the Future
Aspect B2: Health and Safety			
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Caring for Employees
Recommended Disclosures	**B2.1**	Number and rate of work-related fatalities	Caring for Employees
	B2.2	Lost days due to work injury	Caring for Employees
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Caring for Employees

<table>
<tr><th colspan="2">Items</th><th>Descriptions</th><th>Reference Chapters/Remarks</th></tr>
<tr><td colspan="4">Aspect B3: Development and Training</td></tr>
<tr><td colspan="2">General Disclosure</td><td>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities</td><td>Growing Together</td></tr>
<tr><td rowspan="2">Recommended Disclosures</td><td>B3.1</td><td>The percentage of employees trained by gender and employee category (e.g. senior management, middle management)</td><td>Growing Together</td></tr>
<tr><td>B3.2</td><td>The average training hours completed per employee by gender and employee category</td><td>Growing Together</td></tr>
<tr><td colspan="4">Aspect B4: Labor Standards</td></tr>
<tr><td colspan="2">General Disclosure</td><td>Information on:
(a) the policies; and
(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor</td><td>Employee Rights</td></tr>
<tr><td rowspan="2">Recommended Disclosures</td><td>B4.1</td><td>Description of measures to review employment practices to avoid the child and forced labor</td><td>Employee Rights</td></tr>
<tr><td>B4.2</td><td>Description of steps taken to eliminate such practices when discovered</td><td>Employee Rights</td></tr>
<tr><td colspan="4">Aspect B5: Supply Chain Management</td></tr>
<tr><td colspan="2">General Disclosure</td><td>Policies on managing environmental and social risks of the supply chain</td><td>Transparent Procurement</td></tr>
<tr><td rowspan="2">Recommended Disclosures</td><td>B5.1</td><td>Number of Suppliers by geographical region</td><td>Disclosure Will be Considered in the Future</td></tr>
<tr><td>B5.2</td><td>Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored</td><td>Transparent Procurement</td></tr>
</table>

Items		Descriptions	Reference Chapters/Remarks
Aspect B6: Product Responsibility			
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	High-quality Service
Recommended Disclosures	**B6.1**	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not Applicable
	B6.2	Number of products and service related complaints received and how they are dealt with	Disclosure Will be Considered in the Future
	B6.3	Description of practices relating to observing and protecting intellectual property rights	Disclosure Will be Considered in the Future
	B6.4	Description of quality assurance process and recall procedures	Disclosure Will be Considered in the Future
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	High-quality Service
Aspect B7: Anti-corruption			
General Disclosure		Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Integrity Management
Recommended Disclosures	**B7.1**	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Integrity Management
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Integrity Management

Items		Descriptions	Reference Chapters/Remarks
Aspect B8: Community Investment			
General Disclosure		Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Focusing on Healthcare Service And Giving Back to The Society Actively
Recommended Disclosures	**B8.1**	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Focusing on Healthcare Service And Giving Back to The Society Actively
	B8.2	Resources contributed (e.g. money or time) to the focus area	Disclosure Will be Considered in the Future

INDEPENDENT AUDITOR'S REPORT

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To the members of Genertec Universal Medical Group Company Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Genertec Universal Medical Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 139 to 256, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Allowance for impairment of lease receivables	
Lease receivables comprised 92% of the Group's total assets as of 31 December 2018. The allowance for impairment of lease receivables is considered to be a matter of most significance as it requires the application of judgement and use of subjective assumptions by management. The Group has applied the simplified approach to the provision of expected credit losses, which permitted the use of the lifetime expected loss provision for lease receivables. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The related disclosures are included in notes 3, 18(c) and 38 to the consolidated financial statements.	We understood and tested the key controls over the approval and recording of lease receivables, and impairment assessment. We adopted a risk-based sampling approach in our tests of the allowance for impairment of lease receivables. We selected samples of lease receivables considering the sizes, risk factors, industry trends for our tests to assess the risk grading and measurement of impairment. We assessed management's forecast of future repayments and current financial conditions of the lessees in relation to non-performance assets, based on historical experience, value of collateral and observable external data. We also involved our specialists to assist us in evaluating the methodologies, inputs and assumptions used by the Group in the calculation of the expected credit losses. We assessed the adequacy of the disclosures about the allowance for impairment of lease receivables included in the consolidated financial statements.
Recognition of deferred tax assets	
As at 31 December 2018, the net deferred tax assets recognised in the consolidated statement of financial position amounted to RMB248,471,000. The deferred tax assets were recognised based on management's estimation of future taxable profits that would be available to utilise the deferred tax assets. The process of estimating the availability of future taxable profits was complex, and involved estimates and significant judgements involving forecasts of future actual operations, tax regulations, as well as market and economic conditions. The related disclosures are included in notes 3 and 24 to the consolidated financial statements.	We evaluated and tested management's assessment on future available taxable profits by checking the Group's business plans, profit forecasts and historical financial and tax information. We checked the relevant disclosures of deferred tax assets in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are 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 the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated 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 our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs 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 consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 our 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 the directors.

- Conclude on the appropriateness of the directors' 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 consolidated financial statements, including the disclosures, and whether the consolidated 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. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we 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 our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Ng Chi Keung.

Ernst & Young
Certified Public Accountants
Hong Kong
27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**4,296,866**	3,418,829
Cost of sales		**(1,705,442)**	(1,244,640)
Gross profit		**2,591,424**	2,174,189
Other income and gains	5	**150,740**	60,810
Selling and distribution costs		**(387,251)**	(334,203)
Administrative expenses		**(244,350)**	(189,620)
Impairment losses on financial assets, net		**(145,996)**	(113,667)
Financial costs		**(419)**	(122)
Other expenses		**(105,109)**	(20,926)
PROFIT BEFORE TAX	6	**1,859,039**	1,576,461
Income tax expense	9	**(508,375)**	(427,782)
PROFIT FOR THE YEAR		**1,350,664**	1,148,679
Attributable to:			
Owners of the parent		**1,352,173**	1,148,658
Non-controlling interests		**(1,509)**	21
		1,350,664	1,148,679
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	11	**0.79**	0.67

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	**1,350,664**	1,148,679
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the period	**33,296**	–
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**(122,473)**	–
Income tax effect	**16,348**	–
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(72,829)**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,277,835**	1,148,679
Attributable to:		
Owners of the parent	**1,279,344**	1,148,658
Non-controlling interests	**(1,509)**	21
	1,277,835	1,148,679

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**271,026**	86,883
Prepaid land lease payments	13	**132,134**	–
Loans and accounts receivables	18	**31,844,301**	25,385,314
Prepayments, deposits and other receivables	19	**–**	111,111
Available-for-sale investments	15	**–**	43,961
Goodwill	14	**9,211**	9,211
Deferred tax assets	24	**248,471**	163,876
Derivative financial instruments	16	**81,250**	–
Other assets		**9,953**	4,678
Total non-current assets		**32,596,346**	25,805,034
CURRENT ASSETS			
Inventories	17	**40,537**	21,045
Loans and accounts receivables	18	**11,826,005**	9,184,775
Prepayments, deposits and other receivables	19	**71,414**	34,126
Derivative financial instruments	16	**–**	5,273
Restricted deposits	20	**549,152**	932,376
Cash and cash equivalents	20	**2,173,473**	1,749,884
Total current assets		**14,660,581**	11,927,479
CURRENT LIABILITIES			
Trade payables	21	**482,381**	264,697
Other payables and accruals	22	**925,718**	845,314
Interest-bearing bank and other borrowings	23	**12,346,798**	10,963,552
Derivative financial instruments	16	**1,282**	16,844
Tax payable		**70,143**	70,355
Total current liabilities		**13,826,322**	12,160,762
NET CURRENT ASSETS/(LIABILITIES)		**834,259**	(233,283)
TOTAL ASSETS LESS CURRENT LIABILITIES		**33,430,605**	25,571,751

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	**20,635,191**	15,919,143
Other payables and accruals	22	**2,497,091**	2,139,821
Derivative financial instruments	16	**41,515**	–
Other liabilities		**–**	43,961
Total non-current liabilities		**23,173,797**	18,102,925
Net assets		**10,256,808**	7,468,826
Equity attributable to the owners of the parent			
Share capital	26	**4,327,842**	4,327,842
Reserves	27	**4,067,769**	3,140,759
		8,395,611	7,468,601
Holders of renewable corporate bond	35	**1,652,481**	–
Non-controlling interest		**208,716**	225
Total equity		**10,256,808**	7,468,826

Peng Jiahong
Director

Yu Gang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Equity attributable to the owners of the parent									
	Share capital RMB'000 (Note 26)	Capital reserve* RMB'000 (Note 27)	Statutory reserve* RMB'000 (Note 27)	Exchange fluctuation reserve* RMB'000 (Note 27)	Hedge reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Holders of renewable corporate bond RMB'000	Non-controlling interest RMB'000	Total RMB'000
At 31 December 2017	4,327,842	33,302	399,326	29,248	-	2,678,883	7,468,601	-	225	7,468,826
Effective of adoption of HKFRS 9 (Note 2.2)	-	-	(1,554)	-	-	(13,987)	(15,541)	-	-	(15,541)
At 1 January 2018	4,327,842	33,302	397,772	29,248	-	2,664,896	7,453,060	-	225	7,453,285
Profit for the year	-	-	-	-	-	1,352,173	1,352,173	-	(1,509)	1,350,664
Other comprehensive income for the year										
Cash flow hedges, net of tax	-	-	-	-	(72,829)	-	(72,829)	-	-	(72,829)
Total comprehensive income for the year	-	-	-	-	(72,829)	1,352,173	1,279,344	-	(1,509)	1,277,835
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	210,000	210,000
Issue of a renewable corporate bond	-	-	-	-	-	-	-	1,652,481	-	1,652,481
Dividends	-	-	-	-	-	(336,793)	(336,793)	-	-	(336,793)
Appropriation of reserves	-	-	142,183	-	-	(142,183)	-	-	-	-
At 31 December 2018	4,327,842	33,302	539,955	29,248	(72,829)	3,538,093	8,395,611	1,652,481	208,716	10,256,808

* These reserve accounts comprise the consolidated reserves of RMB4,067,769,000 (2017: RMB3,140,759,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Equity attributable to the owners of the parent							
	Share capital RMB'000 (Note 26)	Capital reserve* RMB'000 (Note 27)	Statutory reserve* RMB'000 (Note 27)	Exchange fluctuation reserve* RMB'000 (Note 27)	Retained profits* RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total RMB'000
At 1 January 2017	4,327,842	33,302	278,201	29,248	1,905,798	6,574,391	–	6,574,391
Profit for the year	–	–	–	–	1,148,658	1,148,658	21	1,148,679
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	1,148,658	1,148,658	21	1,148,679
Acquisition of a subsidiary	–	–	–	–	–	–	204	204
Dividends	–	–	–	–	(254,448)	(254,448)	–	(254,448)
Appropriation of reserves	–	–	121,125	–	(121,125)	–	–	–
At 31 December 2017	4,327,842	33,302	399,326	29,248	2,678,883	7,468,601	225	7,468,826

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	**2018 RMB'000**	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,859,039**	1,576,461
Adjustments for:			
Finance costs	6	**1,566,721**	1,130,294
Interest expense		**–**	122
Interest income	5	**(36,606)**	(18,253)
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value (gains)/losses, net	6	**(22,000)**	19,399
Realised fair value losses, net	6	**14,605**	–
Depreciation		**30,145**	27,490
Gain on disposal of property, plant and equipment, net	5	**(48,293)**	–
Amortisation of intangible assets	6	**1,073**	427
Impairment of lease receivables	18	**146,176**	113,809
Impairment of accounts receivable	18	**(180)**	(142)
Investment income	5	**(7,945)**	(18,533)
Foreign exchange losses/(gains), net	6	**88,860**	(14,129)
		3,591,595	2,816,945
Increase in inventories		**(6,402)**	(10,527)
Increase in loans and accounts receivables		**(9,181,742)**	(7,875,914)
Decrease/(increase) in prepayments, deposits and other receivables		**115,225**	(145,421)
Decrease/(increase) in other assets		**105**	(380)
(Increase)/decrease in amounts due from related parties		**(2,122)**	7,169
Increase in trade payables and notes payable		**303,126**	346,683
(Decrease)/increase in other payables and accruals		**(40,731)**	302,592
(Decrease)/increase in amounts due to a related party		**(25)**	2,095
Net cash flows used in operating activities before interest and tax		**(5,220,971)**	(4,556,758)
Interest received		**36,606**	18,253
Income tax paid		**(544,280)**	(533,646)
Net cash flows used in operating activities		**(5,728,645)**	(5,072,151)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment (losses)/income		**(4,523)**	18,533
Repayments of investments		**–**	8,359
Cash paid for acquisition of property, plant and equipment, intangible assets and other long term assets		**(17,640)**	(18,892)
Proceeds from disposal of items of property, plant and equipment		**72,163**	–
Acquisition of a subsidiary		**13,802**	(9,398)
Increase/(decrease) in time deposits		**442,198**	(88,770)
Other repayments of investments		**(147,745)**	–
Net cash flows from/(used in) investing activities		**358,255**	(90,168)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	2018 **RMB'000**	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in amounts due to related parties	**1,000,000**	1,500,000
Decrease in amounts due to related parties	**(2,000,000)**	–
Cash received from borrowings	**23,143,492**	14,413,703
Repayments of borrowings	**(16,257,679)**	(8,554,315)
Interest paid	**(1,368,884)**	(1,197,735)
Cash paid for restricted deposits	**(4,491,691)**	(9,568,173)
Issue of a renewable corporate bond	**1,651,184**	–
Repayment of restricted deposits	**4,432,717**	9,384,973
Dividends paid	**(336,793)**	(254,448)
Net cash flows from financing activities	**5,772,346**	5,724,005
NET INCREASE IN CASH AND CASH EQUIVALENTS	**401,956**	561,686
Cash and cash equivalents at beginning of year	**1,749,884**	1,272,458
Effect of exchange rate changes on cash and cash equivalents	**21,633**	(84,260)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2,173,473**	1,749,884
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**2,614,953**	1,831,990
Less: Restricted deposits	**(441,480)**	(82,106)
Cash and cash equivalents as stated in the statement of financial position	**2,173,473**	1,749,884
Cash and cash equivalents as stated in the statement of cash flows	**2,173,473**	1,749,884

1. CORPORATE AND GROUP INFORMATION

Genertec Universal Medical Group Company Limited (the "Company") is a limited liability company which was incorporated in Hong Kong on 19 April 2012. Pursuant to the special resolutions of shareholders dated 6 February 2015 and 10 June 2015, respectively, the Company changed its name from Universal International Leasing Co., Limited to Universal Medical Services & Health Management Company Limited and then to Universal Medical Financial & Technical Advisory Services Company Limited. Pursuant to the special resolution of shareholders dated 5 June 2018, the Company changed its name from Universal Medical Financial & Technical Advisory Services Company Limited to Genertec Universal Medical Group Company Limited. The registered office of the Company is located at Room 702, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 July 2015.

The Company and its subsidiaries (the "Group") are principally engaged in providing financing to its customers under finance lease arrangements, the provision of advisory services, sale of medical equipment, medical equipment leases under operating lease arrangements, and the provision of other services as approved by the Ministry of Commerce of the People's Republic of China (the "PRC") in Mainland China.

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and business	Issued ordinary share/registered capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
中國環球租賃有限公司* (China Universal Leasing Co., Ltd.)	PRC/Mainland China	US$818,887,616	100.00	–	Finance lease
環球一號有限公司 (Universal Number One Co., Ltd.)	Cayman Islands	US$1	100.00	–	Provision of financing
通用環球國際融資租賃(天津)有限公司**(i) (Genertec Universal International Financial Leasing (Tianjin) Co., Ltd.)	PRC/Mainland China	US$150,000,000	25.00	75.00	Finance lease
通用環球醫療技術服務(天津)有限公司***(ii) (Universal Medical HarmoCare Technology Services (Tianjin) Co., Ltd.)	PRC/Mainland China	RMB18,000,000	–	100.00	Medical technology services
融慧濟民醫院投資管理(天津)有限公司*** (Wiseman Hospital Investment Management (Tianjin) Co., Ltd.)	PRC/Mainland China	RMB300,000,000	–	100.00	Hospital management services
惠民華康醫療信息技術(天津)有限公司*** (Sinosound Healthcare Technology (Tianjin) Co., Ltd.)	PRC/Mainland China	RMB30,000,000	–	60.00#	Hospital digitalisation services
西安融慧醫院建設管理有限公司*** (Xi'an Ronghui Hospital Construction Management Co., Ltd.)	PRC/Mainland China	RMB400,000,000	–	100.00	Hospital construction and management services
西安萬恒醫療科技發展有限公司*** (Xi'an Wanheng Medical Technology Development Co., Ltd.)	PRC/Mainland China	RMB35,000,000	–	80.00	Property management
陝西華虹醫藥有限公司*** (Shanxi Huahong Medical Company Limited)	PRC/Mainland China	RMB100,000,000	–	78.00	Sale of medical related goods
環球醫療融資租賃(橫琴)有限公司** (Universal Medical Finance Leasing (Hengqin) Co., Ltd.)	PRC/Mainland China	US$100,000,000	–	100.00	Finance lease
通用環球醫院管理邯鄲有限公司*** (Genertec Universal Medical Hospital Management Handan Co., Ltd.)	PRC/Mainland China	RMB400,000,000	25.00	75.00	Hospital construction and management services
安徽環康醫院管理有限公司*** (Anhui Huankang Hospital Management Co., Ltd.)	PRC/Mainland China	RMB50,000,000	–	100.00	Hospital management services
煙台海港醫院有限公司*** (Yantai Port Hospital Co., Ltd.)	PRC/Mainland China	RMB600,000,000	–	65.00	Medical Services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

* Registered as a wholly-foreign-owned entity under PRC law

** Registered as a Sino-foreign joint venture under PRC law

*** Registered as limited liability companies under PRC law

\# There was no equity interest as at 31 December 2018 held by non-controlling interests and no profit or loss for the year allocated to non-controlling interests as the subsidiary has not started its business and its shareholders have not paid any share capital as at 31 December 2018

(i) On 23 August 2018, Universal International Financial Leasing (Tianjin) Co., Ltd. changed its name to Genertec Universal International Financial Leasing (Tianjin) Co., Ltd.

(ii) On 29 August 2018, Universal Medical HarmoCare Technology Service (Tianjin) Co., Ltd. changed its name to Genertec Universal Medical Technology Services (Tianjin) Co., Ltd.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB"), and rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structure entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee. The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs amendments are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

    The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Classification and measurement (continued)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement				HKFRS 9 measurement	
	Category	Amount	Re-classification	ECL	Amount	Category
		RMB'000	RMB'000	RMB'000	RMB'000	
Financial assets						
Loans and accounts receivable	L&R	34,570,089	–	(20,722)	34,549,367	AC
Financial assets included in prepayments, deposits and other receivables	L&R	114,535	43,961	–	158,496	AC
From: Available-for-sale investments		–	43,961	–	43,961	AC
Restricted deposits	L&R	932,376	–	–	932,376	AC
Available-for-sale investments	AFS	43,961	(43,961)	–	–	
To: Prepayments, deposits and other receivables		–	(43,961)	–	–	
Derivative financial instruments	FVPL	5,273	–	–	5,273	FVPL
Cash and cash equivalents	L&R	1,749,884	–	–	1,749,884	AC
Non-financial assets						
Include: Deferred tax assets		316,395	–	5,181	321,576	
Total assets		37,732,513	–	(15,541)	37,716,972	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Classification and measurement (continued)

	HKAS 39 measurement				HKFRS 9 measurement	
	Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Amount RMB'000	Category
Financial liabilities:						
Trade payables	AC	264,697	–	–	264,697	AC
Financial liabilities included in other payables and accruals	AC	2,547,015	–	–	2,547,015	AC
Derivative financial instruments	FVPL	16,844	–	–	16,844	FVPL
Interest-bearing bank and other borrowings	AC	26,882,695	–	–	26,882,695	AC
Non-financial liabilities						
Include: Deferred tax liabilities		552,436	–	–	552,436	
Total liabilities		30,263,687	–	–	30,263,687	

Note:	L&R	Loans and receivables
	AFS	Available for sale
	AC	Amortised cost
	FVPL	Fair value through profit or loss
	ECL	Expected credit loss

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 18 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 RMB'000	Re-measurement RMB'000	ECL allowances under HKFRS 9 at 1 January 2018 RMB'000
Loans and accounts receivable	518,397	20,722	539,119
	518,397	20,722	539,119

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

Retained profits and reserves	Statutory reserve	Retained profits
Balance as at 31 December 2017 under HKAS 39	399,326	2,678,883
Recognition of expected credit losses for loans and accounts receivables under HKFRS 9	–	(20,722)
Statutory reserve adjustment	(1,554)	1,554
Deferred tax in relation to the above	–	5,181
Balance as at 1 January 2018 under HKFRS 9	397,772	2,664,896

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements. The Group adopted the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2018. Since the Group's current practice is in line with the clarifications issued, there is no impact on its financial statements.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-*Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets and lease a liability which will be recognised at 1 January 2019 will not be significant.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group also recognises additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill at the end of each reporting period. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category	Annual depreciation rate
Transportation equipment	9.50%~19.00%
Office equipment	19.00%
Electronic equipment	19.00%
Medical equipment	10.00%~20.00%
Leasehold improvements	20.00%
Buildings	2.43%~3.23%
Others	9.50%~19.00%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

When the Group is a lessor under finance leases, an amount representing the minimum lease payment receivables and initial direct costs is included in the statement of financial position as loans and accounts receivables. Any unguaranteed residual value is also recognised at the inception of the lease. The difference between the sum of the minimum lease payment receivables, initial direct costs, the unguaranteed residual value and their present value is recognised as unearned finance income. Unearned finance income is recognised over the period of the lease using the effective interest rate method.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in revenue in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in administrative expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of revenue. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Cash flow hedges (continued)

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Renewable corporate bond

Renewable corporate bond issued by the Group contain no contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group. The Group classifies such renewable corporate bond issued as an equity instrument. Fees, commissions and other transaction costs of such renewable corporate bond issuance are deducted from equity. The distributions on renewable corporate bond are recognised as profit distribution at the time of declaration.

Inventories

Inventories are goods valued at the lower of cost and net realisable value at the end of the reporting period. The cost of inventories issued is determined on the specific identification basis. The difference between the cost and the lower net realisable value is stated as a provision. Net realisable value is based on estimated selling price less estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred taxes assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition (applicable from 1 January 2018)

Finance lease income

Finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease;

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Some contracts for the sale of industrial products provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) Provision of management services

Revenue from the provision of management services is recognised over the scheduled period on a straight-line basis or at a point in time.

Operating lease income

Operating lease income, on a time proportion basis over the lease terms. Contingent rent is recognised as income in the period in which it is earned.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable before 1 January 2018) (continued)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) finance lease income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the net investment of the finance lease or a shorter period, when appropriate, to the net carrying amount of the net investment of the finance lease;

(b) from the rendering of services, income is recognised when the services have been rendered and the revenue can be reasonably estimated and deferred revenue is recorded as liability when the payments have been made in advance by customers for services yet to be rendered as at each reporting date and recognised as income when the services have been rendered and the revenue can be reasonably estimated;

(c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(d) operating lease income, on a time proportion basis over the lease terms. Contingent rent is recognised as income in the period in which it is earned;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Salaries and bonuses, social security contributions and other short term employee benefits are accrued in which services have been rendered by the employees of the Group.

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Other employee benefits

Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement scheme (the "MPF" Scheme") under the Mandatory Provident Fund Schemes Ordinance in Hong Kong for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group's subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan") since 2015. The Group and its employees are required to contribute a certain percentage of the employees' previous year salaries to the Annuity Plan. The contributions are charged to the statement of profit or loss immediately when they occur. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions even if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain entities in the Group are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the entities of the Group whose functional currencies are other than RMB are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of entities with functional currencies other than RMB which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between finance leases and operating leases

Leases are required to be classified as either finance leases (which transfer substantially all the risks and rewards of ownership, and give rise to asset and liability recognition by the lessee and a receivable by the lessor) and operating leases (which result in expense recognition by the lessee, with the asset remaining recognised by the lessor).

The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgements by management.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the tax positions, the likely timing and level of future taxable profits which are affected by future actual operation, tax regulations, market or economic conditions.

Provision for expected credit losses on lease receivables

The Group uses a provision matrix to calculate ECLs for loans and receivables. Management measures and monitors the asset quality of the lease receivable portfolio by classifying the lease receivables using the 5-category classification system by referring to guidelines promulgated by the China Banking Regulatory Commission relating to asset quality for financial institutions under its regulation. The provision rates are based on similar credit risk characteristics for groupings of various customer segments that have similar loss patterns (i.e., by geography, customer type and 5-category classification, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's loans and receivables is disclosed in note 18 to the financial statements.

Fair value of financial instruments

For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Fair value of financial instruments (continued)

Valuation techniques make use of observable market information to the greatest extent, however, when the observable market information cannot be obtained, management will have to make assumptions on the credit risk, market volatility and correlations of the Group and the counterparties, and any changes in these underlying assumptions will affect the fair value of financial instruments.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB9,211,000 (2017: RMB9,211,000). Further details are given in note 14.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in providing financing to its customers under finance lease arrangements, the provision of advisory services, the sale of medical equipment, and medical equipment leases under operating lease arrangements in Mainland China. For management purposes, the aforesaid businesses are integral and the Group has not organised into different operating segments.

Geographical information

(a) Revenue from external customers

	2018 **RMB'000**	2017 RMB'000
Mainland China	**4,296,469**	3,418,829
Hong Kong	**397**	–
	4,296,866	3,418,829

(b) All non-current assets of the operations are located in Mainland China, except for financial instruments and property, plant and equipment.

Information about a major customer

There was no single customer from whom the revenue derived amounted to 10% or more of the total revenue of the Group during the year.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 **RMB'000**	2017 RMB'000
Revenue		
Finance lease income	**3,232,943**	2,468,362
Revenue from contracts with customers		
Service fee income	**945,876**	843,756
Sale of goods	**132,432**	107,305
Revenue from other sources		
Operating lease income	**11,705**	16,712
Others	**155**	257
Taxes and surcharges	**(26,245)**	(17,563)
	4,296,866	3,418,829

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

	2018 RMB'000
Type of goods or service	
Sale of goods	132,432
Service fee income	945,876
Total revenue from contracts with customers	1,078,308
Timing of revenue recognition	
Goods transferred at a point in time	132,432
Services transferred at a point in time	945,876
Total revenue from contracts with customers	1,078,308
Revenue from contracts with customers	
External customers	1,078,308

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	**2,631**
	2,631

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 210 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return which gives rise to variable consideration subject to certain restrictions.

Service fee income

The performance obligation is satisfied at a point in time as services are rendered.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

	2018 **RMB'000**	2017 RMB'000
Other income and gains		
Gains on disposal of property, plant, and equipment	**48,293**	–
Bank interest income	**36,606**	18,253
Government grants (note 5a)	**35,448**	23,393
Fair value gains, net from derivative instruments		
– Transactions not qualifying as hedges	**22,000**	–
Interest income from subordinated tranches of asset-backed securities	**7,945**	16,095
Others	**448**	479
Investment income from derivative instruments	**–**	2,438
Foreign exchange gains	**–**	152
	150,740	60,810

5a. GOVERNMENT GRANTS

	2018 **RMB'000**	2017 RMB'000
Government special subsidies	**35,448**	23,393

6. PROFIT BEFORE TAX

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

	2018 **RMB'000**	2017 RMB'000
Cost of borrowings included in cost of sales	**1,566,721**	1,130,294
Cost of inventories sold	**113,592**	94,124
Cost of operating leases	**24,769**	20,222
Cost of others	**361**	–
Depreciation	**5,376**	7,268
Amortisation of intangible assets	**1,073**	427
Rental expenses	**29,824**	27,064
Auditor's remuneration		
– audit services	**2,300**	2,100
– other services	**1,823**	740
Employee benefit expense (including directors' remuneration (note 7))		
– Wages and salaries	**367,303**	299,428
– Pension scheme contributions	**39,053**	32,243
– Other employee benefits	**54,094**	43,099
	460,450	374,770
Impairment of loans and accounts receivables	**145,996**	113,667
Foreign exchange losses/(gains),net	**88,860**	(152)
Cash flow hedges (transfer from equity to offset foreign exchange)	**(122,473)**	–
Others	**211,333**	(152)
Derivative financial instruments – transactions not qualifying as hedges:		
– Unrealised fair value (gains)/losses, net (note 5)	**(22,000)**	19,399
– Realised fair value losses/(gains), net	**14,605**	(2,438)

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2018 **RMB'000**	2017 RMB'000
Fees	**968**	724
Other emoluments:		
Salaries, allowances and benefits in kind	**3,349**	3,252
Performance related bonuses*	**4,256**	3,747
Pension scheme contributions	**617**	513
	8,222	7,512
	9,190	8,236

* Certain executive directors of the Company are entitled to bonus payments which are determined based on the business performance of the Group.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 **RMB'000**	2017 RMB'000
Mr. Li Yinquan	**179**	181
Mr. Chow Siu Lui	**179**	181
Mr. Kong Wei	**179**	181
Mr. Han Demi	**179**	181
	716	724

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, Allowances and benefits in kind RMB'000	Performance Related bonuses RMB'000	Pension Scheme contributions RMB'000	Total RMB'000
2018					
Executive directors:					
Mr. Guo Weiping (i)	–	**1,620**	**1,952**	**306**	**3,878**
Ms. Peng Jiahong (ii)	–	**1,595**	**2,128**	**301**	**4,024**
Mr. Yu Gang (iii)	–	**134**	**176**	**10**	**320**
Non-executive directors:					
Mr. Zhang Yichen	–	–	–	–	–
Mr. Jiang Xin (iv)	–	–	–	–	–
Ms. Liu Kun (v)	–	–	–	–	–
Mr. Liu Xiaoping	**126**	–	–	–	**126**
Mr. Liu Zhiyong	**126**	–	–	–	**126**
Mr. Su Guang	–	–	–	–	–
Mr. Luo Xiaofang (vi)	–	–	–	–	–
Mr. Zeng Yu (vii)	–	–	–	–	–
	252	**3,349**	**4,256**	**617**	**8,474**

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and the chief executive (continued)

	Fees RMB'000	Salaries, Allowances and benefits in kind RMB'000	Performance Related bonuses RMB'000	Pension Scheme contributions RMB'000	Total RMB'000
2017					
Executive directors:					
Mr. Guo Weiping (i)	–	1,710	1,971	271	3,952
Ms. Peng Jiahong (ii)	–	1,542	1,776	242	3,560
Non-executive directors:					
Mr. Zhang Yichen	–	–	–	–	–
Mr. Jiang Xin (iv)	–	–	–	–	–
Mr. Liu Xiaoping	–	–	–	–	–
Mr. Liu Zhiyong	–	–	–	–	–
Mr. Su Guang	–	–	–	–	–
Mr. Zeng Yu (vii)	–	–	–	–	–
	–	3,252	3,747	513	7,512

Notes:

(i) Chief executive, resigned on 28 November 2018

(ii) Chief executive, appointed on 30 November 2018

(iii) Appointed on 30 November 2018

(iv) Resigned on 1 March 2018

(v) Appointed on 30 November 2018

(vi) Appointed on 1 March 2018, resigned on 28 November 2018

(vii) Resigned on 4 May 2017

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director and the chief executive (2017: one director and the chief executive), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2017: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,711**	2,337
Performance related bonuses	**27,669**	24,265
Pension scheme contributions	**1,319**	1,204
	32,699	27,806

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
HK$3,500,001 to HK$4,000,000	**2**	–
HK$5,000,001 to HK$6,000,000	**–**	1
HK$6,000,001 to HK$7,000,000	**–**	1
HK$21,000,001 to HK$21,500,000	**–**	1
HK$30,000,001 to HK$31,500,000	**1**	–
	3	3

9. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current – Hong Kong		
Underprovision in prior years	**78**	–
Current – Mainland China		
Charge for the year	**574,091**	540,334
Overprovision in prior years	**(2,729)**	(2,282)
Deferred tax	**(63,065)**	(110,270)
Total tax charge for the year	**508,375**	427,782

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year (2017: 16.5%).

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rate of 25% on the estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

The subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

A reconciliation of the tax charge applicable to profit before tax using the statutory/applicable rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	**1,859,039**	1,576,461
At the PRC statutory income tax rate of 25%	**464,760**	394,115
Expenses not deductible for tax purposes	**16,187**	4,022
Income not subject to tax	**(3,774)**	(849)
Adjustment on current income tax in respect of prior years	**(2,729)**	(2,282)
Unrecognised tax losses	**8,431**	10,976
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**25,500**	21,800
Income tax expense as reported in the consolidated statement of profit or loss	**508,375**	427,782

10. DIVIDENDS

	2018 **RMB'000**	2017 RMB'000
Proposed final dividend – HK$0.27 (2017: HK$0.24) per ordinary share	**405,652**	344,597

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	2018 **RMB'000**	2017 RMB'000
Profit attributable to ordinary equity holders of the parent	**1,352,173**	1,148,658

	2018	2017
Weighted average number of ordinary shares in issue	**1,716,304,580**	1,716,304,580

	2018 **RMB**	2017 RMB
Basic and diluted earnings per share	**0.79**	0.67

Diluted earnings per share amounts for the years ended 31 December 2018 and 2017 were the same as the basic earnings per share amounts as there were no potential dilutive ordinary shares outstanding.

12. PROPERTY, PLANT AND EQUIPMENT

31 December 2018

	Transportation equipment RMB'000	Office equipment RMB'000	Electronic equipment RMB'000	Medical equipment RMB'000	Leasehold improvements RMB'000	Buildings RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018:								
Cost	4,699	4,547	10,611	159,088	17,163	–	4,745	200,853
Accumulated depreciation	(2,289)	(1,351)	(5,419)	(99,544)	(4,112)	–	(1,255)	(113,970)
Net carrying amount	2,410	3,196	5,192	59,544	13,051	–	3,490	86,883
At 1 January 2018, net of accumulated depreciation	2,410	3,196	5,192	59,544	13,051	–	3,490	86,883
Additions	–	857	3,313	11	2,201	–	7,557	13,939
Acquisition of a subsidiary (note 28)	522	4,309	12,971	35,446	–	169,434	175	222,857
Depreciation provided during the year	(383)	(813)	(1,948)	(24,768)	(1,862)	–	(408)	(30,182)
Transfers	–	–	3,026	–	100	–	(3,126)	–
Disposals	(11)	–	(45)	(22,415)	–	–	–	(22,471)
At 31 December 2018, net of accumulated depreciation	2,538	7,549	22,509	47,818	13,490	169,434	7,688	271,026
At 31 December 2018:								
Cost	5,037	9,718	29,811	108,661	16,304	169,434	9,221	348,186
Accumulated depreciation	(2,499)	(2,169)	(7,302)	(60,843)	(2,814)	–	(1,533)	(77,160)
Net carrying amount	2,538	7,549	22,509	47,818	13,490	169,434	7,688	271,026

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

31 December 2017

	Transportation equipment RMB'000	Office equipment RMB'000	Electronic equipment RMB'000	Medical equipment RMB'000	Leasehold improvements RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017:							
Cost	3,190	2,442	8,745	157,368	12,772	2,189	186,706
Accumulated depreciation	(1,695)	(806)	(4,082)	(79,322)	(1,528)	(710)	(88,143)
Net carrying amount	1,495	1,636	4,663	78,046	11,244	1,479	98,563
At 1 January 2017, net of accumulated depreciation	1,495	1,636	4,663	78,046	11,244	1,479	98,563
Additions	1,036	1,490	1,528	1,720	4,391	2,401	12,566
Acquisition of a subsidiary	268	581	204	–	–	31	1,084
Depreciation provided during the year	(389)	(511)	(1,203)	(20,222)	(2,584)	(421)	(25,330)
At 31 December 2017, net of accumulated depreciation	2,410	3,196	5,192	59,544	13,051	3,490	86,883
At 31 December 2017:							
Cost	4,699	4,547	10,611	159,088	17,163	4,745	200,853
Accumulated depreciation	(2,289)	(1,351)	(5,419)	(99,544)	(4,112)	(1,255)	(113,970)
Net carrying amount	2,410	3,196	5,192	59,544	13,051	3,490	86,883

13. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000
Cost:	
At the beginning of the year	–
Acquisition of a subsidiary (note 28)	**132,134**
At the end of the year	**132,134**
Net carrying amount:	
At the end of the year	**132,134**
At the beginning of the year	–

14. GOODWILL

	RMB'000
Cost at 1 January 2017, net of accumulated impairment	
Acquisition of a subsidiary	9,211
Cost and net carrying amount at 31 December 2017	9,211
At 31 December 2017:	
Cost	9,211
Accumulated impairment	–
Net carrying amount	9,211
Cost at 1 January 2018, net of accumulated impairment	**9,211**
Cost and net carrying amount at 31 December 2018	**9,211**
At 31 December 2018:	
Cost	**9,211**
Accumulated impairment	–
Net carrying amount	**9,211**

14. GOODWILL (CONTINUED)

Goodwill acquired through business combination arose from the acquisition of Shanxi Huahong Medical Company Limited, a subsidiary which is the cash-generating unit ("CGU") for impairment testing.

The recoverable amount of CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period which can be justified approved by senior management. The post-tax discount rate applied to the cash flow projections is 15%.The implied pre-tax discount rate for the cash flow projections is 12.63%. As at 31 December 2018, the Group assessed the impairment on goodwill and the recoverable amounts exceeded carrying amount, and hence the goodwill was not regarded as impaired (2017: Nil).

Assumptions were used in the value in use calculation of the CGU for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flows projections to undertake impairment testing of goodwill.

Budgeted gross margin – the basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvement, and expected market development.

Discount rate – the discount rate used reflects specific risks relating to the unit. The values assigned to the key assumptions on market development, and the discount rate are comparable to external information sources.

15. AVAILABLE-FOR-SALE INVESTMENTS (POLICIES UNDER HKAS 39 APPLICABLE BEFORE 1 JANUARY 2018)

	2018 **RMB'000**	2017 RMB'000
Asset-backed securities	–	43,961

As at 31 December 2017, the Group invested in asset-backed securities issued by special purpose trusts. The asset-backed securities were redeemed in 2018.

16. DERIVATIVE FINANCIAL INSTRUMENTS

		2018		2017	
	Notes	**Assets RMB'000**	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	a	**81,250**	**34,480**	–	16,844
Interest rate swaps	b	**–**	**152**	5,273	–
Non-deliverable currency options	c	**–**	**6,883**	–	–
Cross-currency interest rate swaps	d	**–**	**1,282**	–	–
		81,250	**42,797**	5,273	16,844
Portion classified as non-current:					
Forward currency contracts		**81,250**	**34,480**	–	–
Interest rate swaps		**–**	**152**	–	–
Non-deliverable currency options		**–**	**6,883**	–	–
		81,250	**41,515**	–	–
Current portion		**–**	**1,282**	5,273	16,844

a. Forward currency contracts with a total nominal amount USD70,000,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised gain on the fair value of these financial derivatives amounting to RMB30,318,000 (2017: a loss of RMB16,844,000) was credited to the statement of profit or loss during the year ended 31 December 2018.

Cash flow hedge under HKFRS 9 – Foreign currency risk

During the year, the Group designated 21 (2017: Nil) foreign exchange rate contracts as hedges for future cash flows arising from borrowings which will be settled in United States Dollar.

16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge under HKFRS 9 – Foreign currency risk (continued)

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange contracts match the terms of the bank loan (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the foreign exchange contracts are identical to the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The Group holds forward currency contracts, with a total negative net fair value of RMB33,296,000 (31 December 2017: Nil), and a total notional amount of USD850,000,000 (31 December 2017: Nil) at a average forward rate of USD/RMB6.81 as of 31 December 2018, which were designated as hedging instruments in cash flow hedges of currency risks arising from bank loans (with remaining maturity from 1 to 2 years) denominated in United States Dollar and Hong Kong Dollar.

The impacts of the hedging instruments on the statement of financial position are as follows:

As at 31 December 2018	Cash flow hedge reserve RMB'000
Unsecured bank loans	72,829

The effects of the cash flow hedge on the statement of profit or loss and the statement of comprehensive income are as follows:

Year ended 31 December 2018

	RMB'000
Total hedging gain recognised in other comprehensive income	
Gross amount	(33,296)
Tax effect	4,047
	(29,249)
Amount reclassified from other comprehensive income to profit or loss	
Gross amount	122,473
Tax effect	(20,395)
	102,078

Gross amount reclassified from other comprehensive income to profit or loss is represented as finance cost in the statement of profit or loss.

16. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

b. Interest rate swaps with a total nominal amount RMB115,750,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised loss on fair value of the financial derivatives amounting to RMB152,000 (2017: a gain of RMB5,273,000) was debited to the statement of profit or loss during the year ended 31 December 2018.

c. Non-deliverable currency options with a total nominal amount USD295,000,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised loss on fair value of the financial derivatives amounting to RMB6,883,000 (2017: Nil) was debited to the statement of profit or loss during the year ended 31 December 2018.

d. Cross-currency interest rate swaps with a total nominal amount USD55,900,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised loss on fair value of the financial derivatives amounting to RMB1,282,000 (2017: Nil) was debited to the statement of profit or loss during the year ended 31 December 2018.

17. INVENTORIES

	2018 **RMB'000**	2017 RMB'000
Medical goods	**40,537**	21,045

18. LOANS AND ACCOUNTS RECEIVABLES

	2018 **RMB'000**	2017 RMB'000
Loans and accounts receivables due within 1 year	**11,826,005**	9,184,775
Loans and accounts receivables due after 1 year	**31,844,301**	25,385,314
	43,670,306	34,570,089

18. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

18a. Loans and accounts receivables by nature

	2018 **RMB'000**	2017 RMB'000
Gross lease receivables (note 18b)*	**52,064,559**	41,226,465
Less: Unearned finance income	**(7,793,895)**	(6,205,173)
Net lease receivables (note 18b)*	**44,270,664**	35,021,292
Accounts receivable (note 18d)*	**85,315**	67,752
Subtotal of loans and accounts receivables	**44,355,979**	35,089,044
Less:		
Impairment of accounts receivables (note 18c)	**(378)**	(558)
Impairment of lease receivables (note 18c)	**(685,295)**	(518,397)
	43,670,306	34,570,089

* These balances included balances with related parties which are disclosed in note 18e to the financial statements.

18b(1). An ageing analysis of the lease receivables, determined based on the age of the receivables since the effective dates of the relevant lease contracts, as at the end of the reporting period is as follows:

	2018 **RMB'000**	2017 RMB'000
Gross lease receivables:		
Within 1 year	**22,205,420**	19,456,422
1 to 2 years	**15,526,914**	13,664,716
2 to 3 years	**9,924,656**	5,834,517
3 years and beyond	**4,407,569**	2,270,810
	52,064,559	41,226,465

18. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

18b(1). An ageing analysis of the lease receivables, determined based on the age of the receivables since the effective dates of the relevant lease contracts, as at the end of the reporting period is as follows: (continued)

	2018 RMB'000	2017 RMB'000
Net lease receivables:		
Within 1 year	**18,267,549**	16,229,377
1 to 2 years	**13,351,465**	11,654,265
2 to 3 years	**8,693,929**	5,084,218
3 years and beyond	**3,957,721**	2,053,432
	44,270,664	35,021,292

18b(2). The table below illustrates the gross and net amounts of the lease receivables the Group expects to receive in the following three consecutive accounting years:

	2018 RMB'000	2017 RMB'000
Gross lease receivables:		
Due within 1 year	**14,911,405**	11,566,541
Due in 1 to 2 years	**14,921,639**	10,597,208
Due in 2 to 3 years	**11,188,175**	9,227,610
Due after 3 years and beyond	**11,043,340**	9,835,106
	52,064,559	41,226,465

	2018 RMB'000	2017 RMB'000
Net lease receivables:		
Due within 1 year	**11,994,156**	9,304,757
Due in 1 to 2 years	**12,441,386**	8,696,021
Due in 2 to 3 years	**9,732,913**	8,024,276
Due after 3 years and beyond	**10,102,209**	8,996,238
	44,270,664	35,021,292

18. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

18c. Change in loss allowance for impairment for lease receivables and accounts receivables

Loss allowance for impairment for lease receivables

Impairment under HKFRS 9 for the year ended 31 December 2018

The Group has applied the simplified approach to providing for expected credit losses prescribed by HKFRS 9 from 1 January 2018, which permits the use of the lifetime expected loss provision for lease receivables. To measure the expected losses, lease receivables have been grouped based on similar credit risk characteristics. The expected credit losses below also incorporate forward looking information. The Group has performed historical analysis and identified industry or geographical location of each lessor as the key economic variable impacting credit risk and expected credit losses.

The movements in the loss allowance for impairment of lease receivables during the year are as follows:

	2018 RMB'000
At beginning of year	**518,397**
Effect of adoption of HKFRS 9	**20,722**
At beginning of year (restated)	**539,119**
Impairment losses	**146,176**
At the year end	**685,295**

Set out below is the information about the credit risk exposure on the Group's lease receivables using a provision matrix:

As at 31 December 2018

	Pass RMB'000	Special Mention RMB'000	Substandard RMB'000	Doubtful RMB'000	Loss RMB'000	Total RMB'000
31 December 2018						
Expected loss rate	**1.10%**	**2.28%**	**25.29%**	**–**	**100.00%**	**1.55%**
Gross carrying amount	**37,280,136**	**6,630,305**	**318,537**	**–**	**41,686**	**44,270,664**
Expected credit losses	**411,645**	**151,408**	**80,556**	**–**	**41,686**	**685,295**

18. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

18c. Change in loss allowance for impairment for lease receivables and accounts receivables (continued)

Loss allowance for impairment for lease receivables (continued)

Impairment under HKAS 39 for the year ended 31 December 2017

The loss allowance provisions as of 31 December 2017 are determined as follows:

	Individually assessed 2017 RMB'000	Collectively assessed 2017 RMB'000	Total 2017 RMB'000
At beginning of year	88,557	316,031	404,588
Charge for the year	10,409	103,400	113,809
At end of year	98,966	419,431	518,397

As at 31 December 2018, the amounts of the gross lease receivables and net lease receivables pledged as security for Group's borrowings were RMB5,643,899,000 and RMB4,855,986,000 (2017: RMB4,080,017,000 and RMB3,554,938,000), respectively (see note 23).

Loss allowance for impairment for accounts receivable

	At beginning of year	**Acquisitions of a subsidiary**	**Reverse**	**Provision**	**At end of year**
2018	**558**	**–**	**(460)**	**280**	**378**
2017	–	700	(142)	–	558

18. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

18d. An ageing analysis of the accounts receivable, determined based on the age of the receivables since the recognition date of the accounts receivable, as at the end of the year is as follows:

	2018 **RMB'000**	2017 RMB'000
Within 1 year	**82,033**	63,818
More than 1 year	**3,282**	3,934
	85,315	67,752

Accounts receivable arose from the sale of medical equipment and advisory services. Except for some specific contracts, the Group generally does not provide credit terms to customers.

18e. Balances With Related Parties

The balances of loans and accounts receivables of the Group included the balances with related parties as follows:

Gross lease receivables:

	2018 **RMB'000**	2017 RMB'000
Staff Hospital of Qiqihar No.2 Machine Tool (Group) Co., Ltd.	**2,687**	–

Net lease receivables:

		2018 **RMB'000**	2017 RMB'000
Staff Hospital of Qiqihar No.2 Machine Tool (Group) Co., Ltd.	(i)	**2,457**	–

18. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

18e. Balances With Related Parties (continued)

Accounts receivable:

		2018 RMB'000	2017 RMB'000
China National Instruments Import & Export (Group) Corporation	(ii)	**1,805**	1,805

The above related parties are subsidiaries of China Genertec Technology (Group) Holding Limited ("Genertec Group").

(i) The balances of the net lease receivables bore interest at the annual interest rate of 8.69%.

(ii) The balances with the related party are unsecured, interest-free and repayable on demand.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2018 RMB'000	2017 RMB'000
Current:			
Prepayments		**16,038**	10,020
Other receivables		**52,616**	20,658
Other current assets		**958**	1,310
Due from related parties	19a	**1,802**	2,138
		71,414	34,126
Non-current:			
Prepayments for non-current assets		**–**	111,111
		–	111,111
		71,414	145,237

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

19a. Balances With Related Parties

Particulars of amounts due from related parties are as follows:

	2018 RMB'000	2017 RMB'000
Due from related parties:		
Genertec Finance Co., Ltd.	**381**	–
China National Instruments Import & Export (Group) Corporation	**–**	38
General Technology Group Property Management Ltd.	**994**	994
China National Corporation For Overseas Economic Cooperation	**112**	112
Genertec Italia s.r.l.	**–**	743
Paryocean Properties Co., Ltd.	**315**	251
	1,802	2,138

The above related parties are subsidiaries of Genertec Group.

The balances with the related parties are unsecured and interest-free.

20. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**2,614,953**	1,831,990
Time deposits	**107,672**	850,270
	2,722,625	2,682,260
Less:		
Pledged deposits and restricted bank deposits related to asset-backed securitisations	**(441,480)**	(403,106)
Time deposits with original maturity of more than three months	**(107,672)**	(529,270)
Cash and cash equivalents	**2,173,473**	1,749,884

As at 31 December 2018, the cash and bank balances of the Group denominated in RMB amounted to RMB2,152,030,000 (2017: RMB1,728,774,000). RMB is freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at either fixed or floating rates based on daily bank deposit rates.

As at 31 December 2018, cash of RMB441,480,000 (2017: RMB346,741,000) was pledged or charged for bank borrowings (note 23).

As at 31 December 2018, no cash (2017: RMB56,365,000) was available for use by the Group in accordance with the arrangements entered into by the Group and the special purpose trusts in the securitisation transactions. The cash collected by the Group from the associated finance lease contracts of the securitisation transactions has to be passed on to the investors of the asset-backed securities without material delay.

As at 31 December 2018, cash of RMB651,293,000 (2017: RMB130,955,000) was deposited with Genertec Finance Co., Ltd., a related party.

21. TRADE PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**482,236**	264,574
Due to related parties (note 21b)	**145**	123
	482,381	264,697

The trade payables are non-interest-bearing and are repayable within one year.

21a. An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	**466,068**	246,141
1 to 2 years	**42**	7,708
2 to 3 years	**7,606**	2,199
Over 3 years	**8,665**	8,649
	482,381	264,697

21b. Balances With Related Parties

Particulars of the amounts due to related parties are as follows:

	2018 RMB'000	2017 RMB'000
Trade payables:		
Genertec International Logistics Co., Ltd.	**61**	39
Genertec Italia s.r.l.	**84**	84
	145	123

The above related parties are subsidiaries of Genertec Group.

The balances with the related parties are unsecured, interest-free or based on the payment schedules agreed between the Group and the respective parties.

22. OTHER PAYABLES AND ACCRUALS

	Note	**2018 RMB'000**	2017 RMB'000
Current:			
Lease deposits due within one year		**195,111**	230,498
Accrued salaries		**128,119**	128,912
Welfare payables		**8,508**	8,671
Contract liabilities	22a	**40,182**	–
Advances from customers		**–**	7,261
Due to a related party	22b	**–**	47
Other taxes payable		**51,488**	24,672
Interest payable		**299,325**	133,386
Other payables		**202,985**	311,867
		925,718	845,314
Non-current:			
Lease deposits due after 1 year		**2,093,213**	1,880,570
Accrued salaries		**403,878**	259,251
		2,497,091	2,139,821
		3,422,809	2,985,135

22. OTHER PAYABLES AND ACCRUALS (CONTINUED)

22a. Balance with Contract Liabilities

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Contract liabilities	**40,182**	7,261
	40,182	7,261

Contract liabilities include short-term advances received to deliver goods.

22b. Balance with a Related Party

Details of the amount due to a related party is as follows:

	2018 RMB'000	2017 RMB'000
Genertec Finance Co., Ltd.	**–**	47
	–	47

The above related party is a subsidiary of Genertec Group.

The balance with a related party was unsecured, interest-free and repayable within one year or based on the payment schedule agreed between the Group and the party.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective Interest rate (%)	**Maturity**	**RMB'000**	Effective Interest rate (%)	Maturity	RMB'000
Current:						
Bank loans – secured	**–**	**–**	**–**	4.35~5.35	2018	314,401
Bank loans – unsecured	**3.43~5.22**	**2019**	**2,146,653**	2.17~5.00	2018	2,734,863
Current portion of long-term bank loans						
– secured	**4.28~5.70**	**2019**	**582,125**	4.28~5.23	2018	731,818
– unsecured	**4.28~5.94**	**2019**	**3,160,445**	4.29~4.99	2018	1,972,736
Current portion of long-term other loans						
– secured	**–**	**–**	**–**	–	–	–
– unsecured	**5.00**	**2019**	**450,000**	5.00	2018	600,000
Finance lease payables						
– secured (note 25)	**4.75~5.04**	**2019**	**321,232**	4.75~4.83	2018	99,694
Bonds payable						
– secured (note 23(a))	**–**	**–**	**–**	5.20	2018	218,910
– unsecured	**4.08~5.50**	**2019**	**4,687,901**	4.69~4.90	2018	2,291,130
Due to a related party						
– unsecured	**4.75**	**2019**	**998,442**	4.35~4.75	2018	2,000,000
			12,346,798			10,963,552
Non-current:						
Bank loans						
– secured	**4.75~5.70**	**2020~2023**	**1,152,033**	4.28~5.23	2019~2022	663,921
– unsecured	**2.42~5.94**	**2020~2023**	**9,402,798**	2.70~5.23	2019~2020	8,367,632
Other loans						
– unsecured	**–**	**–**	**–**	5.00	2019	900,000
Bonds payable						
– secured (note 23(a))	**5.50~6.43**	**2020**	**546,169**	5.50~6.43	2020	546,169
– unsecured	**3.13~6.50**	**2021~2023**	**7,530,288**	3.13~4.08	2019~2021	3,045,939
Finance lease payables						
– secured (note 25)	**4.75~5.04**	**2020~2022**	**1,007,381**	4.75~4.83	2020	1,395,482
Due to a related party						
– unsecured	**4.75**	**2019~2021**	**996,522**	4.75	2019	1,000,000
			20,635,191			15,919,143
			32,981,989			26,882,695

23. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**5,889,223**	5,753,818
In the second year	**2,857,355**	3,268,298
In the third to fifth years, inclusive	**7,697,476**	5,763,255
	16,444,054	14,785,371
Other borrowings repayable:		
Within one year	**6,457,575**	5,209,734
In the second year	**1,871,169**	2,441,980
In the third to fifth years, inclusive	**8,209,191**	4,445,610
	16,537,935	12,097,324
	32,981,989	26,882,695

Notes:

(a) In May 2015, the Company's wholly-owned subsidiary, China Universal Leasing Co., Ltd. ("CULC"), issued a batch of leasing assets-backed securities with an aggregate principal amount of RMB1,141,858,000 to institutional investors through an asset management plan. The asset-backed securities have four senior tranches and one subordinated tranche. The Group received proceeds of RMB912,000,000 from the senior tranches which have expected annualised yields ranging from 4.80% to 6.43% and maturity periods from one year to five years. The subordinated tranche amounting to RMB229,858,000 was purchased by CULC itself and thus no proceeds were received. As at 31 December 2018, the amortised cost of the debt securities issued amounted to RMB546,169,000 (2017: RMB765,079,000).

(b) As at 31 December 2018, the Group's bank and other borrowings secured by lease receivables, cash and bank balances and time deposits were RMB3,608,940,000 (2017: RMB3,970,395,000); the Group's gross lease receivables and net lease receivables pledged or charged as security for the Group's bank and other borrowings were RMB5,643,899,000 and RMB4,855,986,000, respectively (2017: RMB4,080,017,000 and 3,554,938,000); and the Group's bank and other borrowings secured by cash and bank balances and time deposits amounted to RMB1,734,158,000 (2017: RMB1,001,045,000).

(c) As at 31 December 2018, the balances due to related parties were due to Genertec Finance Co., Ltd. and China General Technology (Group) Holding Co., Ltd. (PRC) (2017: Genertec Finance Co., Ltd.).

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax assets

	Impairment RMB'000	Salary and welfare payable RMB'000	Cash flow hedge RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2018	**121,771**	**69,514**	**–**	**191,285**
Effect of adoption of HKFRS 9	**5,181**	**–**	**–**	**5,181**
At 1 January 2018 (restated)	**126,952**	**69,514**	**–**	**196,466**
Credited to the statement of profit or loss during the year	**36,499**	**24,857**	**3,998**	**65,354**
Credited to reserve	**–**	**–**	**16,349**	**16,349**
Gross deferred tax assets at 31 December 2018	**163,451**	**94,371**	**20,347**	**278,169**
Gross deferred tax assets at 1 January 2017	32,818	45,931	–	78,749
Credited to the statement of profit or loss during the year	88,953	23,583	–	112,536
Gross deferred tax assets at 31 December 2017	121,771	69,514	–	191,285

Deferred tax liabilities

	Lease deposits RMB'000	Fair value gain on derivative financial instruments RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2018	26,091	1,318	27,409
Charged to the statement of profit or loss during the year	3,548	(1,259)	2,289
Gross deferred tax liabilities at 31 December 2018	29,639	59	29,698
Gross deferred tax liabilities at 1 January 2017	23,248	1,957	25,205
Charged to the statement of profit or loss during the year	2,843	(639)	2,204
Gross deferred tax liabilities at 31 December 2017	26,091	1,318	27,409

24. DEFERRED TAX (CONTINUED)

For the purpose of presentation of the consolidated statement of financial position, deferred tax assets and liabilities have been offset as the deferred taxes relate to the same taxable entity and the same taxation authority, and net deferred tax assets are presented as follows:

	2018 **RMB'000**	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**248,471**	163,876

The Company has tax losses arising in Hong Kong of RMB79,513,000 (2017: RMB61,337,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose and tax losses arising in Mainland China of RMB8,529,000 (2017: RMB1,436,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, the funds will be retained to expand the operations in Mainland China and it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB3,051,194,000 (2017: RMB2,404,347,000).

25. FINANCE LEASE PAYABLES

The Group, as a lessee, engaged in sale and leaseback transactions with certain finance leasing companies for financing purposes. These leases are classified as finance leases and have remaining lease terms ranging from three to five years. The equipment selected for the sale and leaseback transactions had been under finance leases pursuant to the finance lease contracts in which the Group was a lessor.

As at 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	2018		2017	
	Minimum lease payments RMB'000	**Present value of minimum lease payments RMB'000**	Minimum lease payments RMB'000	Present value of minimum lease payments RMB'000
Amounts payable:				
Within one year	**388,414**	**321,232**	169,146	99,694
In the second year	**850,124**	**825,000**	745,941	696,437
In the third to fifth year, inclusive	**193,462**	**182,381**	713,136	699,045
Total minimum finance lease payments	**1,432,000**	**1,328,613**	1,628,223	1,495,176
Future finance charges	**(103,387)**		(133,047)	
Total net finance lease payables	**1,328,613**		1,495,176	
Portion classified as current liabilities (note 23)	**(321,232)**		(99,694)	
Non-current portion (note 23)	**1,007,381**		1,395,482	

26. SHARE CAPITAL

	2018 **RMB'000**	2017 RMB'000
Issued and fully paid:		
1,716,304,580 (2017: 1,716,304,580) ordinary shares	**4,327,842**	4,327,842

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Capital reserve

The capital reserve represents the share-based compensation reserve comprising the fair value of the shares awarded under the share transfer to the management of the Group recognised in accordance with the accounting policy adopted for equity compensation benefits.

Statutory reserve

Pursuant to the relevant laws and regulations and the articles of association of the subsidiaries of the Company in Mainland China, if a subsidiary is registered as a Sino-foreign joint venture, it is required to, at the discretion of the board of directors, transfer a portion of its profits after taxation reported in its statutory financial statements prepared under the applicable PRC accounting standards to the statutory surplus reserve.

If a subsidiary is registered as a wholly-foreign-invested enterprise or a domestic limited liability company, it is required to appropriate 10% of each year's statutory net profits to the statutory surplus reserve according to the PRC accounting standards and regulations (after offsetting previous years' losses) to the statutory surplus reserve. The PRC subsidiary may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contributions to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors. The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to owners. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the PRC subsidiary. The statutory reserve can be transferred to paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less than 25% of its registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with a functional currency other than RMB.

28. BUSINESS COMBINATIONS

On 14 September 2018, the Group and Wiseman Hospital Investment Management (Tianjin) Co., Ltd. entered into a cooperation agreement with Yantai Port Group Co., Ltd. in connection with the formation of Yantai Port Hospital Limited ("Yantai Port Hospital"), whose registered capital would be contributed by Wiseman Hospital Investment Management (Tianjin) Co., Ltd., with cash of amount of RMB390,000,000 and Yantai Port Group with assessed assets of a hospital, respectively. All of the practicing licenses, qualifications, management team and business resources of the hospital would be succeeded by Yantai Port Hospital. The acquisition had been completed on 31 December 2018 and accounted for using the acquisition method. The consolidated financial statements include the results of acquired subsidiary since its acquisition date.

The fair values of the identifiable assets and liabilities of Yantai Port Hospital as at the date of acquisition were:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment (note 12)	222,857
Prepaid land lease payments (note 13)	132,134
Cash	15,439
Trade receivables	32,362
Prepayments, deposits and other receivables	3,611
Receivable of consideration to be paid as capital injection	390,000
Inventories	13,117
Other assets	6,674
	816,194
Liabilities	
Other payables and accruals	216,194
	216,194
Total identifiable net assets at fair value	600,000
Non-controlling interests	(210,000)
Purchase consideration transferred	
Including:	
Consideration to be paid as capital injection to the subsidiary	390,000
Analysis of cash flows on acquisition:	
Net inflow of cash and cash equivalents included in cash flows from investing activities	15,439
Transaction costs of the acquisition included in cash flows from operating activities	56

28. BUSINESS COMBINATIONS (CONTINUED)

If the acquisition had taken place at the beginning of the period, revenue of the Group would have been RMB4,591,502,000 and net profit of the Group for the year would have been RMB1,337,296,000. Transaction costs of RMB56,000 have been expensed and are included in operating expenses in the statement of profit or loss.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Bonds RMB'000	Finance lease payables RMB'000	Due to related parties RMB'000
At 1 January 2018	**16,285,370**	**6,102,148**	**1,495,176**	**3,000,000**
Foreign exchange movement	**342,465**	**–**	**–**	**–**
Increase arising from acquisition	**9,904,431**	**12,690,000**	**549,061**	**1,000,000**
Repayment of borrowings	**(9,576,179)**	**(6,019,000)**	**(662,500)**	**(2,000,000)**
Interest paid classified as operating cash flows	**(62,034)**	**(8,790)**	**(53,124)**	**(5,035)**
At 31 December 2018	**16,894,053**	**12,764,358**	**1,328,613**	**1,994,965**

30. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in notes 18, 20 and 23 to the financial statements.

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leased its medical equipment with the net carry amount of RMB12,372,000 (note 12 to financial statements) under operating lease arrangements, with lease terms of more than five years.

Under the lease contracts, all rentals that the Group receives are contingent rentals based on the monthly gross or net income generated by the operation of medical equipment.

31. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(b) As lessee

The Group leases certain properties as its office premises under operating lease arrangements. Lease terms for properties ranged from one to ten years.

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**15,249**	32,685
One to two years, inclusive	**10,669**	11,931
Two to three years, inclusive	**3,337**	6,460
More than three years	**4,305**	7,541
	33,560	58,617

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments and credit commitments at the end of the reporting period:

(a) Capital commitments

	2018 **RMB'000**	2017 RMB'000
Contracted, but not provided for	**30,120**	2,377

In addition to the capital commitments listed above, the Group has agreed with certain parties related hospital investment and cooperation including,

32. COMMITMENTS (CONTINUED)

(a) Capital commitments (Continued)

i) The Group entered into a Cooperation Agreement with First Affiliated Hospital of Xi'an Jiaotong University ("First Affiliated Hospital") on 30 August 2016, pursuant to which the Group has agreed to (i) establish a wholly-owned project company (the "Project Company") to construct Xi'an Jiaotong University International Land Port Hospital ("International Land Port Hospital") for First Affiliated Hospital (the "Project Construction"), provide a total amount of no more than RMB2 billion in cash to fund the project and manage and operate International Land Port Hospital in a manner as agreed by both parties after the completion of the Project Construction; and (ii) through the Project Company, make a capital contribution of RMB28 million to establish a company with First Affiliated Hospital to provide services including procurement and logistics to International Land Port Hospital, First Affiliated Hospital and other third party hospitals.

Until 2018, the Group has invested RMB84,437,000 to establish the Project Company Xi'an Ronghui Hospital Construction Management Co., Ltd., and invested RMB1,600,000 to establish company Xi'an Wanheng Medical Technology Development Co., Ltd. to provide services including procurement and logistics to International Land Port Hospital, First Affiliated Hospital and other third party hospitals.

ii) On 9 August 2018, the Company entered into the Cooperation Agreement with the Health and Family Planning Commission of Handan and Handan First Hospital in connection with the joint establishment and operation of the new east district of Handan First Hospital, which will be a new branch of Handan First Hospital. Pursuant to the Cooperation Agreement, the Company has agreed to establish a wholly-owned project company to construct the new east district of Handan First Hospital, provide a total amount of no more than RMB2,000,000,000 in cash to fund the Project Construction, and participate in the management and operation of Handan First Hospital (including the new east district of Handan First Hospital) in a manner as agreed by all parties; and through the Project Company, make a capital contribution of no more than RMB28,000,000 to establish a joint venture with Handan First Hospital to provide medical supplies procurement service to Handan First Hospital (including the new east district of Handan First Hospital).

iii) On 19 December 2018, the Group and Wiseman Hospital Investment Management (Tianjin) Co., Ltd, a wholly-owned subsidiary of the Company, entered into a cooperation agreement (the "Cooperation Agreement I") with China XD Group Co., Ltd. in connection with the formation of a company. Pursuant to the Cooperation Agreement I, the total investment of the company to be established is RMB1,000,000,000, of which Wiseman Hospital Investment Management (Tianjin) Co., Ltd will contribute RMB550,000,000 in cash and XD Group will contribute RMB450,000,000 in form of assets of Xi'an XD Group Hospital, respectively. After the establishment of the company, it will become the new promoter of Xi'an XD Group Hospital in place of China XD Group Co., Ltd.

32. COMMITMENTS (CONTINUED)

(a) Capital commitments (Continued)

iv) On 21 December 2018, the Group and Wiseman Hospital Investment Management (Tianjin) Co., Ltd. entered into a cooperation agreement (the "Cooperation Agreement II") with AECC Xi'an Aero-engine Ltd. in connection with the formation of a company. Pursuant to the Cooperation Agreement II, the total investment of the company is RMB509,092,800, of which Wiseman Hospital Investment Management (Tianjin) Co., Ltd will contribute RMB400,000,000 in cash and AECC Xi'an Aero-engine Ltd. will contribute RMB109,092,800 in form of net assets of AECC Xi'an Aero-engine Hospital, respectively. After the establishment of the company, it will become the new promoter of AECC Xi'an Aero-engine Hospital in place of AECC Xi'an Aero-engine Ltd.

v) On 28 December 2018, the Group has agreed with CNSG anhui hongsifang Co., Ltd. to acquire 100% interest of certain hospital ("Anhua Hospital Group") owned by CNSG Anhui Hongsifang Co., Ltd. at a consideration of RMB36,480,000.

(b) Credit commitments

	2018 **RMB'000**	2017 RMB'000
Credit commitments	**1,722,496**	1,528,274

Credit commitments represent undrawn finance lease facilities agreed and granted to customers. They are conditionally revocable commitments.

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances in notes 18, 19, 20, 21, 22 and 23 to the financial statements, the Group had the following material transactions with related parties during the year.

(a) Transactions with Genertec Group and companies under Genertec Group

Genertec Group was established in 1988 and is a wholly-state-owned company. Genertec Group's businesses principally cover five sectors, including equipment manufacturing, trade and engineering contracting, pharmaceutical industry, technical services and consultancy, as well as construction and real estate. Genertec Group is a major shareholder of the Company.

The companies under Genertec Group which had transactions with the Group during the year are subsidiaries of Genertec Group.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with Genertec Group and companies under Genertec Group (Continued)

(i) Interest income from cash at banks:

	2018 RMB'000	2017 RMB'000
Genertec Finance Co., Ltd.	**6,907**	4,336

The interest was charged at rates ranging from 0.46% to 1.27% per annum.

(ii) Purchases of products and leased assets from related parties:

	2018 RMB'000	2017 RMB'000
China National Instruments Import & Export (Group) Corporation	**92**	–
China General Technology (Group) Holding Co., Ltd.	**70**	–
China International Advertising Co., Ltd	**2**	–
Genertec Italia s.r.l.	**4,105**	1,628

The purchases from the related parties were made on terms mutually agreed between the Group and the respective parties.

(iii) Rental expenses:

	2018 RMB'000	2017 RMB'000
China General Technology (Group) Holding Co., Ltd.	**3,228**	3,242
General Technology Group Property Management Ltd.	**10,790**	10,582
China National Corporation For Overseas Economic Cooperation	**1,348**	674
Beijing Mingqiang Property Management Ltd.	**19**	–
Paryocean Properties Co., Ltd.	**960**	629

The rental expenses paid to related parties are charged based on terms mutually agreed between the Group and the respective parties.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with Genertec Group and companies under Genertec Group (Continued)

(iv) Interest expenses on borrowings:

	2018 RMB'000	2017 RMB'000
China General Technology (Group) Holding Co., Ltd.	**1,979**	–
Genertec Finance Co., Ltd.	**94,848**	75,365

The interest expenses were charged at rate 4.75% per annum.

(v) Consulting service fees:

	2018 RMB'000	2017 RMB'000
Euromapex Import & Export GMBH	**–**	238
Genertec (Beijing) Investment Fund Management Co., Ltd	**2,830**	1,887

The consulting service expenses were charged based on prices mutually agreed between the parties.

(vi) Transportation expense:

	2018 RMB'000	2017 RMB'000
Genertec International Logistics Co., Ltd.	**123**	153

The transportation expense was charged based on prices mutually agreed between the parties.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with Genertec Group and companies under Genertec Group (Continued)

(vii) Finance lease income:

	2018 RMB'000	2017 RMB'000
Staff Hospital of Qiqihar No. 2 Machine Tool (Group) Co., Ltd.	**241**	–

The finance lease income was charged at a rate of 8.69% per annum.

The related party transactions in respect of items (i), (ii), (iii), (v), (vi) and (vii) above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Significant transactions with other government-related entities

The largest shareholder of the Company is a state-owned enterprise. In accordance with HKAS 24 *Related Party Disclosures*, government-related entities include entities that are directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government. On this basis, related parties include other government-related entities, in addition to Genertec Group and companies under Genertec Group.

During the year, the Group's significant transactions with other government-related entities constituted a large portion of the finance lease services and advisory services. In addition, substantially all restricted cash, time deposits, cash and cash equivalents and borrowings as at 31 December 2018 and 2017 and the relevant interest earned and paid during the years were transacted with banks and other financial institutions which are controlled by the PRC government.

(c) Compensation of key management personnel:

	2018 RMB'000	2017 RMB'000
Short term employee benefits	**15,164**	16,399

34. TRANSFERS OF FINANCIAL ASSETS

Securitisation transactions

The Group entered into securitisation transactions in the normal course of business by transferring lease receivables to special purpose trusts which in turn issue asset-backed securities to investors. The Group may acquire some subordinated tranches of securities and accordingly may retain part of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated lease receivables by evaluating the extent to which it retains the risks and rewards of the assets.

As at 31 December 2018, no lease receivables (2017: RMB543,513,000) have been securitised by the Group under arrangements in which the Group retained continuing involvement in assets.

35. RENEWABLE CORPORATE BOND

China Universal Leasing Co., Ltd. ("China Universal Leasing"), a wholly-owned subsidiary of the Group, issued the first tranche of the bonds (the "T1 Bonds") of renewable corporate bonds with total principal amount of RMB1.66 billion, with a basic term of three years from 27 December 2018. The T1 Bonds are with a fixed interest rate of 6% per annum. The issue price is RMB100 per bond, which is equal to 100% of the principal value of the T1 Bonds. China Universal Leasing is entitled, at the end of the agreed basic term and each extended period, to an option to extend the term of the bonds. Distributions of the renewable bond may be paid annually and may be deferred at the discretion of China Universal Leasing unless a compulsory distribution payment event (including distributions to shareholders of China Universal Leasing) has occurred. Following a deferral, arrears of distributions are cumulative. As the Group has no contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group, the Group classified the renewable corporate bond issued as an equity instrument.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

	2018 RMB'000
Financial assets	
Financial assets at amortised costs:	
Loans and accounts receivable	**43,670,306**
Financial assets included in prepayments, deposits and other receivables	**24,431**
Restricted deposits	**549,152**
Cash and cash equivalents	**2,173,473**
Financial assets at fair value through profit or loss:	
Derivative financial instruments	**69,620**
Hedging instruments designated in cash flow hedges:	
Derivative financial instruments designated as cash flow hedging	**11,630**
	46,498,612
Financial liabilities	
Financial liabilities at amortised costs:	
Trade payables	**482,381**
Financial liabilities included in other payables and accruals	**3,783,862**
Interest-bearing bank and other borrowings	**32,981,989**
Financial liabilities at fair value through profit or loss:	
Derivative financial instruments	**8,317**
Hedging instruments designated in cash flow hedges:	
Derivative financial instruments designated as cash flow hedging	**34,480**
	37,291,029

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	2017 RMB'000
Financial assets	
Loans and receivables:	
Loans and accounts receivables	34,570,089
Financial assets included in prepayments, deposits and other receivables	114,535
Restricted deposits	932,376
Cash and cash equivalents	1,749,884
Financial assets at fair value through profit or loss:	
Derivative financial assets	5,273
Available-for-sale financial assets:	
Available-for-sale investments	43,961
	37,416,118
Financial liabilities	
Financial liabilities at amortised cost:	
Trade payables	264,697
Financial liabilities included in other payables and accruals	2,547,015
Trading financial liabilities	16,844
Interest-bearing bank and other borrowings	26,882,695
	29,711,251

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent cash and cash equivalents, restricted deposits, loans and accounts receivables, financial assets included in deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, interest-bearing bank and borrowings.

Cash and bank balances, restricted deposits, accounts receivable, current portion of financial assets included in deposits and other receivables, trade payables, short-term borrowings and current portion of financial liabilities included in other payables and accruals

Substantially all of the financial assets and liabilities mature within one year from the end of each reporting period and their carrying values approximate to their fair values.

Lease receivables and interest-bearing bank and other borrowings excluding bonds issued and short-term borrowings

Substantially all of the lease receivables and interest-bearing bank and other borrowings, excluding bonds issued and short-term borrowings, are on floating rate terms, bear interest at prevailing market interest rates, and their carrying values approximate to their fair values.

Bonds issued

The fair value of the bonds is calculated based on quoted market prices or a discounted cash flow model that is used based on a current yield curve appropriate for the remaining term to maturity.

The table below summarises the carrying amounts and fair values of bonds issued which are included in interest-bearing bank and other borrowings not presented at fair value on the statement of financial position as at 31 December 2018.

	Carrying amounts		**Fair values**	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bonds issued	**12,765,188**	6,102,148	**12,762,340**	5,916,870

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments not measured at fair value (continued)

Non-current portion of financial assets included in deposits and other receivables and non-current portion of financial liabilities included in other payables and accruals

The fair values of the non-current portion of financial assets included in deposits and other receivables and the non-current portion of financial liabilities included in other payables and accruals have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The differences between the carrying amounts and fair values of those financial assets and liabilities are not significant.

Financial instruments measured at fair value

Interest rate swap contracts

The Group enters into several derivative financial instrument contracts with one counterparty, are interest rate swaps measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs including the credit quality of the counterparty and yield curves.

Forward currency contracts

The Group enters into several derivative financial instrument contracts with three counterparties, are foreign exchange rate swaps measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs.

Non-deliverable currency options

The Group enters into several derivative financial instrument contracts with one counterparty, are foreign exchange rate options measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs.

Cross-currency interest rate swaps

The Group enters into several derivative financial instrument contracts with one counterparty, are cross-currency interest rate swaps measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs.

Asset-backed securities

The fair value of the asset-backed securities recognised as available-for-sale investments is measured using a discounted cash flow analysis that calculates the fair value based on valuation inputs such as default rate, loss given default, prepayment rate and yield of the securities' underlying assets. These inputs require an assessment of the securities' underlying assets.

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

The fair value of the available-for-sale investments is based on unobservable inputs including default rate, loss given default, prepayment rate and yield. As at 31 December 2018, fair value changes resulting from changes in the unobservable inputs were not significant.

Assets and liabilities measured at fair value:

As at 31 December 2018

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial assets				
– Forward currency contracts	–	81,250	–	81,250
Derivative financial liabilities				
– Interest rate swap contracts	–	152	–	152
– Forward currency contracts	–	34,480	–	34,480
– Non-deliverable currency options	–	6,883	–	6,883
– Cross-currency interest rate swaps	–	1,282	–	1,282

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets and liabilities measured at fair value: (continued)

As at 31 December 2017

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial assets				
– Interest rate swap contracts	–	5,273	–	5,273
Available-for-sale investments				
– Asset-backed securities	–	–	43,961	43,961
Derivative financial liabilities				
– Foreign exchange rate swap contracts	–	16,844	–	16,844

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Bonds issued	**12,269,370**	**492,970**	**–**	**12,762,340**

As at 31 December 2017

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Bonds issued	5,201,287	715,583	–	5,916,870

During the year ended 31 December 2018, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise lease receivables, trade payables, interest-bearing bank and other borrowings, cash and short term deposits and derivative financial instruments. The main purpose of interest-bearing bank and other borrowings is to finance the Group's operations while other financial assets and liabilities such as lease receivables and trade payables are directly related to the Group's operating activities.

The Group also enters into derivative transactions, including principally interest rate swaps contracts, forward currency contracts, non-deliverable currency options and cross-currency interest rate swaps. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings and lease receivables. The Group aims to mitigate such risks by reducing future variability in cash flows or fair value, while balancing the cost of such risk mitigation measure.

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, to the Group's profit before tax.

The sensitivity of the profit before tax is the effect of the assumed changes in interest rates on profit before tax, based on the financial assets and financial liabilities held at the end of each reporting period subject to repricing within the coming year.

	Increase/(decrease) in profit before tax as at 31 December	
	2018	2017
	RMB'000	RMB'000
Change in basis points		
+100 basis points	**75,794**	45,722
– 100 basis points	**(75,794)**	(45,722)

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (continued)

The interest rate sensitivity set out in the table above is for illustration only and is based on simplified scenarios. The figures represent the effect of the pro forma movements in profit before tax based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of financial instruments with different maturities move by the same amount and, therefore, do not reflect the potential impact on profit before tax in the case where some rates change while others remain unchanged.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange relates primarily to the operating activities of the Group (when receipt or payment is settled using a currency that is different from the functional currency).

The Group conducts its businesses mainly in RMB, with certain transactions denominated in US$, and, to a lesser extent, other currencies. The Group's exposure to treasury operations mainly arises from its transactions in currencies other than RMB. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position. For example, the Group enters into cross currency interest rate swaps and forward currency contracts to mitigate the currency risk arising from variable cash flows of some of its foreign currency floating rate loans (see Note 16).

The exchange rate of RMB to United States Dollar ("US$") is managed under a floating exchange rate system. The Hong Kong Dollar ("HK$") exchange rate has been pegged to US$ and therefore the exchange rate of RMB to HK$ has fluctuated in line with the changes in the exchange rate of RMB to US$.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Currency risk (continued)

The table below is a sensitivity analysis of exchange rate change of the currency to which the Group had significant exposure on its monetary assets and liabilities and its forecast cash flows. The analysis shows the effect of a reasonably possible movement in the currency rate against RMB, with all other variables held constant, on profit before tax. This effect, however, was based on the assumption that the Group's foreign exchange exposures as at the end of each reporting period were kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

Currency	Increase/ (decrease) in foreign exchange rate	Increase/(decrease) in profit before tax as at 31 December	
		2018	2017
	%	**RMB'000**	RMB'000
If RMB strengthens against US$/HK$	(1)	**460**	29,997
If RMB weakens against US$/HK$	1	**(460)**	(29,997)

Credit risk

Credit risk is the risk of loss arising from a lessee's or counterparty's inability to meet its obligations.

The Group enters into transactions only with the recognised and creditworthy third parties. In accordance with the policy of the Group, the Group examines and verifies the credit risk of all customers that the Group has credit transactions with. Besides, the Group monitors and controls the lease receivables regularly to mitigate the risk of significant exposure from bad debts.

Other financial assets of the Group include cash and bank deposits, accounts receivable, notes receivable, derivative financial instruments, and financial assets included in deposits and other receivables. The credit risk of these financial assets arises from the counterparty's inability to meet its obligations. The maximum exposure to credit risk is equal to the carrying amounts of these assets.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Credit risk is often greater when lessees are concentrated in one single industry or geographical location or have comparable economic characteristics. Customers of the Group are diversely located in Mainland China. Lessees of the Group are from different industries as follows:

	As at 31 December 2018		As at 31 December 2017	
	RMB'000	**%**	RMB'000	%
Net lease receivables				
Healthcare	**34,649,213**	**78**	24,545,511	70
Education	**6,287,150**	**14**	7,660,015	22
Others	**3,334,301**	**8**	2,815,766	8
	44,270,664	**100**	35,021,292	100
Less: loss allowance for impairment of lease receivables	**685,295**		518,397	
Net	**43,585,369**		34,502,895	

As the customers of the Group are widely dispersed and are engaged in different industries, there is no significant credit risk concentration within the Group.

The quantitative data of exposure to credit risk arising from available-for-sale investments, derivative financial assets, loans and accounts receivables, deposits and other receivables, and credit commitments are set out in notes 15, 16, 18, 19 and 32, respectively.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

The analysis of financial assets which are neither past due nor impaired is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Net lease receivables	**43,588,515**	34,737,651
Accounts receivable	**85,316**	67,194
Deposits and other receivables	**24,431**	114,535
Available-for-sale investments	**–**	43,961
Derivative financial assets	**81,250**	5,273

As 31 December 2018, the assets which are past due but are not considered impaired amounted to RMB321,926,000 (2017: RMB10,686,000), the ageing analysis of which is as follows:

2018

	Less than 90 days RMB'000	**90 days to 1 year RMB'000**	**1 year to 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Net lease receivables	**321,926**	**–**	**–**	**–**	**321,926**

2017

	Less than 90 days RMB'000	90 days to 1 year RMB'000	1 year to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Net lease receivables	1,938	–	8,748	–	10,686

When the rental for a period is past due by one day as at each reporting date, the whole lease receivable is classified as past due.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Lease receivables that were past due but not impaired related to a number of independent customers that have good track records with the Group. Based on past experience, the directors of the Company are of the opinion that these balances are not considered impaired as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The analysis of financial assets which are impaired is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Net lease receivables	**360,223**	272,955

Impaired lease receivables are defined as those lease receivables having objective evidence of impairment as a result of one or more events that occurred after initial recognition and that event has an impact on the estimated future cash flows of the lease receivables that can be reliably estimated.

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from mismatches in amounts or duration with regard to the maturity of financial assets and liabilities.

The Group manages its liquidity risk through maintaining flexibility in funding by keeping sufficient available loan facilities or loan commitments provided by banks and other financial institutions, making projections of future cash flows and evaluating the appropriate net current asset/liability position, and maintaining an efficient internal fund transfer mechanism within the Group.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The tables below summarise the maturity profile of the Group's financial assets and liabilities based on the contractual undiscounted cash flows:

	As at 31 December 2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
FINANCIAL ASSETS:						
Loans and accounts receivables	172,112	3,608,093	10,954,621	36,307,885	435,276	51,477,987
Financial assets included in prepayments, deposits and other receivables	–	13,288	11,143	–	–	24,431
Restricted deposits	–	195,596	353,556	–	–	549,152
Derivative financial assets	–	–	–	81,250	–	81,250
Cash and cash equivalents	2,173,473	401	1,372	–	–	2,175,246
Total financial assets	2,345,585	3,817,378	11,320,692	36,389,135	435,276	54,308,066
FINANCIAL LIABILITIES:						
Trade payables	2,425	465,235	14,643	78	–	482,381
Financial liabilities included in other payables and accruals	39,879	125,681	598,613	3,508,799	21,502	4,294,474
Derivative financial liabilities	–	–	1,282	41,515	–	42,797
Interest-bearing bank and other borrowings	11	2,552,231	11,203,056	20,279,235	–	34,034,533
Total financial liabilities	42,315	3,143,147	11,817,594	23,829,627	21,502	38,854,185

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

	As at 31 December 2017					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
FINANCIAL ASSETS:						
Loans and accounts receivables	85,419	2,787,399	8,581,050	28,693,479	650,753	40,798,100
Financial assets included in prepayments, deposits and other receivables	–	111,147	173	3,215	–	114,535
Restricted deposits	–	621,433	326,597	–	–	948,030
Available-for-sale investments	–	–	–	43,961	–	43,961
Derivative financial assets	–	–	5,273	–	–	5,273
Cash and cash equivalents	1,749,884	–	–	–	–	1,749,884
Total financial assets	1,835,303	3,519,979	8,913,093	28,740,655	650,753	43,659,783
FINANCIAL LIABILITIES:						
Trade payables	82,057	149,101	13,944	19,595	–	264,697
Financial liabilities included in other payables and accruals	15,358	330,064	189,005	2,203,812	18,052	2,756,291
Derivative financial liabilities	–	16,844	–	–	–	16,844
Interest-bearing bank and other borrowings	–	1,824,066	10,390,525	26,613,380	–	38,827,971
Total financial liabilities	97,415	2,320,075	10,593,474	28,836,787	18,052	41,865,803
Net liquidity gap	1,737,888	1,199,904	(1,680,381)	(96,132)	632,701	1,793,980

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's credit commitments based on contractual undiscounted cash flows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Credit commitments:		
Less than 3 months	**381,030**	343,110
3 to 12 months	**356,700**	1,185,164
	737,730	1,528,274

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

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 dividend payments to shareholders, return capital to shareholders, raise new debt or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the year.

The Group monitors capital risk using a gearing ratio, which is calculated as bank and other borrowings divided by total equity. The gearing ratio as at the reporting date which was within the Group's policy is as follows:

Group

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Bank and other borrowings	**32,981,989**	26,882,695
Total equity	**10,256,808**	7,468,826
Gearing ratio	**322%**	360%

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

CULC and Genertec Universal International Financial Leasing (Tianjin) Co., Ltd. ("TJ-Leasing")

The primary objective of the capital management of CULC and TJ-Leasing, principal subsidiaries of the Group located in Mainland China, is to ensure that they comply with the regulatory requirements of the Ministry of Commerce of the PRC (the "MOFCOM") in addition to the general requirements that are relevant to the Group. In accordance with the "Administration of Foreign Investment in the Leasing Industry" promulgated by the MOFCOM on 3 February 2005 and other relevant laws and regulations, CULC and TJ-Leasing have set up appropriate business development and capital management programs and established a comprehensive evaluation system. They actively adjust the capital structure in light of changes in the market and the risks has confronted by adjusting their dividend policy or financing channels. During the year, there were no significant changes in the policies or processes for managing the capital of CULC and TJ-Leasing.

In accordance with the aforementioned requirements of the MOFCOM, CULC and TJ-Leasing should maintain their risky assets ("Risky Assets") within 10 times of their equity. Risky Assets shall be determined on the basis of the total assets less cash. The calculations of the ratios of the Risky Assets to equity as at each reporting date are as follows:

CULC

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Total assets	**43,682,276**	34,573,163
Less: Cash and cash equivalents	**(1,576,660)**	(1,220,480)
Total Risky Assets	**42,105,616**	33,352,683
Equity	**9,574,323**	7,540,546
Ratio of Risky Assets to equity	**4.40**	4.42

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

CULC and Genertec Universal International Financial Leasing (Tianjin) Co., Ltd. ("TJ-Leasing") (continued)

TJ-Leasing

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Total assets	**12,027,788**	7,217,345
Less: Cash and cash equivalents	**(213,897)**	(66,288)
Total Risky Assets	**11,813,891**	7,151,057
Equity	**1,998,668**	1,544,731
Ratio of Risky Assets to equity	**5.91**	4.63

39. EVENTS AFTER THE REPORTING PERIOD

On 1 January 2019, the Group acquired a 55% interest in XD Group Hospital. The purchase consideration of RMB550,000,000 for the acquisition was in the form of cash. The Group plans to measure the non-controlling interest at fair value.

Because the acquisition of was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

40. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**552**	633
Prepayments, deposits and other receivables	**4,906,854**	1,845,241
Investments in subsidiaries	**5,606,726**	5,606,726
Derivative financial instruments	**27,067**	–
Total non-current assets	**10,541,199**	7,452,600
CURRENT ASSETS		
Accounts receivable	**2,982**	3,121
Prepayments, deposits and other receivables	**38,257**	18,076
Dividend receivable from a subsidiary	**484,500**	43,200
Tax recoverable	**–**	1,149
Restricted deposits	**335,675**	–
Cash and cash equivalents	**235,771**	446,859
Total current assets	**1,097,185**	512,405
CURRENT LIABILITIES		
Trade payables	**96**	92
Other payables and accruals	**8,647**	17,789
Derivative financial liabilities	**–**	16,844
Total current liabilities	**8,743**	34,725
NET CURRENT ASSETS	**1,088,442**	477,680
TOTAL ASSETS LESS CURRENT LIABILITIES	**11,629,641**	7,930,280
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**6,826,668**	3,216,034
Other payables and accruals	**3,188**	6,003
Derivative financial liabilities	**5,038**	–
Net assets	**4,794,747**	4,708,243
EQUITY		
Share capital	**4,327,842**	4,327,842
Reserves (note)	**466,905**	380,401
Total equity	**4,794,747**	4,708,243

Peng Jiahong
Director

Yu Gang
Director

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve and contributed surplus RMB'000	Hedge reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2018	**33,302**	**–**	**347,099**	**380,401**
Profit for the year	**–**	**–**	**445,358**	**445,358**
Other comprehensive income for the year				
Cash flow hedges, net of tax	**–**	**(22,061)**	**–**	**(22,061)**
Dividends	**–**	**–**	**(336,793)**	**(336,793)**
At 31 December 2018	**33,302**	**(22,061)**	**455,664**	**466,905**
Balance at 1 January 2017	33,302	–	261,886	295,188
Profit for the year	–	–	339,661	339,661
Other comprehensive income for the year	–	–	–	–
Dividends	–	–	(254,448)	(254,448)
At 31 December 2017	33,302	–	347,099	380,401

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

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通用環球醫療集團有限公司
GENERTEC UNIVERSAL MEDICAL GROUP COMPANY LIMITED