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 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and Vice-chairman

Mr. Zhang Yichen *(Chairman)*
Ms. Peng Jiahong
(Vice-chairwoman)

Executive Directors

Ms. Peng Jiahong
(Chief Executive Officer)
Mr. Yu Gang

Non-executive Directors

Mr. Zhang Yichen
Ms. Liu Kun
Mr. Liu Zhiyong
Mr. Liu Xiaoping
Mr. Su Guang

Independent Non-executive Directors

Mr. Li Yinquan
Mr. Chow Siu Lui
Mr. Han Demin
Mr. Liao Xinbo#
Mr. Kong Wei##

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

NOMINATION COMMITTEE

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

STRATEGY COMMITTEE

Ms. Peng Jiahong
(Chairwoman)
Mr. Zhang Yichen
Ms. Liu Kun

RISK CONTROL COMMITTEE

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

COMPANY SECRETARY

Ms. Ng Wai Kam*
Ms. Lui Mei Yan Winnie**
Ms. Cheng Pik Yuk***

AUTHORISED REPRESENTATIVES

Ms. Peng Jiahong
Ms. Ng Wai Kam*
Ms. Lui Mei Yan Winnie**
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 2 December 2019
Resigned with effect from 18 September 2019
* Appointed with effect from 31 December 2019
** Appointed with effect from 5 June 2019 and resigned with effect from 31 December 2019
*** Resigned with effect from 5 June 2019

DEFINITION

"2020 AGM"	the annual general meeting of the Company to be held on 9 June 2020
"Ansteel General Hospital"	Ansteel Group General Hospital (鞍鋼集團公司總醫院)
"Ansteel Group"	Ansteel Group Corporation Limited (鞍鋼集團有限公司)
"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（中國電子信息產業集團有限公司）
"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
"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
"CRFG"	China Railway First Group Co., Ltd.（中國中鐵一局集團有限公司）
"CR State Asset"	China Railway State Asset Management Co., Ltd. (中鐵國資資產管理有限公司)
"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"	Evergreen021 Co., Ltd, a company incorporated under the laws of the British Virgin Islands on 14 August 2014 with limited liability
"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
"HKD"	Hong Kong dollars, the lawful currency of Hong Kong

"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hospital Investment Co., Ltd." or "Wiseman"	Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. (通用環球醫院投資管理(天津)有限公司), previously known as 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
"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 Company
"Pangang Group"	Panzhihua Iron and Steel (Group) Company Limited (攀鋼集團有限公司)
"Pangang Mining"	Panzhihua Pangang Group Mining Company (攀鋼集團礦業有限公司)
"PRC" or "China"	The People's Republic of China, for the purpose of this report, excluding Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus issued by the Company on 24 June 2015
"Qianshan Hot Spring Sanatorium"	Qianshan Hot Spring Sanatorium of Ansteel General Hospiral
"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
"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
"Share(s)"	ordinary share(s) in the share capital of the Company
"Share Option Scheme"	the share option scheme adopted by the Company on 31 December 2019
"Shareholder(s)"	holder(s) of Shares
"SOE"	State-owned enterprise
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	the strategy committee of the Board
"USD"	United States dollars, the lawful currency of the United States
"Xi'an Aero-Engine Hospital"	Genertec Universal Xi'an Aero-Engine Hospital (Xi'an) Co., Ltd. (通用環球西航醫院(西安)有限公司)
"Yangmei Hospital Management"	Shanxi Yangmei General Hospital Medical Management Co., Ltd. (山西陽煤總院醫療管理有限公司)
"Yang Quan Coal Industry"	Yang Quan Coal Industry (Group) Co., Ltd. (陽泉煤業(集團)有限責任公司)

COMPANY 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 conglomerate focusing on healthcare industry. China General Technology (Group) Holding Company Limited (中國通用技術(集團)控股有限責任公司), the controlling shareholder of the Company, is a backbone state-owned enterprise under direct administration of the PRC central government, and also a Fortune Global 500 enterprise.

The Company has been fully engaged in the medical healthcare industry for decades and accumulated worldwide high-quality medical resources, including sustainable cooperative relations with hundreds of well-known medical experts, and strategic partnerships with famous domestic and overseas medical service institutions. Leveraging core competencies in modern managerial idea, professional talent team, quality medical resources, diversified financial strength as well as inclusive and enterprising corporate culture, we strive to build up a trustworthy healthcare conglomerate, with an integrated development system centered on medical services with a number of diversified businesses including medical finance and industry chain extension businesses.

With the operation center located in Beijing, the Company has over 40 medical institutions distributed in several provinces including Shaanxi, Anhui, Hebei, Hunan, Sichuan and Liaoning, forming a medical service network centered on certain regions and radiating nationwide.

In the future, we will firmly grasp the good opportunity of China's medical healthcare industry, build a medical service system with comfortable environment, first-class service, perfect technology and high operation efficiency by using cutting-edge scientific and technological achievements, advanced operation methods, scarce expert resources and industry development insights, safeguard health and wellness through quality healthcare, and make contribution to the "Healthy China" plan.

CEO'S STATEMENT

The end of 2019 has seen the outbreak of COVID-19, swiftly spreading across the globe. Faced with this global crisis, China has been striving hard with concerted efforts of the whole nation to fight the pandemic. Universal Medical, together with all of its member hospitals, made very rapid response to arrange epidemic prevention and control: several member hospitals were officially designated as virus treatment or quarantine institutions; over 40 doctors and nurses put themselves in harm's way to provide medical support to Hubei Province; back offices spared no efforts to allocate medical supplies for the frontline hospitals. Under the threat of epidemic and at the critical moment of life and death, we are living our mission as always: safeguarding health and wellness through quality healthcare services.

We are fully aware that, nowadays, people's medical needs have been far beyond disease treatment and require diversified health care covering the whole life cycle. Based on our mission, we introduced an integrated development strategy centered on medical services with a number of diversified businesses including medical finance, medical technology, medical digitalization, medical health insurance and elderly care with medical services, striving to build up a health care system covering the whole life cycle.

Hospital group is the core resource of our strategic planning. Over the past year, through formation of joint ventures or open market bidding, our hospital group expanded impressively by entering into contracts with SOEs including Ansteel Group, Pangang Group, CEC, CR State Assets and Yang Quan Coal Industry, which covered over 40 medical institutions with actual capacity of more than 15,000 beds. Leveraging our core competencies in group management, we continuously improve hospital operation system to comprehensively enhance member hospitals' medical technology, managerial efficiency and service capabilities in various areas including disciplines, operation, supply chain and renovation and expansion projects.

Medical finance is regarded as the cornerstone underpinning our steady performance. During the past year, faced with complicated and constantly changing domestic and foreign financial markets and fierce market competition, on the one hand, we engaged in broader and deeper market development to fortify our business foundation. On the other hand, we continued to strengthen risk control, actively adjusted financing strategy, and achieved steady growth of financial business.

We have been actively expanding and extending our health industry chain businesses, such as medical technology, medical digitalization, medical health insurance and elderly care with medical services. Over the year of 2019, our strategic planning on industry chain was clearer. Our medical resources platform continued to grow and our pilot projects progressed steadily and our business synergy began to take shape.

In the future, focusing on health care and adhering to the philosophy of whole life cycle and whole industry chain, we will continue to pool high-quality medical resources to complete our industry planning and enhance our service quality, striving to build up a healthcare group that patients/clients trust. This is our development vision, and also our long-term goal.

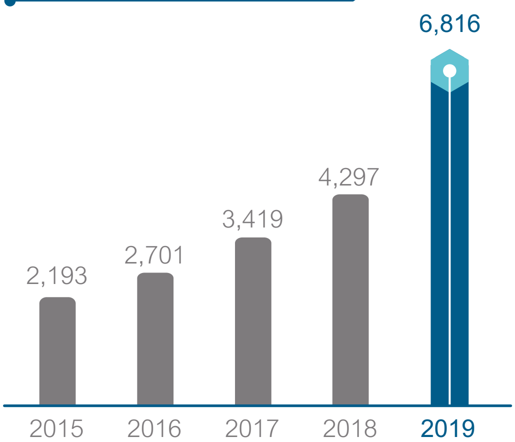
Lastly, on behalf of the management team and all staff of Universal Medical, I would like to express our sincere gratitude to customers, shareholders and business partners who have continuously supported and cared about us. The year 2020 will not only see us braving thorny paths with enterprising spirit, but also witness our ship of business riding the waves and setting sail for a long voyage. In the way forward through all the difficulties, we will seek to enhance the performance of our businesses and corporate culture for greater value and make unremitting efforts to build up a healthcare group that patients/clients trust.

Best regards,

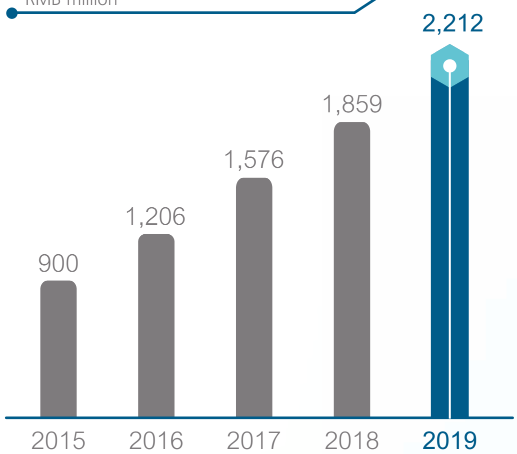
Peng Jiahong
Vice-Chairwoman of the Board,
Executive Director and Chief Executive Officer
Genertec Universal Medical Group Company Limited

PERFORMANCE OVERVIEW

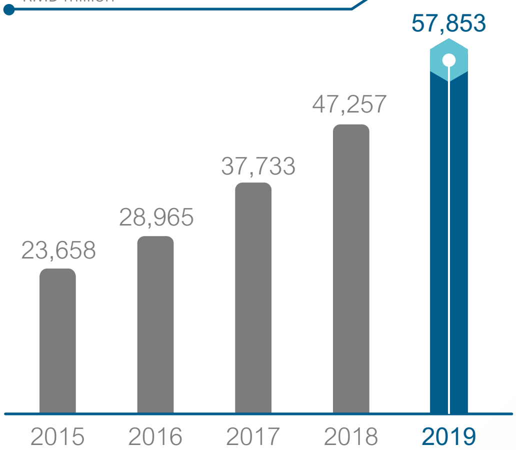
INCOME
RMB million



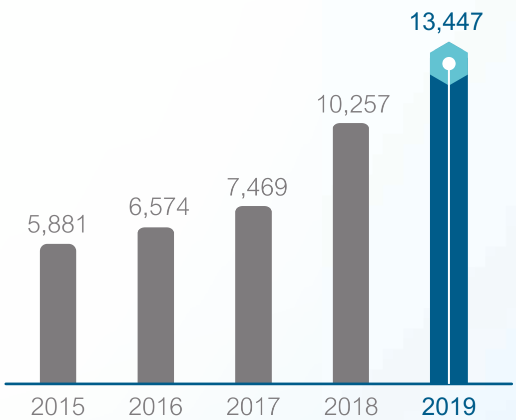
PROFIT BEFORE TAX
RMB million



TOTAL ASSETS
RMB million



TOTAL EQUITY
RMB million



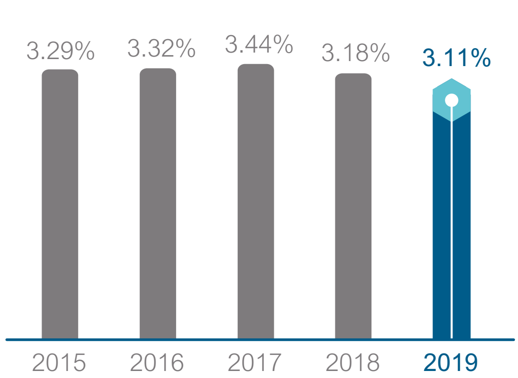
AS AT 31 DECEMBER 2019 PERCENTAGE OF HEALTHCARE INTEREST-EARNING ASSETS

69.6%

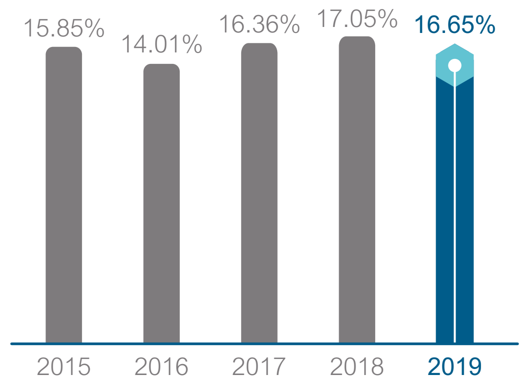
AS AT 31 DECEMBER 2019 NET ASSETS PER SHARE

5.53 RMB

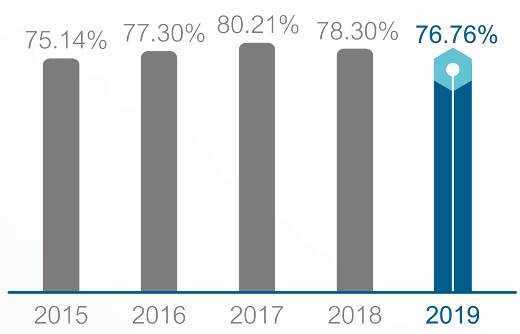
RETURN ON TOTAL ASSETS



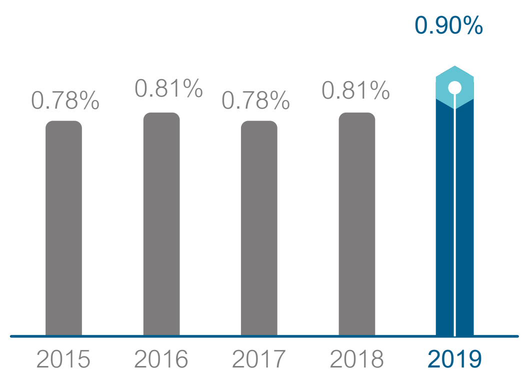
RETURN ON EQUITY



DEBT RATIO



NPA RATIO



EPS (BASIC AND DILUTED)

NET INTEREST SPREAD

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating Results					
Income	**6,815,587**	4,296,866	3,418,829	2,700,916	2,193,398
Finance and advisory business income*1	**4,768,645**	4,165,136	3,341,103	2,698,986	2,191,025
Hospital group business income*1	**2,046,942**	131,730	77,468	–	–
Cost of sales	**(3,636,505)**	(1,705,442)	(1,244,640)	(965,970)	(884,851)
Cost of finance and advisory business*2	**(1,926,405)**	(1,591,850)	(1,173,189)	(965,970)	(884,746)
Cost of hospital group business	**(1,757,074)**	(113,592)	(71,451)	–	–
Profit before tax	**2,211,859**	1,859,039	1,576,461	1,205,945	900,274
Profit for the year	**1,634,392**	1,350,664	1,148,679	872,310	658,526
Profit for the year attributable to ordinary share holders of the Company	**1,488,736**	1,352,173	1,148,658	872,310	658,526
Basic and diluted earnings per share (RMB)	**0.87**	0.79	0.67	0.51	0.44
Profitability Indicators					
Return on total assets(1)	**3.11%**	3.18%	3.44%	3.32%	3.29%
Return on equity(2)	**16.65%**	17.05%	16.36%	14.01%	15.85%
Net interest margin(3)	**3.74%**	4.10%	4.41%	4.36%	3.42%
Net interest spread(4)	**3.24%**	3.23%	3.51%	3.31%	2.56%

*1 After taxes and surcharges

*2 Before inter-segment offset

(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 attributable to the ordinary share holders of the Company/average balance of equity at the beginning and end of the year 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.

	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Assets and Liabilities					
Total assets	**57,852,542**	47,256,927	37,732,513	28,964,583	23,657,881
Net interest-earning assets	**49,785,639**	44,270,664	35,021,292	27,160,141	21,600,652
Total liabilities	**44,405,334**	37,000,119	30,263,687	22,390,192	17,776,681
Interest-bearing bank and other borrowings	**38,002,843**	32,981,989	26,882,695	19,485,459	15,458,354
Total equity	**13,447,208**	10,256,808	7,468,826	6,574,391	5,881,200
Profit for the period attributable to ordinary share holders of the Company	**9,489,304**	8,395,611	7,468,601	6,574,391	5,881,200
Net assets per share (RMB)	**5.53**	4.89	4.35	3.83	3.43
Financial Indicators					
Debt ratio(1)	**76.76%**	78.30%	80.21%	77.30%	75.14%
Gearing ratio(2)	**2.83**	3.22	3.60	2.96	2.63
Current ratio(3)	**1.10**	1.06	0.98	1.25	0.98
Asset Quality					
Non-performing assets ratio(4)	**0.90%**	0.81%	0.78%	0.81%	0.78%
Provision coverage ratio(5)	**198.46%**	190.24%	189.92%	183.85%	171.47%
Write-off of non-performing assets ratio(6)	**0.00%**	0.00%	0.00%	0.00%	0.00%
Ratio of lease receivables (over 30 days)(7)	**0.84%**	0.62%	0.44%	0.51%	0.46%

(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/net interest-earning 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) Ratio of lease receivables (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

The year of 2019 was a crucial year for the Group to construct a medical and health conglomerate, and push forward the implementation of strategic upgrading. In the past year, our hospital group continued to expand, our strategic layout of health industry chain became more visible, and our medical finance business developed steadily. The foundation for building an advanced medical and health conglomerate is coming into form. In 2019, our operating performance grew steadily. Our revenue increased to RMB6,815.6 million, representing a year-on-year increase of 58.6%. Our profit for the year increased to RMB1,634.4 million, representing a year-on-year increase of 21.0%. Profit for the year attributable to ordinary share holders of the Company increased to RMB1,488.7 million, representing a year-on-year increase of 10.1%. Our assets recorded a sound growth with leading asset quality in the industry.

1.1 Hospital Group Business

Hospital group is the most essential part of building a medical and health conglomerate. In 2019, the Group successively entered into project cooperation contracts with Ansteel Group, Pangang Group, CEC, CR State Asset and Yang Quan Coal Industry through formation of joint ventures or open market bidding, and continued to actively participate in the integration and takeover of medical institutions of SOEs. We have been building up a tightly-knit medical network surrounding key regions and cities across China. The Group has comprehensively improved the medical technology, management efficiency and service capabilities of our hospitals by focusing on discipline construction, operation management, digitalization upgrading, supply chain management, hospital renovation and expansion, and the like.

As at 31 December 2019, the Group had signed contracts in relation to takeover of over 40 medical institutions (including 5 Grade III Class A hospitals and over 20 Grade II hospitals), with an actual capacity of over 15,000 beds. The Group had consolidated the accounts of 24 medical institutions (including 3 Grade III Class A hospitals and 12 Grade II hospitals), with an actual capacity of 7,399 beds. The number of outpatient visits and discharged patients amounted to 3.86 million and 0.21 million in 2019, respectively, and the hospital operation recorded revenue of RMB3,203.9 million (excluding the operating data of Qianshan Hot Spring Sanatorium). Due to the different time from which these medical institutions' accounts were consolidated into the Group's financial statements, RMB1,860.5 million was recorded at revenue.

The Geographical Location of the Medical Institutions Consolidated into the Group as at 31 December 2019

Province	Grade III hospitals	Grade II hospitals	Others (note)	Total
Shaanxi	1	6	2	9
Shanxi	1	2	4	7
Anhui	–	1	2	3
Shandong	–	1	–	1
Hebei	–	1	–	1
Liaoning	1	1	1	3
Total	3	12	9	24

Note: Including Grade I hospitals, community service centers and other non-rated medical institutions.

General Operating Data of the Consolidated Medical Institutions in 2019

		Visits in 2019		Medical business income in 2019 (RMB ten thousand)				2019		
Category	Capacity	Outpatient visits	Discharge	Outpatient income	Inpatient income	Medical examination income	Total	Income per bed (RMB ten thousand)	Outpatient fee per visit (RMB)	Inpatient fee per visit (RMB)
Grade III	3,460	1,731,131	99,285	56,903	130,878	4,233	192,014	55.5	329	13,182
Grade II	3,473	1,601,337	97,211	39,981	70,495	7,440	117,916	34.0	250	7,252
Others (note)	466	522,924	8,835	5,787	3,312	1,361	10,460	22.4	111	3,749
Total	7,399	3,855,392	205,331	102,671	204,686	13,034	320,390	43.3	266	9,969

Note: Including Grade I hospitals, community service centers and other non-rated medical institutions. The operating data does not include that of Qianshan Hot Spring Sanatorium.

In the meantime, the Group actively extended its health industry chain based on its hospital group. With respect to medical technology, the Group introduced the world's leading medical device products, and effectively improved the medical technology of hospital customers. As to our medical digitalization business, based on our member hospitals, we focused on three key aspects, namely Internet-based healthcare services, smart hospital solutions, and medical big data and artificial intelligence services. By so doing, the Group continuously improved its Internet-based health platform and made great efforts to build an "online+offline" service model. Regarding supply chain management, focusing on the hospital business, the Group carried out construction and deployment of a medicine supply chain system and a management platform of transparent procurement of medical supplies; it also reviewed the use of drugs and medical consumables in each hospital, continuously improved business process and standardized the centralized procurement of regional pharmaceutical supply chains.

1.2 Finance and Advisory Business

The Group's medical finance business, which is the cornerstone underpinning the Group's steady development, mainly provides finance lease services for county-level public hospitals. In the past year, on the one hand, the Group continued to expand market development both in depth and width and continuously fortified its business foundation in the face of complicated and changing domestic and foreign financial environment and fierce market competition. On the other hand, the Group continued to strengthen risk control and actively adjusted its financing strategy, and achieved steady development of medical finance business. The Group's advisory business includes industry, equipment and financing advisory services, and clinical department upgrade services for the prevention, treatment and rehabilitation of CVA and other major diseases with high prevalence. The Group relied on its expanding medical resource platform to improve partner hospitals' medical technology service capabilities and management efficiency in accordance with specific stages of hospital operation and clinical department development's characteristics.

In 2019, the finance and advisory business recorded revenue of RMB4,768.6 million, increased by 14.5% as compared to the previous year; recorded gross profit of RMB2,842.2 million, increased by 10.5% as compared to the previous year. Finance lease business recorded revenue of RMB3,807.2 million, increased by 18.4% as compared to the previous year; recorded gross profit of RMB1,890.0 million, increased by 14.6% as compared to the previous year; the net interest spread was 3.24% and the net interest margin was 3.74%, a high ranking among domestic competitors. As at 31 December 2019, the Group's leased asset reached RMB49,785.6 million, representing an increase of 12.5% as compared with the beginning of the year; non-performing assets ratio was 0.90%, maintaining its leading position of asset quality in the industry.

1.3 Prospects for the Future

In the future, the Group will continue to focus on its strategic development direction in medical and healthcare sector and seize policy and market opportunities. Based on the concept of whole life cycle, we will strive to build a health industry closed loop centered on medical services and comprising medical finance, medical technology services, medical digitalization and industry chain extension businesses. We will actively explore medical and elderly care business, medical health insurance, medical engineering cooperation, regional inspection centers, logistics management and other sectors, and will continue to pool high-quality resources in the industry, improve the layout of the industry, strive to build a leading medical and health conglomerate, and contribute to the construction of "Healthy China".

2. ANALYSIS OF STATEMENT OF PROFIT OR LOSS

2.1 Overview

In 2019, our hospital group continued to expand and our medical finance business steadily developed, with the strategic layout of our health industry chain becoming more distinct and the operating efficiency steadily improved. In 2019, the Group recorded revenue of RMB6,815.6 million, representing an increase of 58.6% as compared to the previous year. Profit before tax was recorded RMB2,211.9 million, representing an increase of 19.0% as compared to the previous year. Profit for the year attributable to the ordinary share holders of the Company was RMB1,488.7 million, representing an increase of 10.1% as compared to 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		
	2019	2018	Change %
	RMB'000	RMB'000	
Revenue	**6,815,587**	4,296,866	58.6%
Cost of sales	**(3,636,505)**	(1,705,442)	113.2%
Gross profit	**3,179,082**	2,591,424	22.7%
Other income and gains	**218,645**	150,740	45.0%
Selling and distribution costs	**(404,589)**	(387,251)	4.5%
Administrative expenses	**(441,408)**	(244,350)	80.6%
Impairment of financial assets	**(235,213)**	(145,996)	61.1%
Financial costs	**(11,982)**	(419)	2,759.7%
Other expenses	**(96,116)**	(105,109)	-8.6%
Share of profit of:			
An associate	**619**	–	100.0%
A joint venture	**2,821**	–	100.0%
Profit before tax	**2,211,859**	1,859,039	19.0%
Income tax expense	**(577,467)**	(508,375)	13.6%
Profit for the year	**1,634,392**	1,350,664	21.0%
Profit for the year attributable to the ordinary share holders of the Company	**1,488,736**	1,352,173	10.1%
Basic and diluted earnings per share (RMB)	**0.87**	0.79	10.1%

2.2 Analysis of Business Revenue

In 2019, the Group continued to further expand its existing finance lease business, proactively pushed forward the work on integration and takeover of medical institutions of SOEs, and completed the acquisition and consolidation of dozens of medical institutions. Currently, the Group has two major business segments: finance and advisory segment including finance lease and advisory services (industry, equipment and financing advisory and clinical department upgrade services); and hospital group segment including comprehensive medical services and hospital operation and management services. In 2019, the Group recorded revenue of RMB6,815.6 million, of which finance and advisory business recorded revenue of RMB4,768.6 million, accounting for 70.0%; while hospital group business recorded revenue of RMB2,046.9 million, accounting for 30.0%. The Group recorded profit before tax of RMB2,211.9 million, of which finance and advisory business recorded profit before tax of RMB2,091.3 million, accounting for 94.5%, while hospital group business recorded profit before tax of RMB120.6 million, accounting for 5.5%. The Group recorded profit for the year attributable to the ordinary shareholders of RMB1,488.7 million, of which finance and advisory business recorded profit for the year attributable to the ordinary shareholders of RMB1,427.3 million, accounting for 95.9%, while hospital group business recorded profit for the year attributable to the ordinary shareholders of RMB61.4 million, accounting for 4.1%.

The following table sets forth the Group's revenue from the two major business segments:

	For the year ended 31 December				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Finance and advisory business	**4,768,645**	**70.0%**	4,165,136	96.9%	14.5%
Hospital group business	**2,046,942**	**30.0%**	131,730	3.1%	1,453.9%
Total	**6,815,587**	**100.0%**	4,296,866	100.0%	58.6%

The following table sets forth the Group's profit before tax from the two major business segments:

	For the year ended 31 December				
	2019		2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Finance and advisory business	**2,091,246**	**94.5%**	1,866,591	100.4%	12.0%
Hospital group business	**120,613**	**5.5%**	(7,552)	-0.4%	1,697.1%
Total	**2,211,859**	**100.0%**	1,859,039	100.0%	19.0%

The following table sets forth the Group's profit for the year attributable to the ordinary shareholders of the Company from the two major business segments:

	For the year ended 31 December				
	2019		2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Finance and advisory business	**1,427,322**	**95.9%**	1,358,479	100.5%	5.1%
Hospital group business	**61,414**	**4.1%**	(6,306)	-0.5%	1,073.9%
Total	**1,488,736**	**100.0%**	1,352,173	100.0%	10.1%

2.2.1 Finance and Advisory Business

In 2019, the Group's finance and advisory business continued to develop in a prudent manner and recorded revenue of RMB4,768.6 million, representing an increase of RMB603.5 million or 14.5% as compared to the previous year. Profit before tax was recorded RMB2,091.3 million, representing an increase of RMB224.7 million or 12.0% as compared to the previous year. Profit for the year attributable to the ordinary shareholders of the Company was RMB1,427.3 million, representing an increase of RMB68.8 million or 5.1% as compared to the previous year.

The Group's finance and advisory business primarily consists of finance lease business and advisory services.

The following table sets forth the Group's income from finance and advisory business:

	For the year ended 31 December				
	2019		2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Finance lease	**3,807,177**	**79.8%**	3,216,174	77.2%	18.4%
Advisory service	**961,468**	**20.2%**	948,962	22.8%	1.3%
Total	**4,768,645**	**100.0%**	4,165,136	100.0%	14.5%

The following table sets forth the gross profit of the Group's finance and advisory business:

	For the year ended 31 December				
	2019		2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Finance lease*	**1,890,010**	**66.5%**	1,649,453	64.1%	14.6%
Advisory service	**952,230**	**33.5%**	923,833	35.9%	3.1%
Total	**2,842,240**	**100.0%**	2,573,286	100.0%	10.5%

* Before inter-segment offset

2.2.1.1 Finance lease business

The Group's revenue from finance lease business is interest income. In 2019, on the one hand, the Group continued to expand the market development in width and depth and continuously consolidated its business foundation; on the other hand, the Group persistently strengthened risk control and actively adjusted its financing strategy, achieving steady growth in finance lease business. In 2019, the Group's finance lease business recorded interest income of RMB3,807.2 million, representing an increase of RMB591.0 million or 18.4% as compared to the previous year. The Group strived to maintain its leading position in medical finance lease market and recorded interest income of RMB2,804.3 million from medical industry, accounting for 73.7% of the total interest income.

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

	For the year ended 31 December				
	2019		2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Healthcare	**2,804,343**	**73.7%**	2,410,688	75.0%	16.3%
Other	**1,002,834**	**26.3%**	805,486	25.0%	24.5%
Total	**3,807,177**	**100.0%**	3,216,174	100.0%	18.4%

In 2019, the Group's finance lease business recorded the gross profit of RMB1,890.0 million, representing an increase of RMB240.6 million, or 14.6%, as compared to the previous year. The increase of the gross profit was driven by the increase in the size of interest-earning assets and stable interest spread.

The following table sets forth the indicators of income from finance lease business:

	31 December 2019			31 December 2018		
	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	**48,216,413**	**3,821,659**	**7.93%**	40,662,307	3,232,943	7.95%
Interest-bearing liabilities	**42,987,091**	**2,016,751**	**4.69%**	33,226,265	1,566,721	4.72%
Net interest margin(5)	**–**	**–**	**3.74%**	–	–	4.10%
Net interest spread (6)	**–**	**–**	**3.24%**	–	–	3.23%

* Average cost rate indicator takes into account the effect of perpetual bond

(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 2019, the Group's net interest spread of finance lease was 3.24%, representing an increase of 0.01 percentage point from 3.23% in the previous year, remaining at a good level in the industry.

Average yield of interest-earning assets: In 2019, the Group's average yield of interest-earning assets was 7.93%, representing a decrease of 0.02 percentage point from 7.95% in the previous year, remained at a stable level. In 2019, although faced with fierce competition in the market, the Group's yield of interest-earning assets still remained at a stable level though slightly decreased, which was due to strict risk management and control and strong customer stickiness.

Average cost rate of interest-bearing liabilities: In 2019, the average cost rate of interest-bearing liabilities of the Group was 4.69%, representing a decrease of 0.03 percentage point from 4.72% in the previous year. Under the complicated domestic and overseas financial environments, the Group actively explored various channels to ensure low-cost capital as required in business development, and the average cost of interest-bearing liabilities remained stable as compared to the previous year.

2.2.1.2 Advisory services business

The Group's advisory services business includes industry, equipment and financing advisory services as well as clinical department upgrade services. In 2019, the gross profit from advisory services was RMB952.2 million, representing an increase of RMB28.4 million or 3.1% as compared to the previous year.

Industry, equipment and financing advisory services is a part of the Group's integrated services. 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 advice, and to assist our customers in improving their service quality. In 2019, industry, equipment and financing advisory services recorded gross profit of RMB804.0 million, representing an increase of 4.2% as compared to the previous year.

The Group's clinical department upgrade services mainly comprises the provision of services such as mid-to-long term planning for hospital development, disciplinary groups planning, specialty 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. In 2019, clinical department upgrade services recorded gross profit of RMB148.2 million, representing a decrease of 2.8%, as compared to the previous year.

2.2.1.3 Operating cost

In 2019, the Group's sales and distribution costs from finance and advisory business amounted to RMB382.1 million, representing an increase of RMB15.0 million, or 4.1%, as compared to the previous year. Administrative expenses amounted to RMB277.4 million, representing an increase of RMB38.8 million, or 16.3%, as compared to the previous year. The increase in administrative expenses was mainly due to the increase of labor costs. In 2019, the Company constantly attracted more professional senior management talents in order to implement the Company's strategy.

In 2019, the Group's finance and advisory business continued to maintain high operating efficiency and the cost to income ratio was 23.21%, representing a decrease of 0.33 percentage point as compared to 23.54% for the previous year.

2.2.2 Hospital Group Business

The Group's hospital group business includes integrated healthcare services and hospital operation and management business. In 2019, with the implementation of cooperation projects with certain hospitals, operating results of the Group's integrated healthcare services business made a breakthrough; meanwhile, hospital operation and management business grew substantially driven by integrated healthcare services business. In 2019, the hospital group business recorded income of RMB2,046.9 million, representing an increase of RMB1,915.2 million as compared to the previous year, and recorded profit for the year of RMB107.5 million, representing an increase of RMB115.3 million as compared to the previous year.

The following table sets forth the indicators of income from hospital group business:

	For the year ended 31 December 2019 RMB'000			
	Integrated healthcare services	**Hospital operation and management**	**Offset between business**	**Total**
Income	**1,860,472**	**354,018**	**(167,548)**	**2,046,942**
Gross profit	**244,791**	**52,603**	**(7,526)**	**289,868**
Profit for the year	**91,942**	**20,051**	**(4,523)**	**107,470**
Net profit margin	**4.94%**	**5.66%**	**–**	**5.25%**
EBITDA	**207,679**	**38,649**	**(4,523)**	**241,805**

	For the year ended 31 December 2018 RMB'000			
	Integrated healthcare services	Hospital operation and management	Offset between business	Total
Income	–	131,730	–	131,730
Gross profit	–	(18,138)	–	(18,138)
Profit for the year	–	(7,815)	–	(7,815)
Net profit margin	–	-5.93%	–	-5.93%
EBITDA	–	(5,873)	–	(5,873)

2.2.2.1 *Integrated healthcare services*

The Group's revenue for integrated healthcare services mainly consists of the revenue generated from certain healthcare services such as inpatient, outpatient and emergency treatment and physical examination provided by the Group's medical institutions. As at 31 December 2019, the Group had consolidated 24 medical institutions, including Yantai Port Hospital, Xi'an XD Group Hospital, Hefei Anhua Hospital, Ansteel General Hospital, Xi'an Aero-Engine Hospital, Xianyang Caihong Hospital, medical institutions affiliated to CRFG and Yang Quan Coal Industry and other hospitals. After consolidation, the medical institutions recorded an accumulative service income of RMB1,860.5 million, profit for the year of RMB91.9 million, net profit margin of 4.94%, and EBITDA of RMB207.7 million. Among these medical institutions, those affiliated to Yang Quan Coal Industry were consolidated into the Group as at 31 December 2019, thus their revenue and profit for the year was not included in the revenue from integrated healthcare services and profit for the year in 2019.

2.2.2.2 *Hospital operation and management business*

Hospital operation and management business of the Group mainly includes the supply chain operation business, such as medicines, consumables and medical devices. In 2019, hospital operation and management business recorded revenue of RMB354.0 million, representing an increase of 168.7% as compared to the previous year, among which revenue from providing operation and management business for the Group's consolidated medical institutions was RMB167.5 million, mainly generated from supply chain business of certain hospitals acquired by the Group. The profit for the year of hospital operation and management business was RMB20.1 million with net profit margin of 5.66%.

3. FINANCIAL POSITION ANALYSIS

3.1 Overview of Assets

As at 31 December 2019, the Group's total assets was RMB57,852.5 million, representing an increase of RMB10,595.6 million or 22.4% as compared to the end of the previous year. In particular, our restricted deposits was RMB541.0 million, representing a decrease of RMB8.1 million or 1.5% as compared to the end of the previous year, accounting for 0.9% of the total assets; our cash and cash equivalents was RMB3,385.9 million, representing an increase of RMB1,212.4 million or 55.8% as compared to the end of the previous year, accounting for 5.8% of the total assets; our loans and accounts receivable was RMB49,531.7 million, representing an increase of RMB5,861.4 million or 13.4% as compared to the end of the previous year, accounting for 85.6% of the total assets.

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

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Restricted deposits	**541,009**	**0.9%**	549,152	1.2%	-1.5%
Cash and cash equivalents	**3,385,867**	**5.8%**	2,173,473	4.5%	55.8%
Inventories	**156,726**	**0.3%**	40,537	0.1%	286.6%
Loans and accounts receivable	**49,531,738**	**85.6%**	43,670,306	92.4%	13.4%
Prepayments, deposits and other receivables	**332,383**	**0.6%**	71,414	0.2%	365.4%
Property, plant and equipment	**2,122,560**	**3.7%**	271,026	0.6%	683.2%
Prepaid land lease payments	**–**	**0.0%**	132,134	0.3%	-100.0%
Investment in a joint venture	**444,807**	**0.8%**	–	0.0%	100.0%
Investment in an associate	**4,198**	**0.0%**	–	0.0%	100.0%
Deferred tax assets	**308,585**	**0.5%**	248,471	0.5%	24.2%
Derivative financial assets	**220,265**	**0.4%**	81,250	0.2%	171.1%
Right-of-use asset	**689,937**	**1.2%**	–	0.0%	100.0%
Goodwill	**69,908**	**0.1%**	9,211	0.0%	659.0%
Other assets	**44,559**	**0.1%**	9,953	0.0%	347.7%
Total	**57,852,542**	**100.0%**	47,256,927	100.0%	22.4%

The following table sets forth the assets of the Group by business segment for the dates indicated:

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Finance and advisory	**52,014,941**	**89.9%**	46,584,641	98.6%	11.7%
Hospital group	**6,957,350**	**12.0%**	672,286	1.4%	934.9%
Inter-segment offset	**(1,119,749)**	**-1.9%**	–	0.0%	100.0%
Total	**57,852,542**	**100.0%**	47,256,927	100.0%	22.4%

3.1.1 Restricted Deposits

As at 31 December 2019, the Group had restricted deposits of RMB541.0 million, representing a decrease of RMB8.1 million or 1.5% as compared to the end of the previous year, accounting for 0.9% of the total assets. Restricted deposits are mainly pledged project funds and financing deposits from restricted items arising from factoring activities and pledge of receivables.

3.1.2 Cash and Cash Equivalents

As at 31 December 2019, the Group had cash and cash equivalents of RMB3,385.9 million, representing an increase of RMB1,212.4 million or 55.8% as compared to the end of the previous year, accounting for 5.8% of the total assets. The balance of cash and cash equivalents will be gradually applied in accordance with the Group's business plan.

3.1.3 Loans and Accounts Receivable

As at 31 December 2019, the balance of the Group's loans and accounts receivable was RMB49,531.7 million, representing an increase of RMB5,861.4 million or 13.4% as compared to the end of the previous year, accounting for 85.6% of the total assets. The net interest-earning assets was RMB48,900.3 million, accounting for 98.7% of the loans and accounts receivable; net accounts receivable was RMB631.5 million, accounting for 1.3% of the loans and accounts receivable.

3.1.3.1 *Interest-earning assets*

In 2019, given the continuing downward trend in China's macro-economic environment, the Group strengthened the risk management and control in a prudent manner, and continued to promote the expansion of lease business while ensuring asset security. As at 31 December 2019, the net interest-earning assets of the Group was RMB48,900.3 million, representing an increase of RMB5,314.9 million or 12.2% as compared to the end of the previous year.

Net interest-earning assets by industry

On the basis of effective control of risks, the Group laid emphasis on adjustment to interest-earning assets structure and risk prevention and control. As at 31 December 2019, the balance of healthcare interest-earning assets was RMB34,629.9 million, accounting for 69.6% of the interest-earning assets.

The following table sets forth the net interest-earning assets by industry:

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Healthcare	**34,629,870**	**69.6%**	34,649,213	78.3%	-0.1%
Others	**15,155,769**	**30.4%**	9,621,451	21.7%	57.5%
Net interest-earning assets	**49,785,639**	**100.0%**	44,270,664	100.0%	12.5%
Less: Provision for asset impairment	**(885,375)**		(685,295)		29.2%
Net value of interest-earning assets	**48,900,264**		43,585,369		12.2%

The maturity profile of the net interest-earning assets

The Group formulated reasonable business investment strategies according to the strategic plan so as to ensure the sustained and steady cash inflow. As at 31 December 2019, the maturity of the Group's net interest-earning assets was relatively balanced.

The following table sets forth the maturity profile of the net interest-earning assets:

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Within 1 year	**15,878,623**	**31.9%**	11,994,156	27.1%	32.4%
1-2 years	**13,096,220**	**26.3%**	12,441,386	28.1%	5.3%
2-3 years	**10,364,095**	**20.8%**	9,732,913	22.0%	6.5%
Over 3 years	**10,446,701**	**21.0%**	10,102,209	22.8%	3.4%
Net interest-earning assets	**49,785,639**	**100.0%**	44,270,664	100.0%	12.5%

Quality of interest-earning assets

The Group has been implementing robust asset management policies and continuously adopting stringent and prudent asset classification policies. As at 31 December 2019, the Group had non-performing assets of RMB446.1 million, representing an increase of RMB85.9 million as compared to 31 December 2018. 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 2019, the Group's non-performing assets ratio was 0.90%.

The following table sets forth the classification of five categories of the net interest-earning assets of the Group:

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Pass	**40,200,852**	**80.75%**	37,280,136	84.21%	7.8%
Special attention	**9,138,659**	**18.35%**	6,630,305	14.98%	37.8%
Substandard	**404,442**	**0.82%**	318,537	0.72%	27.0%
Doubtful	**–**	**0.00%**	–	0.00%	0.0%
Loss	**41,686**	**0.08%**	41,686	0.09%	0.0%
Net interest-earning assets	**49,785,639**	**100.00%**	44,270,664	100.00%	12.5%
Non-performing assets(1)	**446,128**		360,223		23.8%
Non-performing assets ratio(2)	**0.90%**		0.81%		

(1) Non-performing assets are defined as those interest-earning assets 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 future cash flows of interest-earning assets that can be reliably estimated. These interest-earning assets are classified as "substandard", "doubtful" or "loss".

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

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

Ratio of overdue interest-earning assets

In 2019, the Group implemented prudent risk control and asset management policy and continued improving the risk management system. However, certain clients were affected by macro-environment, resulting in unsatisfied operation performance and temporarily tightened cashflow. As at 31 December 2019, the overdue ratio (over 30 days) was 0.84%, increased by 0.22 percentage point as compared to 0.62% at the end of the previous year.

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

	31 December 2019	31 December 2018
Overdue ratio (over 30 days)[1]	**0.84%**	0.62%

(1) Calculated as net interest-earning assets (overdue for over 30 days) divided by net interest-earning assets.

Provision for impairment of interest-earning assets

As at 31 December 2019, the Group's provision coverage ratio was 198.46%, representing an increase of 8.22 percentage points 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 the Group's effort in collection through judicial means, those assets available for enforcement were unable to cover risk exposure. The Group will continue to take various ways to recover the leased assets to the maximum extent.

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

	As at 31 December 2019			
	Stage 1 (12-month expected credit loss) RMB'000	Stage 2 (Lifetime expected credit loss) RMB'000	Stage 3 (Lifetime expected credit loss-impaired) RMB'000	Total RMB'000
Net interest-earning assets	**40,200,852**	**9,138,659**	**446,128**	**49,785,639**
Provision for impairment of interest-earning assets	**(403,611)**	**(303,539)**	**(178,225)**	**(885,375)**
Net value of interest-earning assets	**39,797,241**	**8,835,120**	**267,903**	**48,900,264**

3.1.3.2 Accounts receivable

As at 31 December 2019, the Group's net accounts receivable was RMB631.5 million, representing an increase of RMB546.5 million or 643.5% as compared to the end of the previous year. The increase of accounts receivable was mainly from receivables of hospitals acquired during the year.

3.1.4 Other Assets

As at 31 December 2019, the Group's balance of inventory was RMB156.7 million, representing an increase of RMB116.2 million as compared to the end of the previous year, which was mainly due to the increase of balance of inventory from hospitals acquired by the Group.

As at 31 December 2019, the Group's balance of right-of-use asset was RMB689.9 million, representing an increase of RMB689.9 million as compared to the end of the previous year, of which, right-of-use asset recognized in office rental was RMB120.6 million, and land use right from hospitals acquired by the Group was RMB569.3 million.

As at 31 December 2019, the Group's balance of property, plant and equipment was RMB2,122.6 million, representing an increase of RMB1,851.5 million as compared to the end of the previous year, which was mainly due to the increase of balance of property, plant and equipment from hospitals acquired by the Group.

As at 31 December 2019, the Group's balance of prepayments, deposits and other receivables was RMB332.4 million, representing an increase of RMB261.0 million as compared to the end of the previous year, which were mainly from the increase of current amount from hospitals acquired by the Group.

As at 31 December 2019, the balance of the Group's investment in joint venture was RMB444.8 million, which was the investment in Sichuan Huankang Hospital Management Company Limited (四川環康醫院管理有限公司); balance of investment in associates was RMB4.2 million, which was investment in the associates under Ansteel General Hospital.

As at 31 December 2019, the Group's balance of goodwill was RMB69.9 million, representing an increase of RMB60.7 million as compared to the end of the previous year, which included goodwill of RMB58.9 million arising from the acquisition of Xi'an XD Group Hospital by the Group, goodwill of RMB0.8 million arising from the acquisition of Ansteel General Hospital and goodwill of RMB1.0 million arising from the acquisition of Xianyang Caihong Hospital.

3.2 Overview of Liabilities

As at 31 December 2019, the Group's total liabilities amounted to RMB44,405.3 million, representing an increase of RMB7,405.2 million, or 20.0%, as compared to the end of the previous year. Among which, the balance of interest-bearing bank and other borrowings amounted to RMB38,002.8 million, representing an increase of RMB5,020.9 million, or 15.2%, as compared to the end of the previous year, accounting for 85.6% of the total liabilities; balance of other payables and accruals amounted to RMB4,973.4 million, representing an increase of RMB1,550.6 million, or 45.3%, as compared to the end of the previous year, accounting for 11.2% of the total liabilities.

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

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Interest-bearing bank and other borrowings	**38,002,843**	**85.6%**	32,981,989	89.1%	15.2%
Trade and bills payable	**1,289,436**	**2.9%**	482,381	1.3%	167.3%
Other payables and accruals	**4,973,387**	**11.2%**	3,422,809	9.3%	45.3%
Derivative financial instruments	**65,549**	**0.1%**	42,797	0.1%	53.2%
Taxes payable	**74,119**	**0.2%**	70,143	0.2%	5.7%
Total	**44,405,334**	**100.0%**	37,000,119	100.0%	20.0%

3.2.1 Interest-bearing Bank and Other Borrowings

In 2019, under the complicated domestic and overseas financial environments, the Group actively explored various channels to ensure low-cost capital required for business development. In the direct financing market, leveraging on advantage of domestic AAA rating, the Group issued batches of bonds at low cost and also registered different kinds of bonds including medium-term notes, corporate bonds, super short-term financing bonds and non-publicly oriented debt financing instruments (PPN), so as to reserve sufficient sources of funds. In the domestic bank loan market, the Group has established strategic partnerships with large state-owned banks, national joint-stock banks and local city commercial banks with strong capacity to further develop financing business both in depth and width. Meanwhile, in order to cope with uncertainties in domestic market, the Group continued to promote overseas financing and actively carried out overseas syndicated loans and bilateral loans business.

The Group's interest-bearing bank and other borrowings is mainly used to provide capital for its finance lease business. As at 31 December 2019, the Group's interest-bearing bank and other borrowings was RMB38,002.8 million, representing an increase of RMB5,020.9 million or 15.2% as compared to the end of the previous year. 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 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Bank loans	**18,079,070**	**47.6%**	16,444,054	49.9%	9.9%
Due to related parties	**1,993,891**	**5.2%**	1,994,964	6.0%	-0.1%
Bonds	**14,809,640**	**39.0%**	12,764,358	38.7%	16.0%
Other loans	**3,120,242**	**8.2%**	1,778,613	5.4%	75.4%
Total	**38,002,843**	**100.0%**	32,981,989	100.0%	15.2%

As at 31 December 2019, the balance of the Group's bank loans amounted to RMB18,079.1 million, accounting for 47.6% of the total interest-bearing bank and other borrowings, representing a decrease of 2.3 percentage points as compared to 49.9% as at the end of the previous year.

Breakdown of interest-bearing and other borrowings by currency:

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
RMB	**26,857,298**	**70.7%**	25,776,703	78.2%	4.2%
USD	**6,249,690**	**16.4%**	4,100,430	12.4%	52.4%
HKD	**4,895,855**	**12.9%**	3,104,856	9.4%	57.7%
Total	**38,002,843**	**100.0%**	32,981,989	100.0%	15.2%

As at 31 December 2019, the balance of the Group's interest-bearing bank and other borrowings denominated in RMB was RMB26,857.3 million, which accounted for 70.7% of its total interest-bearing bank and other borrowings, representing a decrease of 7.5 percentage points as compared to 78.2% as at the end of the previous year. In 2019, the Group diversified financing instruments, fully expanded financing channels both at home and abroad, and drew down multiple syndicated loans and bilateral loans from abroad, therefore, the proportion of foreign currency financing increased.

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

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Domestic	**25,857,299**	**68.0%**	25,776,703	78.2%	0.3%
Overseas	**12,145,544**	**32.0%**	7,205,286	21.8%	68.6%
Total	**38,002,843**	**100.0%**	32,981,989	100.0%	15.2%

As at 31 December 2019, the Group's domestic financing balance was RMB25,857.3 million, accounting for 68.0% of the total interest-bearing bank and other borrowings, representing a decrease of 10.2 percentage points as compared to 78.2% as at the end of the previous year. In 2019, the Group drew down a number of syndicated loans and bilateral loans from abroad after taking into account overall cost including exchange rate, therefore, the proportion of overseas financing increased.

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

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Current	**14,987,079**	**39.4%**	12,346,798	37.4%	21.4%
Non-current	**23,015,764**	**60.6%**	20,635,191	62.6%	11.5%
Total	**38,002,843**	**100.0%**	32,981,989	100.0%	15.2%

As at 31 December 2019, the total balance of the Group's current interest-bearing bank and other borrowings amounted to RMB14,987.1 million, accounting for 39.4% of its total interest-bearing bank and other borrowings, representing an increase of 2 percentage points as compared to 37.4% as at the end of the previous year. In 2019, on the premise that sufficient liquidity and reasonable debt structure are ensured, the Group issued batches of super short-term bonds, therefore, the ratio of current liabilities increased slightly and the overall structure of assets and liabilities remained favourable.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Secured	5,492,886	14.5%	3,608,940	10.9%	52.2%
Unsecured	32,509,957	85.5%	29,373,049	89.1%	10.7%
Total	38,002,843	100.0%	32,981,989	100.0%	15.2%

As at 31 December 2019, the Group's total secured interest-bearing bank and other borrowings amounted to RMB5,492.9 million, accounting for 14.5% of its total interest-bearing bank and other borrowings, representing an increase of 3.6 percentage points as compared to 10.9% as at the end of the previous year. The Group's secured assets were mainly finance lease assets. In order to expand financing channels, diversify financing instruments, and optimize maturity structure of the assets and liabilities, the proportion of the secured interest-bearing liabilities which matched the leased assets increased slightly.

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

	31 December 2019		31 December 2018		
	RMB'000	% of total	RMB'000	% of total	Change %
Direct financing	14,809,640	39.0%	12,764,358	38.7%	16.0%
Indirect financing	23,193,203	61.0%	20,217,631	61.3%	14.7%
Total	38,002,843	100.0%	32,981,989	100.0%	15.2%

As at 31 December 2019, among the balance of the Group's interest-bearing bank and other borrowings, the direct financing amounted to RMB14,809.6 million, accounting for 39.0% of its total interest-bearing bank and other borrowings, representing an increase of 0.3 percentage point as compared to 38.7% as at the end of the previous year.

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 2019, other payables and accruals amounted to RMB4,973.4 million, representing an increase of RMB1,550.6 million as compared to the end of the previous year, mainly due to increase in receivables and payables, security deposits, business working capital of health insurance bureau and guarantee deposits resulted from the hospitals acquired by the Group.

3.3 Shareholders' Equity

As at 31 December 2019, the Group's total equity was RMB13,447.2 million, representing an increase of RMB3,190.4 million or 31.1% as compared to the end of the previous year, among which the non-controlling interests were RMB2,305.5 million, representing an increase of RMB2,096.8 million or 1,004.6% as compared to the end of the previous year as a result of the acquisition by the Group of hospitals in 2019.

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

	31 December 2019		31 December 2018		
	RMB'000	**% of total**	RMB'000	% of total	Change %
Share capital	**4,327,842**	**32.2%**	4,327,842	42.2%	0.0%
Reserves	**5,161,462**	**38.4%**	4,067,769	39.7%	26.9%
Equity attributable to the ordinary share holders of the Company	**9,489,304**	**70.6%**	8,395,611	81.9%	13.0%
Equity attributable to the renewable corporate bond holders	**1,652,387**	**12.3%**	1,652,481	16.1%	0.0%
Non-controlling interest	**2,305,517**	**17.1%**	208,716	2.0%	1,004.6%
Total	**13,447,208**	**100.0%**	10,256,808	100.0%	31.1%

4. CASH FLOWS ANALYSIS

In 2019, with the steady expansion of the Group's finance lease business, the increase in the size of interest-earning assets and a decrease of collection time for receivables, net cash outflows from operating activities amounted to RMB1,823.9 million, representing a decrease of RMB3,904.7 million as compared to that of the previous year, which was mainly due to the increase of cash inflow from operating activities that resulted from the early termination of certain lease projects. Net cash outflows from investing activities amounted to RMB87.4 million, representing an increase of RMB445.7 million as compared to that of the previous year, primarily due to the investment in hospital projects. Net cash inflow from financing activities amounted to RMB3,021.9 million, representing a decrease of RMB2,750.5 million as compared to that of the previous year, primarily because (i) the Company issued renewable corporate bonds of RMB1,660.0 million in 2018, and (ii) the corporate bonds of RMB2,470.5 million issued by the Company in 2016 became due in 2019, which resulted in the increase of borrowings repaid.

The following table sets forth the cash flows for the dates indicated:

	For the year ended 31 December		
	2019 RMB'000	2018 RMB'000	Change %
Net cash flows used in operating activities	**(1,823,905)**	(5,728,645)	-68.2%
Net cash flows used in investing activities	**(87,441)**	358,255	-124.4%
Net cash flows from financing activities	**3,021,858**	5,772,346	-47.6%
Effect of exchange rate changes on cash and cash equivalents	**101,882**	21,633	371.0%
Net increase in cash and cash equivalents	**1,212,394**	423,589	186.2%

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. As at 31 December 2019, no changes were made to the Group's objectives, policies or processes for capital management, and the Group's debt ratio and gearing ratio decreased as compared to the end of the previous year.

Debt ratio

	31 December 2019 RMB'000	31 December 2018 RMB'000
Total assets	**57,852,542**	47,256,927
Total liabilities	**44,405,334**	37,000,119
Total equity	**13,447,208**	10,256,808
Debt ratio	**76.76%**	78.30%

Gearing ratio

	31 December 2019 RMB'000	31 December 2018 RMB'000
Interest-bearing bank and other borrowings	**38,002,843**	32,981,989
Total equity	**13,447,208**	10,256,808
Gearing ratio	**2.83**	3.22

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 projects and expenditure relating to office facilities. In 2019, the Group had capital expenditure of RMB208.2 million, primarily attributable to the procurement of medical equipment for hospitals.

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 31 December 2019, 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 at 31 December 2019, RMB1,249.0 million which we planned to use for supporting our finance lease business, RMB277.6 million which we planned to use for funding general corporate purposes, and RMB416.3 million which we planned to use for our hospital operation and management business, out of the net proceeds from the initial public offering of the Group, have been fully utilized according to the usages disclosed in the Prospectus.

In 2019, the Group utilized RMB198.9 million in development and operation of hospital digitalization business, and RMB20.3 million in development of CVA project solutions and clinical department upgrade services in other new areas.

As at 31 December 2019, the remaining balance of net proceeds of the Group which we planned to use for hospital digitalization business, CVA project solutions and clinical department upgrade services in other new areas was RMB318.6 million and RMB117.1 million, respectively.

The remaining amount of RMB117.1 million for CVA project solutions and clinical department upgrade services in other new areas will be used for further development of CVA project solutions and clinical 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 RMB318.6 million for hospital digitalization business will be used in coming years, according to the Company's development strategy and plan, for the development and operation of hospital digitalization business, further recruitments to expand 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, liquidity risk and operation risks in relation to medical institutions.

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 interest-earning assets.

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 2019 RMB'000	31 December 2018 RMB'000
Change in base points		
+100 base points	**165,379**	75,794
-100 base points	**(165,379)**	(75,794)

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 business mainly in RMB, with certain financing activities denominated in USD and 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 through using the operation of financial instruments such as forward exchange rate. As at 31 December 2019, the Group's exposure to foreign exchange risk amounted to approximately USD10,413.5 million, USD10,455.2 million or 100.4% of which had been hedged against by various financial instruments. Thus, the Group's exposure to foreign exchange risk is basically covered.

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

		Increase/decrease in profit before tax	
	Change in exchange rate %	**31 December 2019 RMB'000**	31 December 2018 RMB'000
If RMB strengthens against USD/HKD	(1)	**(299)**	460
If RMB weakens against USD/HKD	1	**299**	(460)

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 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 interest-earning assets 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 criteria:

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. During the whole process of each of the finance lease project, the Group took risk management measures to monitor the quality of its asset portfolio, the quality of 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 the industry concentration of interest-earning assets

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 2019		31 December 2018	
	RMB'000	**% of total**	RMB'000	% of total
Healthcare	**34,629,870**	**69.6%**	34,649,213	78.3%
Others	**15,155,769**	**30.4%**	9,621,451	21.7%
Total	**49,785,639**	**100.0%**	44,270,664	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 2019 RMB'000	31 December 2018 RMB'000
Net interest-earning assets	**48,857,612**	43,588,515
Accounts receivable	**631,474**	85,316
Deposits and other receivables	**249,983**	24,431
Derivative financial assets	**220,265**	81,250

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Net interest-earning assets	**446,128**	360,223

Impaired interest-earning assets 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 interest-earning assets 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 appropriateness of 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 2019						
Total financial assets	**3,655,877**	**5,792,264**	**14,543,548**	**38,657,506**	**104,163**	**62,753,358**
Total financial liabilities	**(496,991)**	**(6,327,831)**	**(12,603,141)**	**(27,164,976)**	**(21,645)**	**(46,614,584)**
Net liquidity gap(1)	**3,158,886**	**(535,567)**	**1,940,407**	**11,492,530**	**82,518**	**16,138,774**
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

(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.

7.5 Risks in relation to Medical Institutions

The risks in relation to medical institutions include quality and safety risks and other risks that the Group may encounter while operating its medical institutions.

Our medical institutions face the risks of medical safety accidents and other safety accidents resulting from hospital infection control, fire fighting or improper use of medical equipment. The Group continues to improve its medical quality management system and environment, health and safety (EHS) management system, and take efforts to build a safe medical service environment for patients.

8. PLEDGE OF GROUP ASSETS

As at 31 December 2019, the Group had finance lease receivables of RMB7,008.6 million and cash of RMB293.5 million pledged or paid to banks to secure the bank borrowings.

9. MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 30 January 2019, the Company entered into a cooperation agreement with Ansteel Group in connection with the formation of a joint venture, which is held by Hospital Investment Co., Ltd. (previously known as Wiseman), a wholly-owned subsidiary of the Company, and Ansteel Group as to 51.15% and 48.85%, respectively.

On 31 January 2019, the Company and Hospital Investment Co., Ltd., a wholly-owned subsidiary of the Company, entered into a cooperation agreement with Pangang Group and Pangang Mining, a wholly-owned subsidiary of Pangang Group, in connection with the formation of a joint venture. According to the cooperation agreement, the joint venture, upon its establishment, will be held by Hospital Investment Co., Ltd., Pangang Group and Pangang Mining as to 53.30%, 46.26% and 0.44%, respectively.

On 18 March 2019, the Company entered into a cooperation agreement with CEC Caihong in connection with the formation of a joint venture. According to the cooperation agreement, the joint venture, upon its establishment, will be held by Hospital Investment Co., Ltd. and CEC Caihong as to 52.63% and 47.37%, respectively.

On 28 March 2019, the Company entered into a cooperation agreement with CR State Asset in connection with the formation of a joint venture. According to the cooperation agreement, the joint venture, upon its establishment, will be held by Hospital Investment Co., Ltd. and CR State Asset as to 51% and 49%, respectively.

On 28 December 2019, Hospital Investment Co., Ltd. entered into a cooperation agreement with Yang Quan Coal Industry and Yangmei Hospital Management, a wholly-owned subsidiary of Yang Quan Coal Industry. Pursuant to the cooperation agreement, Yang Quan Coal Industry will make a capital contribution with assets and Hospital Investment Co., Ltd. will make a capital contribution in cash, to increase the capital of Yangmei Hospital Management. Upon completion of the capital increase, Yangmei Hospital Management will be held by Hospital Investment Co., Ltd. and Yangmei Hospital Management as to 51% and 49%, respectively.

There were no significant investments held, nor were there any material disposals of subsidiaries during the year ended 31 December 2019.

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

10.1 Contingent Liabilities

	31 December 2019 RMB'000	31 December 2018 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 2019 RMB'000	31 December 2018 RMB'000
Capital expenditure under signed contracts but not appropriated(1)	**41,158**	30,120
Credit commitments(2)	**1,411,699**	1,722,496

(1) Capital expenditure under signed contracts but not appropriated during the period represents project funds under signed contracts but not yet paid mainly for medical equipment and hospital development and operation 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 at 31 December 2019, we had a total of 8,761 employees, representing an increase of 8,056 or 1,143%, compared to 705 employees as at 31 December 2018, which is mainly due to transfer of employees from acquired hospitals.

We have a highly-educated and high-quality work force, with about 44.7% of our employees holding bachelor's degrees and above, about 5.9% holding master's degrees and above, about 36% with intermediate title and above, and about 13.7% with senior vice title and above as at 31 December 2019.

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 eligible employees such as supplementary pension, additional medical insurance and accident insurance in addition to those required under the PRC regulations. For the year ended 31 December 2019, the Group 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 2019 save for the deviation from code provisions A.4.2, A.5.1 and E.1.2 which is 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. Kong Wei 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 2019 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 2019:

Executive Directors:
Ms. Peng Jiahong *(Vice-chairwoman and Chief Executive Officer)*
Mr. Yu Gang

Non-executive Directors:
Mr. Zhang Yichen *(Chairman)*
Ms. Liu Kun
Mr. Liu Zhiyong
Mr. Liu Xiaoping
Mr. Su Guang

Independent Non-executive Directors:
Mr. Li Yinquan
Mr. Chow Siu Lui
Mr. Han Demin
Mr. Kong Wei[1]
Mr. Liao Xinbo[2]

Notes:

(1) Resigned with effect from 18 September 2019
(2) Appointed with effect from 2 December 2019

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 is set out in the section headed "Biography of Directors" on pages 66 to 74 of this annual report.

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

Chairman and Chief Executive Officer

The positions of chairman and chief executive officer are held by Mr. Zhang Yichen and Ms. Peng Jiahong respectively. The chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The chief executive officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

With effect from 18 September 2019, Mr. Kong Wei resigned as an independent non-executive Director and a member of the Nomination Committee. Upon the resignation of Mr. Kong, (i) the Board comprised two executive Directors, five non-executive Directors and three independent non-executive Directors; and (ii) there were only two members in the Nomination Committee. Therefore, the composition of the Board and the Nomination Committee did not meet the requirements under Rule 3.10A of the Listing Rules and code provision A.5.1 of the CG Code.

With effect from 2 December 2019, Mr. Liao Xinbo was appointed as an independent non-executive Director and a member of the Nomination Committee. Upon Mr. Liao's appointment, the Company had sufficient number of independent non-executive Directors as required under Rule 3.10A of the Listing Rules and the Nomination Committee had comprised a majority of independent non-executive Directors under code provision A.5.1 of the CG Code.

Save as disclosed above, during the year ended 31 December 2019, 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.

Mr. Yu Gang and Ms. Peng Jiahong, both of whom are executive Directors, had entered into a new service contract with the Company on 5 June 2019 and 12 December 2019 respectively for a term of three years.

Each of the non-executive Directors and independent non-executive Directors (other than Mr. Liao Xinbo) 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. Liao Xinbo entered into a letter of appointment with the Company for a term from 2 December 2019 to the conclusion of the 2020 AGM, and is subject to reelection 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. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

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. Yu Gang, Mr. Zhang Yichen, Ms. Liu Kun, Mr. Liu Zhiyong, Mr. Liu Xiaoping, Mr. Su Guang, Mr. Li Yinquan, Mr. Chow Siu Lui, Mr. Han Demin and Mr. Kong Wei (resigned with effect from 18 September 2019) have participated in continuous professional training including reading the "Consultation Conclusions on Proposed Changes to Review Structure for Listing Committee Decisions" and "Review of Issuers' Annual Report Disclosure – Report 2018" published by the Stock Exchange and "Statement on the Conduct and Duties of Directors when Considering Corporate Acquisitions or Disposals" published by the Securities and Futures Commission. Mr. Liao Xinbo has 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 and "Statement on the Conduct and Duties of Directors when Considering Corporate Acquisitions or Disposals", published by the Securities and Futures Commission.

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, 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 2018 and the interim financial results and reports in respect of the six months ended 30 June 2019, 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 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/her own remuneration.

During the year, the Remuneration Committee held two meetings 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 Director and reviewed his letter 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. Liao Xinbo (appointed with effect from 2 December 2019). 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 revision 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 once 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 2019 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, Mr. Zhang Yichen and Ms. Liu Kun. 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 once to discuss the strategy and business development of the Company. The Strategy Committee recognized strategic direction, business model and focus of the Company to develop its hospital operation and management business. The Strategy Committee also advised the Company that it should further solidify its foundation and establish a hospital group management system.

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 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	2019 AGM	2019 EGM
Peng Jiahong	9/9	N/A	N/A	N/A	1/1	1/1	1/1	1/1
Yu Gang	9/9	N/A	N/A	N/A	N/A	N/A	1/1	1/1
Zhang Yichen	8/9	N/A	N/A	1/1	N/A	1/1	0/1	1/1
Liu Kun	8/9	N/A	N/A	N/A	N/A	1/1	1/1	1/1
Liu Zhiyong	9/9	N/A	2/2	N/A	1/1	N/A	1/1	0/1
Liu Xiaoping	9/9	2/2	N/A	N/A	N/A	N/A	1/1	1/1
Su Guang	8/9	N/A	N/A	N/A	1/1	N/A	1/1	1/1
Li Yinquan	9/9	2/2	N/A	N/A	N/A	N/A	1/1	1/1
Chow Siu Lui	9/9	2/2	2/2	1/1	N/A	N/A	1/1	1/1
Han Demin	9/9	N/A	2/2	N/A	N/A	N/A	1/1	1/1
Kong Wei[#1]	6/6[(1)]	N/A	N/A	1/1[(1)]	N/A	N/A	1/1[(1)]	N/A
Liao Xinbo[#2]	1/1[(2)]	N/A	N/A	N/A	N/A	N/A	N/A	1/1[(2)]

Notes:

#1 Resigned with effect from 18 September 2019

#2 Appointed with effect from 2 December 2019

(1) Up to 18 September 2019

(2) Since 2 December 2019

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

Independent non-executive Directors and non-executive Directors have attended general meetings to gain and develop a balanced understanding of the view of shareholders.

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 2019.

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 auditors of the Company about their reporting responsibilities on the financial statements is set out in the independent auditor's report on pages 133 to 137 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 2019, 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	3,374
Non-audit Services	1,781
Total	5,155

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 management 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 2019, 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, external auditors conducted evaluation on internal control and reviewed the rectification work for internal control issues during internal control assessment in 2018. With emphasis on key areas of concerns and processes, relevant departments analyzed 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. Since the Company established the Risk Prevention and Control and Compliance Committee, the Company's comprehensive risk management system has been gradually built and improved, 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 2019, 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 ("Tricor"), an external service provider, retired and ceased to be the company secretary of the Company and was replaced by Ms. Lui Mei Yan Winnie of Tricor with effect from 5 June 2019.

Ms. Lui Mei Yan Winnie resigned as the company secretary of the Company and was replaced by Ms. Ng Wai Kam of Tricor with effect from 31 December 2019. Her primary contact person at the Company is Ms. Peng Jiahong (Vice-chairwoman and Chief Executive Officer).

For the year ended 31 December 2019, each of Ms. Cheng Pik Yuk, Ms. Lui Mei Yan Winnie and Ms. Ng Wai Kam has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

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 ir@um.gt.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 of the Company. 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: ir@um.gt.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 annual general meeting held on 5 June 2019 due to a business trip. He will use his best endeavours to attend all future general meetings of the Company.

During the year, the Company did not make any changes to the Articles. An up-to-date version of the Articles is also available on the websites of the Stock Exchange and the Company respectively. Shareholders may refer to the Articles for further details of their rights.

On 31 December 2019, the Company convened an extraordinary general meeting, at which an ordinary resolution regarding the Share Option Scheme was duly approved and passed by the Shareholders. Details of the Share Option Scheme were disclosed in the circular of the Company dated 12 December 2019 in relation to proposed adoption of the Share Option Scheme.

BIOGRAPHY OF 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 56, 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 on matters that Directors' discussion and/or approval is required and participating in Board meetings. 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, the 12th and the 13th 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 the chairman of the board of Golden Arches (China) Company Limited (formerly known as McDonald's (China) Co., Ltd.) and the chairman of Harbin Pharmaceutical Group Holding Co., Ltd.

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.

Since May 2002, Mr. Zhang has been serving as a director of Sina Corporation, whose securities are listed on the NASDAQ Stock Market. Since December 2016, Mr. Zhang has been serving as a director of S.F. Holding Co., Ltd., whose securities are listed on the Shenzhen Stock Exchange (stock code: 002352) and since June 2018, he has been serving as a non-executive director of Asiainfo Technologies Limited, 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 and Chief Executive Officer

Ms. Peng Jiahong (彭佳虹女士), aged 49, is an executive Director, the vice-chairwoman of the Board, the chief executive 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 and deputy general manager of the Company on 6 March 2015, and appointed as the vice-chairwoman of the Board and the chief executive officer of the Company on 30 November 2018. She served as the chief financial officer of the Company from December 2014 to December 2019. 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 14 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.

Mr. Yu Gang – Executive Director

Mr. Yu Gang (俞綱先生), aged 56, is an executive Director. He is primarily responsible for work of party committee and human resources affairs. Mr. Yu was appointed as a 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 May 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 May 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 49, 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 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 and a director of GT-PRC Healthcare Company Limited (通用技術集團醫療健康有限公司), a wholly-owned subsidiary of GT-PRC. 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 Jilin 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 49, a non-executive Director and currently the member of the Remuneration Committee and Risk Control Committee. He is primarily responsible for providing advice on matters that Directors' discussion and/or approval is required and participating in Board meetings. 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 64, is a non-executive Director and a member of the Audit Committee. He is primarily responsible for providing advice on matters that Directors' discussion and/or approval is required and participating in Board meetings. 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 40, is a non-executive Director and the chairman of the Risk Control Committee. He is primarily responsible for providing advice on matters that Directors' discussion and/or approval is required and participating in Board meetings. 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 department 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 64, 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 Energy Shipping Co., Ltd. (whose shares are listed on the Shanghai Stock Exchange (stock code: 601872) from April 2007 to September 2010. 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 and has served as an independent non-executive director of Kimou Environmental Holding Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 6805)) since July 2019. Mr. Li served as an independent non-executive director of Lizhi Inc. (whose shares are listed on the NASDAQ Stock Market (stock code: LIZI)) since January 2020.

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 59, 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)), Shanghai Dazhong Public Utilities (Group) Co., Ltd. (whose shares are listed on the main board of the Stock Exchange (stock code: 1635)), China Everbright Greentech Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 1257)), China Tobacco International (HK) Company Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 6055)), and Global Cord Blood Corporation (whose shares are listed on the NASDAQ Stock Market (stock code: CO)), respectively. Mr. Chow is now a non-executive director of Renrui Human Resources Technology Holdings Limited (whose shares are listed on the main board of the Stock Exchange (stock code: 6919)).He 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 Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators or ICSA) and HKICS both in October 2009, and the HKICPA in December 1993.

Mr. Han Demin – Independent Non-executive Director

Mr. Han Demin (韓德民先生), aged 68, 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, honorary chairman of the Otolaryngology-Head and Neck Surgeons Branch under Chinese Medical Doctor Association (January 2019) 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. Mr. Han has served as an independent director of Northeast Pharmaceutical Group Co., Ltd. (whose shares are listed on the Shenzhen Stock Exchange (stock code: 000597)) since July 2018.

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 was 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 and Social Security 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" as 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

Mr. Liao Xinbo – Independent Non-executive Director

Mr. Liao Xinbo (廖新波先生), aged 64, was appointed as an independent non-executive Director and a member of the Nomination Committee on 2 December 2019.

Mr. Liao is a member of the core experts group of China Alliance for Patient Safety (中國患者安全聯盟核心專家組), an expert of the national think tank of Xinhuanet Health China Promotion Working Committee (新華網健康中國促進工作委員會國家智庫), a deputy director (副主任委員) of the Intelligent Medicine Professional Committee of the Chinese Medical Doctor Association (中國醫師協會智慧醫療專業委員會), and the director (主任) of the Research Center of Medical Behavior in Shanghai Jiaotong University (上海交通大學醫療行為研究中心). From December 1982 to February 2004, Mr. Liao worked in Guangdong Provincial People's Hospital (廣東省人民醫院), engaged in clinical pathology for 11 years and then hospital management for another 11 years. He served in the Department of Health of Guangdong Province (廣東省衛生廳) for 12 years, holding positions as deputy director (副廳長) and inspector (巡視員), and later served as a deputy director (副主任) of Health and Family Planning Commission of Guangdong Province (廣東省衛生和計劃生育委員會). Mr. Liao graduated from the Medical Department of Guangzhou Medical College (currently known as Guangzhou Medical University) with a bachelor's degree in 1982, obtained a master's degree from China Europe International Business School in 2003 and a master's degree in advanced hospital administration from Lingnan (University) College of Sun Yat-Sen University in 2005.

Ms. Ng Wai Kam – Company Secretary

Ms. Ng Wai Kam, was appointed as the Company Secretary of our Company on 31 December 2019. She is mainly responsible for the provision of corporate secretarial services.

Ms. Ng is currently a manager of the Corporate Services Division of Tricor, which is a global professional services provider specialising in integrated business, corporate and investor services. Ms. Ng is a Chartered Secretary and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. Ms. Ng holds a Bachelor's degree in Business Administration. Ms. Ng has over 8 years of experience in the corporate secretarial services field. She has been providing professional corporate services to Hong Kong listed companies, as well as multinational, private and offshore companies.

DIRECTORS' REPORT

The Board is pleased to present the Directors' Report of the year 2019 together with the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL BUSINESS ACTIVITIES

The Group is a leading medical and health conglomerate in China. Our business can be divided into four major sectors, i.e. 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 pages 13 to 49 and the section headed "Environmental, Social and Governance Report" in this annual report on pages 100 to 132, and such contents form part of this Directors' Report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 138 of this annual report.

The Board recommends the payment of a final dividend of HKD0.29 per Share in respect of the year ended 31 December 2019 to Shareholders whose names appear on the register of members of the Company on 17 June 2020. The proposed final dividend will be paid on 29 June 2020, subject to approval at the 2020 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 Thursday, 4 June 2020 to Tuesday, 9 June 2020, 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 2020 AGM. In order to be eligible to attend and vote at the 2020 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 Wednesday, 3 June 2020; and

(ii) from Monday, 15 June 2020 to Wednesday, 17 June 2020, 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 Friday, 12 June 2020.

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 27 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 2019.

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 pages 142 to 143 of this annual report and Note 28 to the financial statements, respectively.

As at 31 December 2019, the reserves of the Company available for distribution to Shareholders amounted to approximately RMB4,463.2 million.

DIRECTORS

During the financial year ended 31 December 2019 and up to the date of this report, our Directors were as follows:

Executive Directors
Ms. Peng Jiahong
Mr. Yu Gang

Non-executive Directors
Mr. Zhang Yichen
Ms. Liu Kun
Mr. Liu Zhiyong
Mr. Liu Xiaoping
Mr. Su Guang

Independent Non-executive Directors
Mr. Li Yinquan
Mr. Chow Siu Lui
Mr. Kong Wei (Resigned with effect from 18 September 2019)
Mr. Han Demin
Mr. Liao Xinbo (Appointed with effect from 2 December 2019)

DIRECTORS OF SUBSIDIARIES

	Name of Subsidiaries	Directors of our subsidiaries as at 31 December 2019
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.	Peng Jiahong
4	Hospital Investment Co., Ltd.	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 Hospital Construction Management Co., Ltd. (西安融慧醫院建設管理有限公司)	Peng Jiahong
7	Xi'an Wanheng Medical Technology Development Co., Ltd. (西安萬恒醫療科技發展有限公司)	Peng Jiahong Yu Gang Wang Shuo Shi Bingyin Ma Xinge
8	Shaanxi Huahong Medical Company Limited (陝西華虹醫藥有限公司)	Peng Jiahong Yu Gang Wang Shuo Shi Bingyin Ma Xinge
9	Universal Number One Co., Ltd.	Peng Jiahong
10	Genertec Universal Medical Development (BVI) Co., Ltd.	Peng Jiahong
11	Genertec Universal Medical Financial Leasing (Zhuhai Hengqin) Co., Ltd. (通用環球醫療融資租賃(珠海橫琴)有限公司)	Peng Jiahong Yu Gang Yang Jingyao

	Name of Subsidiaries	Directors of our subsidiaries as at 31 December 2019
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
16	Genertec Universal Xihang Hospital (Xi'an) Co., Ltd. (通用環球西航醫院(西安)有限公司)	Peng Jiahong Wang Shuo Wang Hongjun Zhang Jin Luo Xiaolan
17	Genertec Ansteel Hospital Management Co., Ltd. (通用鞍鋼醫院管理有限公司)	Peng Jiahong Geng Shugang Wang Shuzeng Sun Yuping Guo Xiaolian
18	Sichuan Huankang Hospital Management Co., Ltd. (四川環康醫院管理有限公司)	Yu Chao Zhang Tianyu Xu Hongliang Yang Dong Cao Yufei
19	Genertec Universal Caihong (Xianyang) Hospital Management Co., Ltd. (通用環球彩虹(咸陽)醫院管理有限公司)	Peng Jiahong Chen Zhongguo Feng Qingming Wang Shuo Kang Pengjiang

	Name of Subsidiaries	Directors of our subsidiaries as at 31 December 2019
20	Genertec Universal Railway (Xi'an) Hospital Management Co., Ltd. (通用環球中鐵(西安)醫院管理有限責任公司)	Peng Jiahong Qucheng Feng Qingming Li Xin Wang Shuo
21	Genertec Universal Medical Technology Advisory (Yantai) Co., Ltd. (通用環球醫療技術咨詢(煙臺)有限公司)	Meng Fanxue
22	Genertec Universal Medical Science and Technology (Hainan) Co., Ltd. (通用環球醫療科技(海南)有限公司)	Peng Jiahong
23	Shanxi Yangmei General Hospital Medical Management Co., Ltd. (山西陽煤總院醫療管理有限公司)	Peng Jiahong Duan Boshan Yu Guang Gao Xiaolian Zhang Zhen Jia Zhiwen
24	Chengdu Genertec Jindian Hospital Management Co., Ltd. (成都通用錦電醫院管理有限公司)	Yu Guang
25.	Ansteel Group (Anshan) Health Industry Co.,Ltd (鞍鋼集團(鞍山)健康產業有限公司)	Geng Shugang Liu Xin Gu Yan Liu Gang Zha Shili Wang Ligong Sun Xiaohui
26.	Liaoning Xingye Pharmaceutical Co.,Ltd (遼寧興業醫藥有限公司)	Wang Yunfeng
27.	Genertec Minmetals Hospital Management(Beijing) Co.,Ltd (通用五礦醫院管理(北京)有限公司)	Peng Jiahong Zhang Haipeng Zhou Jianfeng Zhang Jianguo Feng Qingming Yang Jingyao Zhao Chengyi
28.	Shaanxi CREC Occupational Health Technology Services Co., Ltd (陝西省中鐵職業衛生技術服務有限公司)	Liang Xiaoxia

BIOGRAPHICAL DETAILS OF THE DIRECTORS

Biographical details of the Directors are set out on pages 66 to 74 of this annual report.

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2019, 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

Ms. Peng Jiahong entered into a service contract with the Company pursuant to which she agreed to act as an executive Director for an initial term of five years with effect from 22 December 2014, and her service in the Company was extended for another three years on 22 December 2019. Pursuant to the resolutions in writing of the shareholders passed on 10 June 2015 and the board resolution passed on 30 October 2019, respectively, the form and substance of the service contract (including the duration thereof) made between Ms. Peng Jiahong and the Company were approved.

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. Pursuant to the Shareholders' approval at the Company's 2019 annual general meeting ("2019 AGM"), such service contract was extended and he shall hold office until the conclusion of third annual general meeting of the Company following the extension.

The aggregate amount of the basic annual salaries of Ms. Peng Jiahong and Mr. Yu Gang is RMB3.5 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 Ms. Liu Kun, 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. Ms. Liu Kun has entered into a letter of appointment with the Company, pursuant to which she was appointed as a non-executive Director with effect from 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. Pursuant to the Shareholders' approval at the 2019 AGM, Ms. Liu's appointment was extended for a term commencing from 5 June 2019 until the conclusion of the third annual general meeting of the Company following this extension.

Each of the independent non-executive Directors, other than Mr. Han Demin and Mr. Liao Xinbo, 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 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, and his appointment was further extended for a term of three years with effect from 13 April 2019. Mr. Liao Xinbo has entered into a letter of appointment with the Company, pursuant to which he was appointed as an independent non-executive Director with effect from 2 December 2019, 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 non-executive Directors are not entitled to any director's fee (except Mr. Liu Xiaoping and Mr. Su Guang, each of whom is entitled to a director's fee of HKD200,000 and an allowance of HKD10,000 per annum). Each of the independent non-executive Directors is entitled to a director's fee of HKD200,000 and an allowance of HKD10,000 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. Han Demin and Mr. Liao Xinbo, 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 2019 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 HKD4,000,001 to HKD4,500,000. One senior management personnel fell within the band from HKD26,500,001 to HKD27,000,000.

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 2019 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 pages 90 to 96 of this annual report. Each of Ms. Liu Kun and Mr. Liu Zhiyong (both 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 is 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 2019, other than the circumstances as disclosed in the Prospectus, and the announcements of the Company dated 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 "Post-Retirement Benefit Obligations" in Note 26 to the financial statements.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as disclosed below, no equity-linked agreements were entered into by the Company during the year ended 31 December 2019 or subsisted at the end of the year ended 31 December 2019.

SHARE OPTION SCHEME

On 31 December 2019, the Company adopted the Share Option Scheme, which falls within the ambit of, and is subject to, the regulations under Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to, among others, (i) further refine the corporate governance structure of the Company; (ii) establish a complete remuneration system, promote the Company's incentive and disciplinary mechanism, and encourage the initiative and commitment of its directors, senior management, and key employees; and (iii) attract and retain talents to strive for the long-term development of the Company.

The scope of the participants of the Share Option Scheme should be determined after taking into account the actual situation of the Company, in accordance with, among others, the Listing Rules, other applicable laws and regulations, and the Articles. The participants should in principle be limited to the Directors, senior management and other key employees of the Company who have direct impact on the Company's overall development.

The total number of Shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme shall not in aggregate exceed 171,630,458 Shares, representing 10% of the Company's issued share capital as at the date of this annual report.

The maximum number of Shares which are issued and may be issued upon exercise of all options (including exercised and outstanding Options) granted to any participant within any 12-month period shall not exceed 1% of the issued share capital of the Company, unless being approved by the Shareholders at a general meeting.

The Share Option Scheme shall be valid and effective for a period of ten years commencing from the adoption date, under which the first phase of the Share Option Scheme shall be valid for a period of five years. The Company may initiate a new phase of the Share Option Scheme two years after the effective date of the former one, subject to the relevant approvals. The vesting period of the options granted is 24 months from the grant date. Upon satisfaction of the relevant performance conditions and subject to the evaluation results of the participants, the participants are able to exercise their options in accordance with the arrangement specified in the terms of the Share Option Scheme, within 36 months after the expiry of the vesting period. Any option that remains unexercised upon expiry of such 36 months-period will automatically lapse.

An offer of the grant of the option shall be made to a participant and such offer shall remain open for acceptance by the participant concerned for a period of 21 days (as determined by the Board from time to time) from the date upon which the offer is made. An offer of the grant of the option shall be deemed to have been accepted and the option to which such offer relates shall be deemed to have been granted and to have taken effect when a duplicate letter comprising acceptance of offer duly signed by the participant with the number of Shares clearly stated therein, together with a remittance in favour of the Company of HKD1.00 as consideration for the grant thereof is received by the Company.

The exercise price of the share options granted under the Share Option Scheme shall be such price as determined by the Board in accordance with the requirements of the SASAC and the Stock Exchange, which shall not be less than the higher of (i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the grant date; (ii) the average closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the grant date; and (iii) the nominal value of the Shares (if any).

On 31 December 2019, as approved by the Board, the Company granted share options to certain eligible participants to subscribe for an aggregate of up to 16,065,000 ordinary Shares, representing approximately 0.936% of the issued share capital of the Company as at the effective date, at the price of HKD5.97, as the first phase of the Share Option Scheme. Such grant of options has taken effect since 2 January 2020. Among the 16,065,000 options granted, a total of 2,644,000 options were granted to two Directors and the acceptance letters have been signed. Details of the options granted to the Directors are set out as follows:

Name of Directors	Position	Number of Shares to be issued upon full exercise of the options granted
Ms. Peng Jiahong	Executive Director, chief executive officer and general manager of the Company	1,322,000
Mr. Yu Gang	Executive Director	1,322,000
Total		2,644,000

Vesting period of the options granted on 31 December 2019 is 24 months from 31 December 2019. Upon satisfaction of the relevant performance conditions and subject to the evaluation results of the grantees and the terms of the first phase of the Share Option Scheme, the Grantees would be able to exercise their options after the expiry date of the vesting period (the "Expiry Date") and according to the schedule as set out below:

i. one third of the options granted would be exercisable within the period starting from the first trading date immediately after the Expiry Date, and ending on the last trading date of the 36-month period after 31 December 2019;

ii. one third of the options granted would be exercisable within the period starting from the first trading date immediately after the end of the abovementioned 36-month period, and ending on the last trading date of the 48-month period after 31 December 2019; and

iii. one third of the options granted would be exercisable within the period starting from the first trading date immediately after the end of the abovementioned 48-month period, and ending on the last trading date of the 60-month period after 31 December 2019.

Details of the options granted under the Share Option Scheme and those remained outstanding as at 31 December 2019 are as follows:

	Number of Options					
Name of Option Holders	Outstanding as at 1 January 2019	Exercised During the Report Period	Cancelled During the Report Period	Lapsed During the Report Period	Outstanding as at 31 December 2019	Exercise Price [1]
Directors						
Ms. Peng Jiahong	–	–	–	–	1,322,000	HKD5.97
Mr. Yu Gang	–	–	–	–	1,322,000	HKD5.97
Other Employees	–	–	–	–	13,421,000	HKD5.97
Total	–	–	–	–	16,065,000	

Note:

(1) Representing the higher of: a. the closing price of HKD5.97 per Share as stated in the Stock Exchange's daily quotations sheet on the effective date; and b. the average closing price of HKD5.746 per Share as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the effective date. Closing price of the Shares immediately before the effective date is HKD5.90 per Share.

The Board considers that it is not appropriate to state the value of the options granted pursuant to the Share Option Scheme as if they were granted at the date of this annual report. The Board believes that any statement regarding the value of the options as at the date of this annual report will not be meaningful to the Shareholders and to a certain extent would be misleading to the Shareholders, taking into account the number of variables which are crucial for assessing the value of the options which have not been determined.

Details of the impact of the options granted under the Share Option Scheme on the consolidated financial statements since the grant date of such options and the subsequent financial periods are set out under Note 35 to the consolidated financial statements in this report.

A summary of the terms of the Share Option Scheme has been set out in the circular of the Company dated 12 December 2019.

MANAGEMENT CONTRACTS

No contract 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

Save as disclosed in "Share Option Scheme", 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 2019, 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:

Name of Shareholders	Nature of interest	Number of Shares interested	Approximate percentage of interest held in the Company
GT-HK *(Note)*	Beneficial owner	617,089,895	35.95%
GT-PRC *(Note)*	Interest of controlled corporation	680,568,200	39.65%

Note:

Among the 680,568,200 Shares, 617,089,895 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 680,568,200 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 2019, 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:

(A) Long positions in Shares:

Name	Nature of interest	Position	Number of Shares interested	Approximate percentage of interest held in the Company
Peng Jiahong [(1)]	Interest of controlled corporation	Executive Director	7,617,400	0.44%

(B) Long position in underlying shares of the Company – physically settled unlisted equity derivatives

Name	Nature of interest	Position	Number of underlying shares in respect of the share options granted	Approximate percentage of interest held in the Company
Peng Jiahong [(2)]	Beneficial owner	Executive Director	1,322,000	0.08%
Yu Gang [(3)]	Beneficial owner	Executive Director	1,322,000	0.08%

Notes:

(1) 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.

(2) Ms. Peng was granted an option to subscribe for 1,322,000 Shares under the share option scheme of the Company adopted on 31 December 2019.

(3) Mr. Yu Gang was granted an option to subscribe for 1,322,000 Shares under the share option scheme of the Company adopted on 31 December 2019.

Save as disclosed above, as at 31 December 2019, 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 2019
Five largest customers	4%
The largest customer	1%

	Percentage of the total cost of sales for the year ended 31 December 2019
Five largest suppliers	22%
The largest supplier	5%

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 2019, the Group has a total of 8,761 employees, while it had a total 705 employees as at 31 December 2018.

For the year ended 31 December 2019, 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 2019.

GT-PRC holds approximately 39.65% 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 (the "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 2019, 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 (the "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 2019, 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 (the "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 2019, 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 (the "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 2019, 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 (the "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 2019, 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 (the "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 2019, 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 (the "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 2019, 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 2019, certain related parties entered into transactions with the Group which are disclosed in Note 34 "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 2019.

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 2019, 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 39 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 2019.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2019 have been audited by Ernst & Young, the auditor of the Company.

DONATIONS

During the year ended 31 December 2019, the Group made charitable donations in the amount of RMB1.3 million.

AUDITOR

The Company re-appointed Ernst & Young as the auditor of the Group in 2019. 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 2020 AGM for consideration and approval of the Shareholders.

COMPLIANCE WITH LAWS AND REGULATIONS

For the year ended 31 December 2019, 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
24 March 2020

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report is the fourth environmental, social and governance report issued by Genertec Universal Medical Group Company Limited (hereinafter referred to as the "Company" or "Universal Medical"). The purpose of this report is to report the social responsibility and the sustainability practices of the Company and its subsidiaries (hereinafter referred to as the "Group" or "We") in 2019, 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.

BASIS OF PREPARATION

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 (the "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

- Reporting Scope: This report covers hospital group business and finance and advisory business of the Group;

- Time Scope: The time scope of this report is from 1 January 2019 to 31 December 2019 (hereinafter referred to as "this year"). To enhance the completeness and timeliness of the report, some of its contents may appropriately be traced forward or backward;

- Release Cycle: This report is expected to be published simultaneously with the annual report. The last report was released in April 2019.

CONFIRMATION AND APPROVAL

The Group's Board of Directors is responsible for formulating the ESG strategy, identifying the ESG related issues and risks of the Group 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 encouragement.

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 FULFILLING SOCIAL RESPONSIBILITY AND SERVING PEOPLE'S HEALTH

As a diversified medical and health enterprise focusing on the health-related industry, our Group strives to build a leading medical and health industry group, with modern management concepts, professional teams, high-quality medical resources and solid capital strength as well as inclusive and aggressive enterprise culture. We will gradually construct a health industrial ecosystem covering the full life circles of patients, and benefit patients with the best-quality medical and health services, and promote the vigorous development of medical and health undertakings.

1.1 Enterprise Culture

Mission: To safeguard health and wellness through quality healthcare
Vision: To be a healthcare group that patients/clients trust and employees are proud of
Values: Compassion, integrity, excellence, self-motivation, open-mindedness and collaboration

1.2 Responsibility Philosophy

The Group has always taken "Contributing to the Continuous Progress of Human Health" as the core responsibility of the enterprise. Additionally, the Group will keep up with the development trend of the international health-related industry and constantly explore the practice road to promoting the development of medical and health undertakings in China. Moreover, we will actively undertake the responsibilities for employees, customers, investors and the environment and the society, and promote social progress and human health conditions with practical actions.

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 to gradually promote the responsibility management system.

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

Key Stakeholders	Issues of Concern	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/reverse roadshows – Activities on investor relations day – Teleconference – 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 – Communicate the progress of the Company's business timely and 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	Issues of Concern	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

We have been thinking highly of the investor relationship management. On the one hand, we take the initiative to maintain regular communication with the Company's shareholders and other investors, and independently share major issues of the Company through teleconferences and other methods, thus ensuring that investors understand and agree with the Company's future development orientation. On the other hand, the Company actively organizes activities including company research, Investor Relations Day, etc. to share the Company's business development and receive various views and opinions from shareholders and investors, thereby maintaining effective two-way communication between the Company and the capital market. During the year, we conducted investor relationship management by insisting on simultaneous performance roadshows at home and abroad, valuing the daily communication with investors, and adopting various effective methods such as on-site investigation, Management Reception Day, online interaction and participation in investment forums.

Universal Medical 2019 Interim Results Presentation

On 27 August 2019, Universal Medical held its 2019 Interim Results Presentation in Hong Kong, in which the Group announced its interim financial results to investors, announcing that the Group's revenue increased by 52.5% year-on-year in the first half of 2019. Meanwhile, Universal Medical gave a comprehensive explanation regarding the operation conditions, financial performance, development prospects, future objectives and other contents. In addition, it provided detailed answers to the hot issues raised by the investors, which was widely recognized.

Step 2: Verify and review the concerned issues

Based on the ESG Guide of the SEHK and made reference to the material issues of peer companies, we have set up daily communication with all stakeholders, to evaluate the issues concerned by them and identify the ESG issues and risks relevant to the Group. The relevant issues will be disclosed in detail in the subsequent sections of this report.

In the future, we will further deepen and consolidate the communications with the stakeholders. We will evaluate and review the material issues concerned by the stakeholders, and continue to enhance the management of the issues.

1.4 Honor Awards

With its excellent corporate governance and professional investor relationship management, Universal Medical was awarded "Golden H Share Prize for the Best Investor Relationship Management Listed Company" for three consecutive years and other awards.

In return for the support and love of investors, we will continue to actively maintain compliant, efficient and transparent communications with the market under the care and encouragement of the capital market by virtue of steady growth performance.

2019 Golden H Share Prize for the Best Investor Relationship Management Listed Company

2 ADHERING TO RESPONSIBILITY MANAGEMENT AND TAKING THE SINCERE COOPERATION AS OUR MISSION

Taking on the responsibility of the central enterprise, the Group has been dedicated to acting as an outstanding corporate citizen over the years, actively exploring new modes of industrial development by setting the goal of serving the people's livelihood and assisting the development of China's medical industry, fulfilling social and economic responsibilities by virtue of advanced medical technology, safe quality system and good professional ethics, and developing high-quality medical and health services covering the whole life cycle by means of the building of the health-related industry ecosystem.

2.1 Industrial Development

The Group continued to drive hard in the field of medical and health care, set the strategic development goal to build a leading medical and health group in China, comprehensively promote the business layout of hospital group, steadily develop our medical finance business, and jointly push forward health industry chain extension businesses such as medical technology services, medical digitalization and medical and elderly care, during which business indicators grew steadily and overall strength continuously increased.

Seizing the policy opportunity, with key regions as the core, we have actively approached with several state-owned groups and their quality hospitals to participate in the integration and takeover of their medical institutions through formation of joint ventures and open market bidding. In this year (data for this part to be updated):

Medical institutions consolidated:	24
Grade III Class A hospitals:	3
Grade II hospitals	12
Operating capacity of beds in total	7,399 (excluding Qian Shan Hot Spring Health Center)
Number of outpatient visits	3.86 million
Number of the discharged	0.21 million

In 2019, Universal Medical successively entered into project cooperation contracts with Ansteel Group, Pangang Group, CEC, CR State Asset and Yang Quan Coal Industry through formation of joint ventures or open market bidding, and continued to actively participate in the integration and takeover of medical institutions of state owned enterprise(s) (SOE(s)).

In April 2019, the Forum on Reform and Development of Central Enterprise Hospitals, sponsored by Universal Medical and co-organized by Yantai Port Hospital, which aimed to promote better integration and faster development of hospitals after reform was officially held. With the vigorous support of policies related to hospital reform in central enterprises and SOE(s), Universal Medical has continuously provided technical and resource support to Yantai Port Hospital, dedicating itself to making the hospital a benchmark project for central enterprise hospital reform in Shandong Province and a comprehensive Grade III medical institution with distinct specialist advantages.

To Sponsor the Forum on Reform and Development of Central Enterprise Hospitals

To Sponsor the 11th Sino-US International Medical Summit

In September 2019, Universal Medical sponsored the 11th Sino–US International Medical Summit in Xi'an city. The summit is an important bridge of medical communication between China and the United States, with an aim to bring together the top medical technology concepts of China and the United States and promote the development of advanced medical technology of China and the United States in Shaanxi, so as to facilitate the integration and promotion of global high-quality medical resources in China.

In November 2019, Universal Medical held the Hospital Operation Management Lecture: Symposium on DRGs Payment Reform Response, helping hospitals take precautions and effectively coping with DRGs payment reform, which was an important measure for Universal Medical to promote the fine operation and management of hospitals.

To hold Symposium on DRGs Payment Reform Response

2.2 Compliance Operation

The Group continuously perfects the management mechanism while constantly pursuing innovative development. In this year, we constantly promoted the integration and takeover of medical institutions. By adopting the *18 Regulations on the Core System for Medical Quality and Safety (Trial), Measures for Medical Equipment Purchasing Management (Trial)*, *Measures for Medicine Supply Chain Management (Trial)* and *Measures for Supervision and Management of Environmental Protection* and other management systems, the Group ensured the health and safety of medical services and products provided by its hospitals, as well as the medicine quality. Since the merger of our hospitals are not in one time, we are investigating each hospital. In addition, we will analyze a series of management conditions, including medical service, quality management and technology research and development of each hospital, and put forward targeted suggestions, so as to steadily promote the building of a conglomerate management system.

Our customers mainly include medical institutions, patients and everyone with health demand, as well as medical equipment suppliers for whom the Group acts as exclusive sales agent and provides equipment in-licensing 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 abide 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.

In addition, 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 to protect our customers' privacy and information security. The department of central computer room management backs up substantial data 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.

2.3 Transparent Procurement

Maintaining a good and stable partnership with suppliers is an important step for the Company's continuous operation. The Group's suppliers are mainly suppliers that provide medicines, medical consumables and medical devices for the Group and 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.

The Group formulated the *Measures for Centralized Purchasing Management* that applicable to the centralized purchasing of goods, engineering and service 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", and 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. In addition, we reviewed the supply status of drugs and medical consumables in various hospitals, integrated and standardized the centralized procurement of regional pharmaceutical supply chains based on the model of centralized procurement control.

With the stable process in the integration and takeover of medical institutions, we strictly complied with the *Law on the Administration of Pharmaceuticals of the People's Republic of China*, the *Implementation Provisions on the Administration of Pharmaceuticals of the People's Republic of China, Administrative Provisions on Administration and Supervision of Medical Devices*, and formulated *Measures for Medicine Supply Chain Management (Trial), Measures for Medical Equipment Purchasing Management and Measures for Healthcare Digitalization Purchasing Management (Trial)* to regulate the purchasing management of drugs, medical consumables and healthcare digitalization of our medical institutions. Regarding the procurement of medicine supply chain, the brand image, medical quality, medicine quality and normal diagnosis and treatment services of the Group's medical institutions must be guaranteed by taking into account environmental and social risks and other factors.

2.4 Integrity Management

In order to 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 formulated the Measures for Integrity Risk Prevention, implemented a series of management measures for risk screening, identification, evaluation and prevention, and timely investigated and held accountable for violations of discipline.

Since March 2019, the Group has held 10 "Monthly Integrity" activities of different forms and launched 8 self-made videos "Fancy Integrity" on integrity education, advocating employees on enterprise WeChat. In addition, we have intensified the management of cadres. By virtue of the strict implementation of the *Measures for the Administration of Official Leadership Activities and the Measures for the Implementation of the Reply of Cadres to Integrity Administration (Revision)*, we have set up a working group on integrity construction and anti-corruption, fully implementing the responsibility for integrity construction.

In order to promote justice and equitable business environment, the Group issued the *Notice of Further Unblocked the Reporting Complaints Channel* (《關於進一步暢通舉報投訴渠道的通知》), further specifying the scope and channel for reporting complaints, and encouraging informers to report through letters, telephone calls or emails on discipline inspection and supervision visiting platform. In this year, we had abide by *Criminal Law of the People's Republic of China, Anti-Money Laundering Law of the People's Republic of China* and other laws and regulations regarding corruption and bribery, blackmail, fraud and anti-money laundering and did not receive any relevant lawsuit.

3 RECRUITING ELITES AND TALENTS AND SETTING THE GOAL OF ENSURING HAPPINESS

The Group has been following the responsibility concept of "respecting staff, trusting staff, caring for staff and prospering staff", combining staff's self-value with the development process of the enterprise, and realizing growing together. We fully cultivate the middle-level and grass-roots elite force with core expertise, recruit energetic and outstanding graduates, safeguard the Group's solid foundation for development, devote ourselves to building a professional talent team with a global vision, proficient in professional knowledge and profound understanding of the comprehensive medical service industry, continuously promote the Group's efficient and orderly business operation, and create sustained and stable economic benefits.

3.1 Employee Rights

We focus on protecting the rights of employees and promoting the standard management of enterprise by formulating and implementing a legally and friendly human resource policies and systems to create an inclusive, equal and collaborate working environment with mutual trust for employees.

Recruitment and dismissal

In this year, we have formulate and implement the employment policy of the Group according to *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*") and other relevant laws and regulations;

We enter into legal and valid labor contracts with employees and are subject to the principle of equality, voluntariness and negotiations for consensus. In addition, the headquarter of the Group have formulated an internal system, including *Administrative Measures for Labor Contract, Administrative Measures for Campus Recruitment, Administrative Measures for College Graduates Reception and Operation Manual for Positions Recruited* (hereinafter referred to as the "*Recruitment Manual*") and complied with the relevant requirements in staff recruitment. In the same time, the headquarter of the Group strictly conform to standard procedures in plan formulation, recruitment standard setting, interviews, written tests, appointments, probation feedback and staff assessment, assuring procedural justice and rigorous management;

To avoid the employment of minors under 16 years of age by mistake, the Group strictly complied with the *Law on the Protection of Minors of the People's Republic of China, Prohibition of Child Labourm* and other laws and regulations and 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;

We formulated *Regulations on Separating Employee Management* based on *Labor Contract 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 or employee dismissal. The regulation standardizes procedures on different types of leaving and protection measures for involved parties.

Remuneration package

In this year, the Group has strictly complied with *Labor Contract Law* and relevant local laws and regulations in determining wages of employees. Besides, the Group pays social insurances and housing provident fund for all types of employees according to the *Labor Contract Law, Regulations on Management of Housing Provident Fund, Regulations of Paid Annual Leave of Employees* and relevant laws and regulations;

We place great emphasis on and secure the legitimate rights of employees, make sure the each operation of employee benefits payment shall comply with system and procedure requirements. 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

In this year, we complied with *Labour Contract Law*, *Regulations of Paid Annual Leave of Employees* and relevant local laws and regulations, and in compliance with *Administrative Measures for Employees Attendance, Administrative Measures on Paid Annual Leave of the Employees and Administrative Measures on Working Overtime* and other internal system, taking into account practical situation, defined working hours and application for leave to make sure employees' lawful rights of rest and annual leave are safeguarded.

Diversity, equal opportunity and anti-discrimination

In this year, there was no case of discrimination identified within the Group. 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. To fully undertake its social responsibility, the Group creates jobs open to public equally and offers opportunities for veterans.

3.2 Employee Growth

Being a responsible employer, we have been insisting on the common promotion of enterprise value and employee value, upholding the talent concept of "people-oriented, people come first" and providing a stage for employees to demonstrate their talents. We have established a comprehensive training system, providing various forms of training including face-to-face instruction, extension, online learning platform, and academic exchanges for employees of different levels and types. We consider the staff's career planning and the Group's talent pool management as priority, continuously expand career development channels, and do our utmost to help each staff achieve their own development goals in the short, medium and long term.

Meanwhile, to improve the training of all staff with regards to professional skills and comprehensive quality, we have formulated the *Measures for Employee 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, thereby providing institutional guarantee for the rapid growth of talents at all levels and the improvement of the quality of all employees.

In April 2019, Universal Medical "Director Lecture" officially opened, which aimed at improving strategic thinking ability, promoting cultural integration and jointly boosting the construction of the hospital group. Over 40 people of management level from the Group's 10 medical institutions participated in the Lecture.

In June 2019, Universal Medical organized a large-scale off-road event "New Start, New Journey: Desert Hiking Experience Training", which brought together a total of over 180 people from the Group's various medical institutions. After three days of journey, it improved their sense of challenge and enhanced the team spirit.

In December 2019, Universal Medical organized and held the First Cardiology Seminar (首屆心內科學科研討會), in which 20 hospital leaders and directors of Department of Cardiology from the Group's 13 medical institutions participated. The seminar arranged the representatives of each medical institution to visit Department of Cardiology of Peking University First Hospital to listen the experience in building cardiac rehabilitation center and invited famous experts from Beijing Grade III Class A hospitals to discuss the development directions and targets of the discipline. The activity provides a new idea for the future development of the Group's clinical department and lays the foundation for building Department of Cardiology and creating a healthcare group that patients/clients trust.

In this year, we conducted major training work in terms of "Professional Training for Medical Personnel (醫務人員專業培訓)", "Training for Grassroots Cadre (基層骨幹培訓)" and "New Employees Orientation Training", continued to focus on improving abilities in strategy, general skills, professional skills and Party member education. Based on the past diversified training forms and combined with the development plan of this year, we launched various special training courses, which were recognized with positive feedback by employees. While continuing to carry out staff training activities, we are constantly improving the statistical work of training data. During this year, the number of employees trained at the headquarter of the Group, and average hours of training are shown below:

Types of Employees		Percentage of Employees Trained	Average Hours of Training Received per Employee (hours)
Gender	Male	80.25%	43
	Female	87.50%	37
Category	Senior	100.00%	102
	Middle	100.00%	115
	Junior	68.25%	37

3.3 Caring for Employees

We stick to the philosophy of "Happy Work, Healthy Work", working hard on promoting employee's health level and providing a safe, healthy and comfortable environment for our employees. Our headquarter strives to provide staff with comprehensive welfare benefit programs which are based on the statutory welfare benefits, including 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, the Group complied with the *Law on Production Safety of the People's Republic of China, Fire Protection Law of the People's Republic of China, Law on Prevention and Control of Occupational Disease of the People's Republic of China, Regulations on Worker's Compensation Insurance, Regulations on Public Health Emergencies, and Regulations on the Safety and Management of Hazardous Chemicals* and other various laws and regulations. There was no case of work-related injury or fatalities occurred.

1. A total of 228 safety production rules and regulations, safety operation regulations and emergency plans were formulated (revised) in this year;
2. The safety production management organizations at all levels carried out 232 inspections, and 2,725 sets of special equipment were inspected;
3. The number of people attending safety training reached 11,425 and 173 emergency drills were conducted.

Fulfilling the responsibility for safe production

In order to strengthen the unified organization and leadership of safety production and environmental protection, as well as consolidate the entity responsibility of enterprise safety production, we have set up the Environment, Health and Safety Committee (hereinafter referred to as "EHS Committee"). The EHS Committee is responsible for leading the deployment of various environment, health and safety management works, and ensuring the safe and stable growth development. In this year, we formulated *Measures for Security Production Supervision and Management of Genertec Universal Medical Group Company Limited*, *2019 Safety and Environmental Protection Target Responsibility Statement of Universal Medical*, and revised *EHS Accident Emergency Plans of Genertec Universal Medical Group Company Limited*. We always put the safety and health of employees and the public in the first place, and continuously improve the long-term safety production mechanism, to guarantee employees' life and property security and the environmental safety, and to ensure that emergency rescue can be conducted quickly, effectively and orderly in case of relevant accidents.

Theme Education for Safety Production Month

Theme Promotion of Safety Production Month

Fire Protection Safety Knowledge Training

Hospital Fire Drill

Potential risk identification of hospital safety production

As the Group gradually deepens into the strategic transformation of the medical health industrial group, after the absorption of medical institution management, the various following safety risks increase significantly, including fire accident risks, special equipment accident risks, electricity safety accident risks and medical hazardous chemical accident risks, etc. Safety production management has become an important guarantee for the stable development of the Group. All our hospitals have set up safety inspection leading teams according to the work deployment, which are responsible for implementing the potential risk identification, as well as putting forward rectification suggestions. In April, September and December of this year, we launched safety inspections regarding our hospitals. All the potential risks have been implemented and rectified, or monitored and controlled emphatically. The efficiency of check and rectification is obvious.

The Identification and Governance of Potential Risks

4 PROTECTING THE ECOLOGICAL ENVIRONMENT AND REGARDING BUILDING GREEN CIVILIZATION AS OUR MISSION

The fulfilment of environmental protection responsibilities has been persistently incorporated in the Group's sustainable development plan. Via the implementation of a systematic, professional and comprehensive environmental, health and safety management system, the Group strives to be a safe, environment-friendly and resource-saving enterprise, thereby realizing the harmonious development between the enterprise and the ecological environment. We are committed to raising the awareness of energy conservation and emission reduction of all employees, rationally managing emissions and the use of resources, and collectively contributing to the protection of the earth and ecology.

4.1 Promotion and Education on Environmental Protection

In response to the Notice on 2019 National Energy Conservation Publicity Week and National Low Carbon Day jointly issued by 14 departments including the National Development and Reform Commission of the People's Republic of China and the State-owned Assets Supervision and Administration Commission of the State Council, we launched the theme activity "Practicing Low Carbon Energy Conservation and Promoting Green Development of the Company" in this year, calling on all employees to raise awareness of energy conservation and emission reduction, to shape the awareness of "everyone is responsible for energy conservation" and to reduce the uncivil conducts of wasting energy. Meantime, we compiled Green Development, Energy Conservation Priority: Proposal for All Employees to Do Well in Energy Conservation and Emission Reduction (hereinafter referred to as the "Proposal"), which, from the perspective of saving resources and protecting the environment, lists measures such as saving electricity and paper in life and work, thus helping staff form the awareness and habit of saving resources and jointly promoting the green development of the Group.

Moreover, we took the initiative to employ multimedia to publicize the concept of environmental protection. In this year, we organized a number of environmental protection publicity activities of rich contents and various forms, and enhanced training on energy conservation and emission reduction for new employees, effectively driving and implementing energy conservation and emission reduction. After a series of education and system implementation, the environmental awareness of the employees of the Group in energy conservation, emission reduction, water conservation and waste reduction has been significantly improved, ensuring the further standardization of the Group's environmental protection and laying a solid foundation for the follow-up green management.

Promotional Poster for Energy Conservation and Emission Reduction

4.2 Green Management

The Group attaches importance to resource conservation and environmental protection. In this year, the Group's business management were in compliance with the requirements of the *Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on the Prevention and Control of Water Pollution, Law of the People's Republic of China on the Prevention* and *Control of Environmental Pollution by Solid Waste and Control Regulations on Medical Waste* and other laws and regulations and relevant local environmental requirements.

Rational use of electricity

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

❖ Strengthening the management of computers, photocopiers, fax machines and other office facilities;

❖ Shutting down the power of electric appliances in time to reduce the standby consumption;

❖ Strictly perform air conditioning operation regulations, and do not open doors and windows when opening air conditioning;

❖ When leaving the office for long, turn off the lights.

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 relevant department for maintenance.

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

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, specific measures 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 with lower price, less fuel consumption and fewer pollution or choosing new energy vehicles.

Meanwhile, along with the Group's continuous strategic transformation to a medical and health industry group, we will continue to optimize the management of relevant energy consumption indicators and pollutant emission indicators. In this year, we have persistently improved the environmental protection management system. With a wider range of business content, we have compiled the Measures for Supervision and Management of Environmental Protection and the EHS Accident Emergency Plans of Genertec Universal Medical Group Company Limited according to the latest business content and division of responsibilities, improved the management system and emergency plan, enhanced environmental protection management, and realized rules-based. Moreover, we have further defined the environmental protection objectives and index in the 2019 Safety and Environmental Protection Target Responsibility Statement of Universal Medical.

Waste and wastewater management

❖ Wastewater, waste residues, waste oil, waste acid, alkali waste or toxic liquid are prohibited to enter into the drainage systems;

❖ Industrial waste residues, rubbish and other solid waste are strictly prohibited to enter into the drainage systems;

❖ The sewage emission limits conform to relevant requirements of the *Comprehensive Wastewater Discharge Standard (GB 8978-1996)*, and the sewage is prohibited to be directly discharged into the groundwater environment;

❖ We should deal with the hazardous wastes (including medical waste) stipulated in *Directory of National Hazardous Wastes*, strictly according to *Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes.*

Based on the actual business operation characteristics of the Group, we will attach importance to the treatment of the medical waste and medical wastewater in the future. For large output of medical waste in some hospitals, we will continue to improve the standardized management of medical waste treatment, as well as enhance the ledger management of medical waste treatment. Meanwhile, we will continue to strictly implement the monitoring of sewage related indicators. In addition, in the renovation of hospital equipment and facilities, we will comprehensively consider the transformation works of sewage treatment equipment, so as to strengthen the management efficiency of medical wastewater from the source.

4.3 Environmental Performance

The Group managed to achieve a balance between business development and environmental protection, so as to minimize the effect of our business on environment. In this year, we collected the environmental data on the emissions and resource usage at the headquarter and office premises (located in Zhongyi Building, Sichuan Building and Haijing Building) and five hospitals (Xi'an XD Group Hospital, Xianyang Caihong Hospital, Universal CREC (Xi'an) Hospital, Yantai Port Hospital Co., Ltd. and Ansteel Group General Hospital) of the Group.

4.3.1 Hospital Group Business[1]

In this year, the greenhouse gas emissions in hospital group business scopes of the Group mainly come from the direct emissions caused by fuel oil used by 30 office vehicles including ambulances (Scope 1), natural gas used by hospital canteen[2] (Scope 1) and indirect emissions caused by purchased electricity (Scope 2).

Greenhouse gas	The amount generated in 2019	Unit
Carbon dioxide (CO_2) emission equivalent (Scope 1)[3]	773.40	tons
Carbon dioxide (CO_2) emission (Scope 2)[4]	17,961.67	tons
Total carbon dioxide (CO_2) emission equivalent	18,735.07	tons
Total carbon dioxide (CO_2) emission density	0.09	tons/m^2[5]

1 Hospital group business covered five hospitals of the Group, including Xi'an XD Group Hospital, Xianyang Caihong Hospital, Universal CREC (Xi'an) Hospital, Yantai Port Hospital Co., Ltd. and Ansteel Group General Hospital

2 It only includes the hospital canteen of Universal CREC (Xi'an) Hospital, Yantai Port Hospital Co., Ltd. and Ansteel Group General Hospital

3 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) and Guidelines for Accounting and Reporting Greenhouse Gas Emissions China Public Building Operation Units (Enterprises) (Trial) issued by Ministry of Environmental Protection of the People's Republic of China

4 The calculation method of the greenhouse gas emissions (Scope 2) is referring to 2011- 2012 Average CO_2 Emission Factors of China's Sub-national Grids issued by National Development and Reform Commission.

5 The area includes Xi'an XD Group Hospital, Xianyang Caihong Hospital, Universal CREC (Xi'an) Hospital, Yantai Port Hospital Co., Ltd. and Ansteel Group General Hospital, amounting to 219,620.21 m^2 in total

In this year, the air pollutants emissions in hospital group business scopes of the Group mainly come from exhaust emissions of 30 office vehicles (including ambulances).

Air pollutants[6]	The amount generated in 2019	Unit
Nitrogen oxide (NOx)	492.18	kilogram
Sulfur oxide (SOx)	1.10	kilogram
Carbon monoxide (CO)	494.74	kilogram
Particulates ($PM_{2.5}$)	16.39	kilogram
Particulates (PM_{10})	18.21	kilogram

In this year, the hazardous waste and non-hazardous wastes generated from operation of hospital group business scopes of the Group are mainly medical waste and wastewater discharge.

Waste and wastewater	The amount generated in 2019	Unit
Hazardous waste		
Medical waste	996.09	tons
Density of medical waste	0.005	tons/m^2
Wastewater		
Medical wastewater	949,534.20	tons
Density of medical wastewater	4.32	tons/m^2

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

In this year, resources usage within hospital group business scopes of the Group mainly included water, electricity, gasoline and diesel used for office vehicles, natural gas for canteen and office paper.

Resources usage	Consumption in 2019	Unit
Water		
Total water consumption	1,088,000.00	tons
Density of total water consumption	4.95	tons/m^2
Direct energy		
Total gasoline consumption	43,867.90	Litre
Density of gasoline consumption	2,193.40	Litre/per vehicle
Total diesel consumption	26,969.61	Litre
Density of diesel consumption	1,926.40	Litre/per vehicle
Total natural gas consumption[7]	276,880.93	m^3
Density of natural gas consumption	1.26	$m^3//m^2$
Indirect energy		
Total electricity consumption	23,615,856.47	degrees
Density of total electricity consumption	107.53	degrees/m^2
Raw material		
Total paper consumption	85,660.00	kilogram
Density of paper consumption	0.39	kilogram/m^2

7 It only includes the natural gas consumption by the hospital canteens of Genertec Universal CREC Hospital Group, Yantai Port Hospital and Ansteel Group General Hospital

4.3.2 Finance and Advisory Business[8]

In this year, the greenhouse gas emissions in the headquarter office in Beijing mainly came from fuel oil used by 11 office vehicles (Scope 1) and indirect emissions caused by purchased electricity (Scope 2).

Greenhouse gas	The amount generated in 2019	Emission density in 2019	Emission density in 2018
Carbon dioxide (CO_2) emission equivalent (Scope 1)[9]	18.19 tons	0.03 tons per person[10]	0.02 tons per person
Carbon dioxide (CO_2) emission (Scope 2)[11]	526.48 tons	0.80 tons per person	0.76 tons per person
Total carbon dioxide (CO_2) emission equivalent	544.67 tons	0.83 tons per person	0.78 tons per person

8 Finance and advisory business covered the headquarter and office premises of the Group (located in Zhongyi Building, Sichuan Building and Haijing Building)

9 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

10 The number of the employees in Beijing headquarter is 659

11 The calculation method of the greenhouse gas emissions (Scope 2) is referring to 2011- 2012 Average CO_2 Emission Factors of China's Sub-national Grids issued by National Development and Reform Commission

In this year, air pollutants in the headquarter office in Beijing mainly came from exhaust emissions of office vehicles.

Air pollutants[12]	The amount generated in 2019	Emission density in 2019	Emission density in 2018
Nitrogen oxide (NOx)	1,804.16 grams	2.74 grams	3.13 grams per person
Sulfur oxide (SOx)	118.45 grams	0.18 grams	0.16 grams per person
Carbon monoxide (CO)	33,307.48 grams	50.54 grams	56.55 grams per person
Particulates ($PM_{2.5}$)	175.27 grams	0.27 grams	0.30 grams per person
Particulates (PM_{10})	182.29 grams	0.28 grams	0.31 grams per person

In this yeas, the main non-hazardous waste generated from the headquarter of the Group in Beijing during our daily operation is office paper. In order to protect the privacy of customers, the waste paper must be shredded before recycling. In this year, we vigorously promoted a paperless office and made progress. The 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 2019	The density generated in 2019	The density generated in 2018
Non-hazardous waste			
Waste paper[13]	740.20 kilograms	1.12 kilograms per person	1.93 kilograms per person
Hazardous waste			
Waste lamp	118	0.18 per person	0.19 per person
Waste ink cartridges	222	0.34 per person	0.90 per person
Waste batteries	1,130 kilograms	1.71 kilograms per person	2.49 kilograms per person

12 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

13 The estimated calculation of waste paper is conducted by 20% of paper consumption; the density of the waste paper is 1.93 kilogram per person in 2018 after adjustment

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

Resources usage	Consumption in 2019	Per capita consumption in 2019	Per capita consumption in 2018
Water			
Total water consumption	8,063.40 tons	12.24 tons per person	11.70 tons per person
Direct energy			
Total gasoline consumption	7,922.47 liters	12.02 liters per person	10.60 liters per person
Indirect energy			
Total electricity consumption[14]	595,368.00 degrees	903.44 degrees per person	857.34 degrees per person
Raw material			
Total paper consumption[15]	3,700.10 kilograms	5.61 kilograms per person	9.65 kilograms per person

14 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:

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

15 The density of the paper consumption is 9.65 kilogram per person in 2018 after adjustment

5 FOCUSING ON MEDICAL AND HEALTH AND REGARDING PROMOTING SOCIAL DEVELOPMENT AS MISSION

The Group has been performing as a SOE for years, actively participated in public welfare undertakings, and always regarded social value as priority. In this year, we actively helped Wuchuan County, Inner Mongolia for poverty alleviation, donating RMB1.3 million. We carried out anti-poverty consumption and purchased local materials of RMB1 million. Meantime, we firmly seized the opportunity of China's medical and health industry, attached importance to the "public welfare" attribute of medical services, brought benefits to patients with the best quality medical and health services, and contributed to "Healthy China".

5.1 Prevention and Treatment of CVA

CVA is also known as cerebrovascular accident. Prevention and treatment of CVA has been the most important medical service project of Universal Medical for long. Since 2010, we have established CVA cooperation projects with various domestic hospitals.

On 29 October 2019, also World Stroke Day, Universal Medical invited experts from the Stroke Prevention and Control Engineering Committee of National Hygiene and Health Committee of the People's Republic of China to hold a series of activities including expert lectures, large-scale free clinic and academic seminars for its medical institution Yantai Port Group, hoping to benefit the local people with high-quality medical services.

5.2 Overcome Difficulties and Fight COVID-19

Since the end of 2019, the spread of the COVID-19 epidemic has brought about a noticeable impact on China and the world. Despite the fact that the main impact of the COVID-19 epidemic and the epidemic prevention and control measures actively taken by the Group did not occur in this year, considering its importance to the Group and various stakeholders, we disclosed the measures and results taken during the COVID-19 epidemic in a timely manner. After the occurrence of the COVID-19 epidemic, Universal Medical and its hospitals responded quickly, arranged and deployed urgently to deal with the epidemic.

During the outbreak of COVID-19, the National Health Committee arranged medical rescue teams from all provinces and cities to rescue Hubei. Upon receiving the notification of forming the medical team, the medical staff of Universal Medical hospitals stepped forward in an emergency and volunteered for it, after which the hospital support teams were quickly formed. As of 9 March 2020, a total of 47 medical personnel from hospitals were fighting against the COVID-19 in Hubei epidemic areas.

Performing rescue mission at Wuhan Jinyintan Hospital

Performing rescue mission at Leishenshan Hospital in Wuhan

Performing rescue mission at Jiangbei Hospital of Wuhan Union Medical College Hospital (武漢協和江北醫院)

Performing rescue mission at Wuhan No.9 People's Hospital (武漢市第九人民醫院)

Medical Personnel Supporting Hubei Epidemic Areas

Under the current situation, the shortage and emergency of materials for epidemic prevention and control in our hospitals are the biggest difficulties. The headquarter of Universal Medical has called up all possible means and done its utmost to allocate materials from all over the country, done well in material distribution, and ensured the steady hospital epidemic prevention and control. As of 9 March 2020, the headquarter of Universal Medical has actively assisted its hospitals and realized the distribution of various medical materials, and more than 600,000 pieces of protective materials such as masks, protective suit and operating coats were distributed.

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

Aspect	Items	Descriptions	Reference Chapters/ Remarks
A. Environmental			
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	Promotion and Education on Environmental Protection, Green Management
	A1.1	The types of emissions and respective emissions data	Environmental Performance
	A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Environmental Performance
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Environmental Performance
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Environmental Performance
	A1.5	Description of measures to mitigate emissions and results achieved	Promotion and Education on Environmental Protection, Green Management
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Promotion and Education on Environmental Protection, Green Management

Aspect	Items	Descriptions	Reference Chapters/ Remarks
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Promotion and Education on Environmental Protection, Green Management
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	Environmental Performance
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Environmental Performance
	A2.3	Description of energy use efficiency initiatives and results achieved	Promotion and Education on Environmental Protection, Green Management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Promotion and Education on Environmental Protection, Green Management
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Not Applicable
A3: Environmental and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Promotion and Education on Environmental Protection, Green Management
	A3.1	Description of the significant impacts of business activities on the environment and natural resources and the actions taken to manage them	Promotion and Education on Environmental Protection, Green Management

Aspect	Items	Descriptions	Reference Chapters/ Remarks
B. Social			
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
	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
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	Employee Rights, Caring for Employees
	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
B3: Development and Training	**General Disclosure**	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Employees Growth
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	Employees Growth
	B3.2	The average training hours completed per employee by gender and employee category	Employees Growth
B4: Labor Standards	**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 preventing child or forced labor	Employee Rights
	B4.1	Description of measures to review employment practices to avoid the child and forced labor	Employee Rights
	B4.2	Description of steps taken to eliminate such practices when discovered	Employee Rights

Aspect	Items	Descriptions	Reference Chapters/ Remarks
B5: Supply Chain Management	**General Disclosure**	Policies on managing environmental and social risks of the supply chain	Transparent Procurement
	B5.1	Number of suppliers by geographical region	Disclosure will be considered in the Future
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Transparent Procurement
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	Compliance Operations
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Disclosure will be considered in the Future
	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	Compliance Operations

Aspect	Items	Descriptions	Reference Chapters/ Remarks
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
	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
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 Medical and Health and Regarding Promoting Social Development as our Mission
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Focusing on Medical and Health and Regarding Promoting Social Development as our Mission
	B8.2	Resources contributed (e.g. money or time) to the focus area	Focusing on Medical and Health and Regarding Promoting Social Development as our Mission

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 138 to 280, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 loans and accounts receivables	
The Group's loans and accounts receivables consisted of lease receivables, long-term receivables arising from sale-and-leaseback arrangements and accounts receivables, and accounted for 86% of the Group's total assets. The assessment of impairment of such loans and accounts receivables in our audit was considered to be a matter of most significance as it required the application of judgement and use of subjective assumptions by management. HKFRS 9 requires that using the "expected credit loss" ("ECL") model for the measurement of impairment of financial assets. In order to measure impairment of loans and accounts receivables under HKFRS 9, management should use judgement, assumptions and estimation techniques in aspects such as judging significant increases in credit risk, estimating the parameters for measuring ECLs and determining the forward-looking adjustments. The related disclosures are included in notes 2.4,3, 19 and 39 to the consolidated financial statements.	We gained an understanding of and tested the key controls over the approval and recording of loans and accounts receivables, and impairment assessment. We adopted a risk-based sampling approach in our tests of the allowance for impairment of loans and accounts receivables. We selected samples of performing loans considering the size, risk factors and industry trends for our tests on the reasonableness of loan 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 evaluated 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 loans and accounts receivables included in the consolidated financial statements.
Business combinations	
During the year ended 31 December 2019, the Group acquired several hospitals for a total purchase consideration of RMB2,632 million and resulted in the recognition of goodwill of RMB61 million. Management used significant judgements and estimates in accounting for those acquisitions, especially the preparation of the necessary purchase price allocations. The accounting policies and disclosures of the business combinations are included in notes 2.4 and 30 to the consolidated financial statements.	In our audit of the accounting for those acquisitions, we reviewed the purchase agreements and other related documents to assess management's judgement that the controls over such companies are acquired in the transactions. We also tested the estimated fair values of acquired assets and liabilities used in purchase price allocations based on common valuation methods, and we involved our valuation specialists in such tests. We have also assessed the adequacy of the Group's disclosures on the business combinations in note 30 to 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 Leung Shing Kit.

Ernst & Young
Certified Public Accountants
Hong Kong
24 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**6,815,587**	4,296,866
Cost of sales		**(3,636,505)**	(1,705,442)
Gross profit		**3,179,082**	2,591,424
Other income and gains	5	**218,645**	150,740
Selling and distribution costs		**(404,589)**	(387,251)
Administrative expenses		**(441,408)**	(244,350)
Impairment losses on financial assets, net		**(235,213)**	(145,996)
Other expenses		**(96,116)**	(105,109)
Financial costs		**(11,982)**	(419)
Share of profits of:			
A joint venture		**2,821**	–
An associate		**619**	–
PROFIT BEFORE TAX	6	**2,211,859**	1,859,039
Income tax expense	9	**(577,467)**	(508,375)
PROFIT FOR THE YEAR		**1,634,392**	1,350,664
Attributable to:			
Owners of the parent		**1,488,736**	1,352,173
Non-controlling interests		**46,056**	(1,509)
Other equity instruments		**99,600**	–
		1,634,392	1,350,664
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)	11	**0.87**	0.79

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**1,634,392**	1,350,664
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) 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 year	**87,933**	33,296
Reclassification adjustments for gains included in the consolidated statement of profit or loss	**(56,793)**	(122,473)
Income tax effect	**(17,135)**	16,348
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**14,005**	(72,829)
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Actuarial losses on the post-retirement benefit obligations, net of tax	**(3,593)**	–
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods	**(3,593)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**10,412**	(72,829)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,644,804**	1,277,835
Attributable to:		
Owners of the parent	**1,500,903**	1,279,344
Non-controlling interests	**44,301**	(1,509)
Other equity instruments	**99,600**	–
	1,644,804	1,277,835

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**2,122,560**	271,026
Right-of-use assets	13(b)	**689,937**	–
Prepaid land lease payments	13(a)	**–**	132,134
Loans and accounts receivables	19	**33,408,641**	31,844,301
Prepayments, deposits and other receivables	20	**12,313**	–
Goodwill	14	**69,908**	9,211
Deferred tax assets	25	**308,585**	248,471
Derivative financial instruments	17	**32,756**	81,250
Investment in a joint venture	15	**444,807**	–
Investment in an associate	16	**4,198**	–
Other assets		**44,559**	9,953
Total non-current assets		**37,138,264**	32,596,346
CURRENT ASSETS			
Inventories	18	**156,726**	40,537
Loans and accounts receivables	19	**16,123,097**	11,826,005
Prepayments, deposits and other receivables	20	**320,070**	71,414
Derivative financial instruments	17	**187,509**	–
Restricted deposits	21	**541,009**	549,152
Cash and cash equivalents	21	**3,385,867**	2,173,473
Total current assets		**20,714,278**	14,660,581
CURRENT LIABILITIES			
Trade payables	22	**1,289,436**	482,381
Other payables and accruals	23	**2,387,726**	925,718
Interest-bearing bank and other borrowings	24	**14,987,079**	12,346,798
Derivative financial instruments	17	**19,553**	1,282
Tax payable		**74,119**	70,143
Total current liabilities		**18,757,913**	13,826,322
NET CURRENT ASSETS		**1,956,365**	834,259
TOTAL ASSETS LESS CURRENT LIABILITIES		**39,094,629**	33,430,605

	Notes	**2019 RMB'000**	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	**23,015,764**	20,635,191
Other payables and accruals	23	**2,585,661**	2,497,091
Derivative financial instruments	17	**45,996**	41,515
Total non-current liabilities		**25,647,421**	23,173,797
Net assets		**13,447,208**	10,256,808
EQUITY			
Equity attributable to the owners of the parent			
Share capital	27	**4,327,842**	4,327,842
Reserves	28	**5,161,462**	4,067,769
		9,489,304	8,395,611
Other equity instruments	36	**1,652,387**	1,652,481
Non-controlling interests		**2,305,517**	208,716
Total equity		**13,447,208**	10,256,808

Peng Jiahong
Director

Yu Gang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Equity attributable to the owners of the parent										
	Share capital RMB'000 (Note 27)	Capital reserve* RMB'000 (Note 28)	Statutory reserve* RMB'000 (Note 28)	Exchange fluctuation reserve* RMB'000 (Note 28)	Hedge reserve* RMB'000	Post-retirement benefit reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Other equity instrument RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2019	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
Profit for the year	-	-	-	-	-	-	1,488,736	1,488,736	99,600	46,056	1,634,392
Other comprehensive income for the year:											
Cash flow hedges, net of tax	-	-	-	-	14,005	-	-	14,005	-	-	14,005
Actuarial losses on the post-retirement benefit obligations, net of tax	-	-	-	-	-	(1,838)	-	(1,838)	-	(1,755)	(3,593)
Total comprehensive income for the year	-	-	-	-	14,005	(1,838)	1,488,736	1,500,903	99,600	44,301	1,644,804
Acquisition of subsidiaries (Note 30)	-	-	-	-	-	-	-	-	-	2,052,500	2,052,500
Distribution paid to holders of a renewable corporate bond	-	-	-	-	-	-	-	-	(99,694)	-	(99,694)
Dividends	-	-	-	-	-	-	(407,210)	(407,210)	-	-	(407,210)
Appropriation of reserves	-	-	151,427	-	-	-	(151,427)	-	-	-	-
At 31 December 2019	4,327,842	33,302	691,382	29,248	(58,824)	(1,838)	4,468,192	9,489,304	1,652,387	2,305,517	13,447,208

* These reserve accounts comprise the consolidated reserves of RMB5,161,462,000 (2018: RMB4,067,769,000) in the consolidated statement of financial position.

	Equity attributable to the owners of the parent									
	Share capital RMB'000 (Note 27)	Capital reserve* RMB'000 (Note 28)	Statutory reserve* RMB'000 (Note 28)	Exchange fluctuation reserve* RMB'000 (Note 28)	Hedge reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Holders of a renewable corporate bond RMB'000	Non-controlling interests RMB'000	Total RMB'000
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 loss 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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**2,211,859**	1,859,039
Adjustments for:			
Finance costs and interest expense		**1,882,175**	1,566,721
Interest income	5	**(91,251)**	(36,606)
Share of profits of a joint venture and an associate		**(3,440)**	–
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value gains, net	6	**(27,049)**	(22,000)
Realised fair value losses, net	6	**5,227**	14,605
Depreciation, exclusive of right-of-use assets		**114,796**	30,145
Depreciation of right-of-use assets	6	**16,533**	–
Gain on disposal of property, plant and equipment, net	5	**(8,039)**	(48,293)
Amortisation of intangible assets	6	**8,581**	1,073
Impairment of loans and accounts receivables and other receivables	6	**235,213**	145,996
Investment income	5	**(58)**	(7,945)
Foreign exchange losses, net	6	**87,644**	88,860
		4,432,191	3,591,595
Increase in inventories		**(31,817)**	(6,402)
Increase in loans and accounts receivables		**(5,519,233)**	(9,181,742)
Decrease in prepayments, deposits and other receivables		**39,507**	115,225
Decrease in other assets		**4,053**	105
Decrease/(increase) in amounts due from related parties		**1,152**	(2,122)
Increase in trade payables		**70,686**	303,126
Decrease in other payables and accruals		**(220,053)**	(40,731)
Increase/(decrease) in amounts due to related parties		**26**	(25)
Net cash flows used in operating activities before interest and tax		**(1,223,488)**	(5,220,971)
Interest received		**25,723**	36,606
Income tax paid		**(626,140)**	(544,280)
Net cash flows used in operating activities		**(1,823,905)**	(5,728,645)

	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment losses	**(6,451)**	(4,523)
Cash paid for acquisition of property, plant and equipment, intangible assets and other long term assets	**(208,240)**	(17,640)
Proceeds from disposal of items of property, plant and equipment	**14,023**	72,163
Acquisition of subsidiaries	**456,931**	13,802
Dividends received from an associate	**441**	–
(Decrease)/increase in time deposits	**(14,802)**	442,198
Other repayments of investments	**(1,800)**	(147,745)
Other receipt of investments	**114,443**	–
Purchase of a shareholding in a joint venture	**(441,986)**	–
Net cash flows (used in)/from investing activities	**(87,441)**	358,255
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in amounts due to related parties	**1,645,432**	1,000,000
Decrease in amounts due to related parties	**(1,003,675)**	(2,000,000)
Cash received from borrowings	**27,429,813**	23,143,492
Repayments of borrowings	**(24,631,399)**	(16,257,679)
Principal portion of lease payments	**1,634,109**	–
Interest paid	**(1,927,198)**	(1,368,884)
Cash paid for restricted deposits	**(7,489,537)**	(4,491,691)
Issue of a renewable corporate bond	**–**	1,651,184
Receipt of restricted deposits	**7,764,349**	4,432,717
Dividends paid	**(407,210)**	(336,793)
Receipt of other financing activities	**9,866**	–
Cash paid on other financing activities	**(2,692)**	–
Net cash flows from financing activities	**3,021,858**	5,772,346
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,110,512**	401,956
Cash and cash equivalents at beginning of year	**2,173,473**	1,749,884
Effect of exchange rate changes on cash and cash equivalents	**101,882**	21,633
CASH AND CASH EQUIVALENTS AT END OF YEAR	**3,385,867**	2,173,473
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**3,679,376**	2,614,953
Less: Restricted deposits	**(293,509)**	(441,480)
Cash and cash equivalents as stated in the statement of financial position	**3,385,867**	2,173,473
Cash and cash equivalents as stated in the statement of cash flows	**3,385,867**	2,173,473

NOTES TO FINANCIAL STATEMENTS

31 December 2019

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, the sale of medical equipment, medical equipment leases under operating lease arrangements, the hospital management business, the medical services 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/start-up capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
中國環球租賃有限公司* (China Universal Leasing Co., Ltd.)	PRC/Mainland China	USD818,887,616	100.00	–	Finance lease
環球一號有限公司 (Universal Number One Co., Ltd.)	Cayman Islands	USD1	100.00	–	Provision of financing
通用環球國際融資租賃(天津)有限公司** (Genertec Universal International Financial Leasing (Tianjin) Co., Ltd.)	PRC/Mainland China	USD150,000,000	25.00	75.00	Finance lease
通用環球醫療技術服務(天津)有限公司*** (Universal Medical HarmoCare Technology Services (Tianjin) Co., Ltd.)	PRC/Mainland China	RMB18,000,000	–	100.00	Medical technology services
通用環球醫院投資管理(天津)有限公司*** (i) (Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd)	PRC/Mainland China	RMB2,400,000,000	–	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

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration and business	Issued ordinary share/registered capital/start-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
通用環球醫療融資租賃(珠海橫琴)有限公司** (ii) (Genertec Universal Medical Financial Leasing (Zhuhai Hengqin) Co., Ltd.)	PRC/Mainland China	USD100,000,000	25.00	75.00	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	–	100.00	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	RMB 50,000,000	–	100.00	Hospital management services
合肥安化創傷康復醫院**** (Hefei Anhua Trauma Rehabilitation Hospital)	PRC/Mainland China	RMB24,850,000	–	100.00	Medical 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
通用環球健康產業發展(天津)有限公司*** (Genertec Universal Healthcare Industry Development (Tianjin) Co., Ltd.)	PRC/Mainland China	RMB5,000,000,000	100.00	–	Hospital management services
通用環球(天津)醫院集團有限公司*** (Genertec Universal (Tianjin) Hospital Group Co., Ltd.)	PRC/Mainland China	RMB2,600,000,000	–	100.00	Hospital management services
通用環球醫療(西安)有限公司*** (Genertec Universal (Xi'an) Co., Ltd.)	PRC/Mainland China	RMB1,000,000,000	–	55.00	Medical services
通用環球西航醫院(西安)有限公司*** (Genertec Universal Xi'an Aero-Engine Hospital (Xi'an) Co., Ltd.)	PRC/Mainland China	RMB509,664,900	–	78.48	Medical services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration and business	Issued ordinary share/registered capital/start-up capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
通用鞍鋼醫院管理有限公司*** (Genertec Ansteel Hospital Management Co., Ltd.)	PRC/Mainland China	RMB983,670,000	–	51.15	Medical services
通用環球彩虹(咸陽)醫院管理有限公司*** (Genertec Universal Caihong (Xianyang) Hospital Management Co., Ltd.)	PRC/Mainland China	RMB380,000,000	–	52.63	Medical services
通用環球中鐵(西安)醫院管理有限公司*** (Genertec Universal Railway (Xi'an) Hospital Management Co., Ltd.)	PRC/Mainland China	RMB200,000,000	–	51.00	Medical services
通用中鐵(北京)醫院管理有限公司*** (Genertec CREC (Beijing) Hospital Management Co., Ltd.)	PRC/Mainland China	RMB10,000,000	–	51.00	Medical services
通用環球醫療技術咨詢(煙台)有限公司*** (Genertec Universal Medical Technology Advisory (Yantai) Co., Ltd)	PRC/Mainland China	RMB1,000,000	–	65.00	Medical consulting
通用環球醫療科技(海南)有限公司*** (Genertec Universal Medical Science and Technology (Hainan) Co., Ltd)	PRC/Mainland China	RMB10,000,000	–	100.00	Medical consulting
山西陽煤總院醫療管理有限公司*** (Shanxi Yangmei General Hospital Medical Management Co., Ltd)	PRC/Mainland China	RMB1,380,000,000	–	51.00	Medical services
西電集團醫院**** (Xi'an XD Group Hospital)	PRC/Mainland China	RMB99,215,200	–	55.00	Medical services
鞍鋼集團公司總醫院**** (Ansteel Group Hospital)	PRC/Mainland China	RMB232,511,400	–	51.15	Medical services

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Company name	Place of incorporation/ registration and business	Issued ordinary share/registered capital/start-up capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
通用環球中鐵西安醫院**** (Genertec Universal CREC Xi'an Hospital)	PRC/Mainland China	RMB86,420,000	–	51.00	Medical services
咸陽彩虹醫院**** (Xianyang Caihong Hospital)	PRC/Mainland China	RMB94,855,700	–	52.63	Medical services
陽泉煤業(集團)有限責任公司總醫院**** (Yangquan Coal Industry (Group) General Hospital)	PRC/Mainland China	RMB176,850,000	–	51.00	Medical services

* 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

**** These institutions, as not-for-profit hospitals, cannot be registered as companies under PRC law. The sponsors of the these institutions, which are not-for-profit hospitals, have respective obligations to contribute the start-up capital to such institutions. Such start-up capital, once contributed, shall not be withdrawn by the sponsors. Given the charity nature of the not-for-profit hospitals, the legal income of such hospitals shall only be used in line with its purpose and within its business scope, and where applicable, in accordance with the articles of association of such hospitals, therefore, the net income is not distributable to its sponsors as dividends, which is different from a shareholder who owns the equity interests of a company.

There was no equity interest as at 31 December 2019 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 2019.

(i) On 26 April 2019, Wiseman Hospital Investment Management (Tianjin) Co., Ltd. changed its name to Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd..

(ii) On 23 July 2019, Universal Medical Finance Leasing (Hengqin) Co., Ltd. changed its name to Genertec Universal Medical Financial Leasing (Zhuhai Hengqin) 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 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. 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.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

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.

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 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 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 are described below:

(a) 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 account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and prepaid land lease payments. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were 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 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

As a lessee – Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

Financial impacts at 1 January 2019

The impacts arising from the adoption of HKFRS 16 at 1 January 2019 are as follows:

	Increase/(decrease) RMB'000
Assets	
Increase in right-of-use assets	154,985
Decrease in prepaid land lease payments	(132,134)
Increase in total assets	22,851
Liabilities	
Increase in interest-bearing bank and other borrowings	22,851
Increase in total liabilities	22,851

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) (continued)

Financial impacts at 1 January 2019 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	33,560
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(7,545)
	26,015
Weighted average incremental borrowing rate as at 1 January 2019	4.78%
Discounted operating lease commitments at 1 January 2019	22,851
Add: Finance lease liabilities recognised as at 31 December 2018	1,328,613
Lease liabilities as at 1 January 2019	1,351,464

(b) 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

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*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Materia*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations (continued)

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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.

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, deferred tax assets 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%
Office equipment	19.00%
Electronic equipment	9.50%~19.00%
Medical equipment	12.50%~20.00%
Leasehold improvements	20.00%~33.33%
Buildings	1.90%~11.88%

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 15 years.

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years to indefinite useful life
Property	2 to 10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. 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.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (continued)

Sale-and-leaseback transactions

HKFRS 16 requires sale-and-leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant assets should be accounted for as a sale. Upon application of HKFRS 16, the Group applies the requirements of HKFRS 15 to assess whether a sale-and-leaseback transaction constitutes a sale by a seller-lessee. For a transfer that does not satisfy the requirements as a sale, the Group accounts for the transfer proceeds as long-term receivables arising from sale-and-leaseback arrangements within the scope of HKFRS 9. In accordance with the transition provision of HKFRS 16, sale-and-leaseback transactions entered into before the date of initial application were not reassessed but new requirements would partially impact the Group's sale-and-leaseback transactions entered into on or after the date of initial application.

Leases (applicable before 1 January 2019)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable before 1 January 2019) (continued)

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.

Investments and other financial assets

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" 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (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 amortised cost (debt instruments)

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)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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.

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

The Group recognises an allowance for expected credit losses ("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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

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.

Financial liabilities

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement (continued)

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

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.

Financial liabilities at amortised cost (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.

Derecognition of financial liabilities

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (continued)

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.

Renewable corporate bond

A renewable corporate bond issued by the Group contains 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 a renewable corporate bond are recognised as profit distributions 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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, and 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

Finance lease income

Finance lease income is recognised 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

When the contract contains a financing component which provides the customer with 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 industrial products

Revenue from the sale of industrial products 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.

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(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 is recognised 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.

Contract liabilities

A contract liability is recognised when a payment is made or the payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in note 35 to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

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.

Defined benefit plan

The Group provides eligible retirees with certain post-retirement benefits including retirement subsidies, transportation allowance as well as other welfare. The defined post-retirement benefits are unfunded. The cost of providing benefits under the post-retirement benefit plan is determined using the projected unit credit actuarial valuation method.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other employee benefits (continued)

Defined benefit plan (continued)

Remeasurements arising from the post-retirement benefit plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to equity through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Wages, salaries and benefits" and "Finance costs" in profit or loss:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

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 (including the right-of-use 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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of financial instruments

The measurement of impairment losses under HKFRS 9 across debt instruments recorded at amortised cost or at FVOCI and loans and accounts receivables requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of appropriate models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

(i) The Group's internal credit grading model, which assigns PDs to the individual grades

(ii) The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment

(iii) Development of ECL models, including the various formulas and the choice of inputs

(iv) Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs

The Group will regularly review the expected credit loss model in the context of actual loss experience and adjust when necessary.

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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 2019 was RMB69,908,000 (2018: RMB9,211,000). Further details are given in note 14.

4. OPERATING SEGMENT INFORMATION

During the year, the Group acquired a number of hospitals. Thus, from 2019, for management purposes, the Group is organised into two operating segments, namely the finance and advisory business and the hospital group business based on the internal organisational structure, management's requirement and the internal reporting system:

- The finance and advisory business comprises primarily (a) direct finance leasing; (b) sale-and-leaseback; (c) factoring; (d) operating leases and (e) advisory services;

- The hospital group business comprises primarily (a) medical services; (b) hospital and healthcare management and (c) import and export trade and domestic trade of medical-related goods.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the Group.

Segment revenue, results and assets mainly include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Intersegment transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

As a result of the changes to reportable segments and segment presentation, the prior year segment information for the year ended 31 December 2018 has been re-presented to conform with the revised presentation.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

As at and for the year ended 31 December 2019

	Finance and advisory RMB'000	Hospital group RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	4,768,645	2,046,942	–	6,815,587
Cost of sales	(1,926,405)	(1,757,074)	46,974	(3,636,505)
Other income and gains	205,182	60,437	(46,974)	218,645
Selling and distribution costs and administrative expenses	(659,552)	(186,445)	–	(845,997)
Impairment losses on financial assets, net	(200,080)	(35,133)	–	(235,213)
Share of profits of an associate	–	619	–	619
Share of profits of a joint venture	–	2,821	–	2,821
Other expenses	(94,784)	(1,332)	–	(96,116)
Finance costs	(1,760)	(10,222)	–	(11,982)
Profit before tax	2,091,246	120,613	–	2,211,859
Income tax expense	(564,324)	(13,143)	–	(577,467)
Profit after tax	1,526,922	107,470	–	1,634,392
Segment assets	52,014,941	6,957,350	(1,119,749)	57,852,542
Segment liabilities	43,342,363	2,182,720	(1,119,749)	44,405,334
Other segment information:				
Impairment losses recognised in the statement of profit or loss	200,080	35,133	–	235,213
Depreciation and amortisation	28,940	110,970	–	139,910
Investment in an associate	–	4,198	–	4,198
Investment in a joint venture	–	444,807	–	444,807
Capital expenditure	10,274	197,966	–	208,240

4. OPERATING SEGMENT INFORMATION (CONTINUED)

As at and for the year ended 31 December 2018

	Finance and advisory RMB'000	Hospital group RMB'000	Adjustments and eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	4,165,136	131,730	–	4,296,866
Intersegment sales	345	–	(345)	–
Cost of sales	(1,591,850)	(113,592)	–	(1,705,442)
Other income and gains	150,076	664	–	150,740
Selling and distribution costs and administrative expenses	(605,689)	(25,912)	–	(631,601)
Impairment losses on financial assets, net	(146,455)	459	–	(145,996)
Other expenses	(104,972)	(137)	–	(105,109)
Finance costs	–	(764)	345	(419)
Profit/(loss) before tax	1,866,591	(7,552)	–	1,859,039
Income tax expense	(508,112)	(263)	–	(508,375)
Profit/(loss) after tax	1,358,479	(7,815)	–	1,350,664
Segment assets	46,584,641	672,286	–	47,256,927
Segment liabilities	36,840,351	159,768	–	37,000,119
Other segment information:				
Impairment losses recognised in the statement of profit or loss	146,455	(459)	–	145,996
Depreciation and amortisation	30,303	915	–	31,218
Capital expenditure	11,734	5,906	–	17,640

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) All the sales to external customers of the Group are made in Mainland China.

(b) All non-current assets of the operations, excluding financial instruments and property, plant and equipment, are all located in Mainland China.

Information about a major customer

There was no revenue derived from a single customer 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:

	2019 **RMB'000**	2018 RMB'000
Revenue		
Finance lease income	**2,972,563**	3,232,943
Long-term receivable income arising from sale-and-leaseback arrangements (Note i)	**849,223**	–
Revenue from contracts with customers	**3,000,520**	1,078,308
Revenue from other sources		
– Operating lease income	**7,207**	11,705
– Others	**12,600**	155
Taxes and surcharges	**(26,526)**	(26,245)
	6,815,587	4,296,866

Note i: Upon the application of HKFRS 16 on 1 January 2019, part of the receivables arising from sale-and-leaseback transactions newly entered into on or after 1 January 2019 is classified as long-term receivables. Accordingly, the related income is all interest revenue calculated using the effective interest method.

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Finance and advisory RMB'000	Hospital group RMB'000	Total RMB'000
Type of goods or services			
Service fee income	**962,796**	**3,603**	**966,399**
Sale of industrial products	**–**	**181,222**	**181,222**
Healthcare service income	**–**	**1,852,899**	**1,852,899**
Total revenue from contracts with customers	**962,796**	**2,037,724**	**3,000,520**
Geographical market			
Mainland China	**962,796**	**2,037,724**	**3,000,520**
Total revenue from contracts with customers	**962,796**	**2,037,724**	**3,000,520**
Timing of revenue recognition			
Goods transferred at a point in time	**–**	**181,222**	**181,222**
Services transferred at a point in time	**962,796**	**1,856,502**	**2,819,298**
Total revenue from contracts with customers	**962,796**	**2,037,724**	**3,000,520**

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	Finance and advisory RMB'000	Hospital group RMB'000	Total RMB'000
Type of goods or service			
Service fee income	945,876	–	945,876
Sale of industrial products	–	132,432	132,432
Total revenue from contracts with customers	945,876	132,432	1,078,308
Geographical market			
Mainland China	945,876	132,432	1,078,308
Total revenue from contracts with customers	945,876	132,432	1,078,308
Timing of revenue recognition			
Goods transferred at a point in time	–	132,432	132,432
Services transferred at a point in time	945,876	–	945,876
Total revenue from contracts with customers	945,876	132,432	1,078,308

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 31 December 2019

Segments	**Finance and advisory RMB'000**	**Hospital group RMB'000**	**Total RMB'000**
Revenue from contracts with customers			
External customers	**962,796**	**2,037,724**	**3,000,520**
Total revenue from contracts with customers	**962,796**	**2,037,724**	**3,000,520**

For the year ended 31 December 2018

Segments	Finance and advisory RMB'000	Hospital group RMB'000	Total RMB'000
Revenue from contracts with customers			
External customers	945,876	132,432	1,078,308
Total revenue from contracts with customers	945,876	132,432	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:

	2019 **RMB'000**	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Service fee income	**23,134**	–
Sale of industrial products	**17,048**	7,261
	40,182	7,261

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of industrial products

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)

(ii) Performance obligations (continued)

Healthcare service income

The performance obligation is satisfied at a point in time as services are rendered.

	2019	2018
	RMB'000	RMB'000
Other income and gains		
Gains on disposal of property, plant, and equipment	**8,039**	48,293
Interest income	**91,251**	36,606
Government grants (note 5a)	**90,267**	35,448
Fair value gains, net from derivative instruments		
– Transactions not qualifying as hedges	**27,049**	22,000
Investment income from subordinated tranches of asset-backed securities	**58**	7,945
Others	**1,981**	448
	218,645	150,740

5a. GOVERNMENT GRANTS

	2019	2018
	RMB'000	RMB'000
Government special subsidies	**90,267**	35,448

6. PROFIT BEFORE TAX

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

	2019 RMB'000	2018 RMB'000
Cost of borrowings included in cost of sales	**1,870,193**	1,566,721
Cost of inventories sold	**132,058**	113,592
Cost of operating leases	**6,804**	24,769
Cost of medical services	**1,624,382**	–
Cost of others	**3,068**	361
Depreciation of property, plant and equipment	**107,992**	5,376
Depreciation of right-of-use assets	**16,533**	–
Amortisation of intangible assets	**8,581**	1,073
Rental expenses	**–**	29,824
Lease payments not included in the measurement of lease liabilities	**16,492**	–
Auditor's remuneration		
– audit services	**3,374**	2,300
– other services	**1,781**	1,823
Research and development expenses	**13,825**	–
Employee benefit expense (including directors' remuneration (note 7), excluding R&D employees' benefit expense)		
– Wages and salaries	**832,976**	367,303
– Pension scheme contributions (defined contribution scheme)	**109,159**	39,053
– Other employee benefits	**206,980**	54,094
	1,149,115	460,450
Impairment of loan, accounts receivables and other receivables	**235,213**	145,996
Foreign exchange losses, net	**87,644**	88,860
Cash flow hedges (transfer from equity to offset foreign exchange)	**(56,793)**	(122,473)
Others	**144,437**	211,333
Derivative financial instruments – transactions not qualifying as hedges:		
– Unrealised fair value gains, net (note 5)	**(27,049)**	(22,000)
– Realised fair value losses, net	**5,227**	14,605

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	
	2019	2018
	RMB'000	RMB'000
Fees	**1,080**	968
Other emoluments:		
Salaries, allowances and benefits in kind	**3,516**	3,349
Performance related bonuses*	**4,653**	4,256
Pension scheme contributions	**391**	617
	8,560	8,222
	9,640	9,190

* Certain executive directors of the Company are entitled to bonus payments which are determined based on the business performance of the Group.

During 2019, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, details of which are set out in Note 35 to the financial statements.

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2019 **RMB'000**	2018 RMB'000
Mr. Li Yinquan	**187**	179
Mr. Chow Siu Lui	**187**	179
Mr. Kong Wei (vii)	**145**	179
Mr. Han Demin	**187**	179
Mr. Liao Xinbo (viii)	**–**	–
	706	716

There were no other emoluments payable to the independent non-executive directors during the year (2018: 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
2019					
Executive directors:					
Ms. Peng Jiahong (ii)	**–**	**1,848**	**2,327**	**245**	**4,420**
Mr. Yu Gang (iii)	**–**	**1,668**	**2,326**	**146**	**4,140**
Non-executive directors:					
Mr. Zhang Yichen	**–**	**–**	**–**	**–**	**–**
Ms. Liu Kun (v)	**–**	**–**	**–**	**–**	**–**
Mr. Liu Xiaoping	**187**	**–**	**–**	**–**	**187**
Mr. Liu Zhiyong	**–**	**–**	**–**	**–**	**–**
Mr. Su Guang	**187**	**–**	**–**	**–**	**187**
	374	**3,516**	**4,653**	**391**	**8,934**

	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	–	–	–	–	–
Mr. Su Guang	126	–	–	–	126
Mr. Luo Xiaofang (vi)	–	–	–	–	–
	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)

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 and resigned on 28 November 2018

(vii) Resigned on 18 September 2019

(viii) Appointed on 2 December 2019

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2018: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director and the chief executive (2018: 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 (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and benefits in kind	**2,406**	3,711
Performance related bonuses	**27,848**	27,669
Pension scheme contributions	**825**	1,319
	31,079	32,699

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	
	2019	2018
HKD3,500,001 to HKD4,000,000 (RMB3,081,751 to RMB3,522,000)	**–**	2
HKD4,000,001 to HKD4,500,000 (RMB3,522,001 to RMB3,962,250)	**2**	–
HKD26,500,001 to HKD27,000,000 (RMB23,333,251 to RMB23,773,500)	**1**	–
HKD30,000,001 to HKD31,500,000 (RMB26,415,001 to RMB27,735,750)	**–**	1
	3	3

During the year ended 31 December 2019, certain highest paid employees were granted share options, in respect of their services to the Group, under the share option scheme of the Company, details of which are set out in Note 35 to the financial statements.

9. INCOME TAX EXPENSE

	2019 **RMB'000**	2018 RMB'000
Current – Hong Kong		
Underprovision in prior years	**–**	78
Current – Mainland China		
Charge for the year	**652,765**	574,091
Charge for/(overprovision in) prior years	**1,951**	(2,729)
Deferred tax	**(77,249)**	(63,065)
Total tax charge for the year	**577,467**	508,375

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 (2018: 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 0% to 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.

9. INCOME TAX EXPENSE (CONTINUED)

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:

	2019 RMB'000	2018 RMB'000
Profit before tax	**2,211,859**	1,859,039
At the PRC statutory income tax rate	**552,965**	464,760
Expenses not deductible for tax purposes	**27,242**	16,187
Income not subject to tax	**(31,587)**	(3,774)
Profits attributable to joint ventures and associates	**(860)**	–
Adjustment on current income tax in respect of prior years	**1,951**	(2,729)
Unrecognised tax losses	**4,006**	8,431
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**23,750**	25,500
Income tax expense as reported in the consolidated statement of profit or loss	**577,467**	508,375

The share of tax attributable to associates and joint ventures amounting to approximately nil and RMB438,000, respectively, is included in "Share of profits of an associate" and "Share of profits of a joint venture" in the consolidated statement of profit or loss.

10. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposed final dividend – HKD0.29 (2018: HKD0.27) per ordinary share	**497,728**	405,652

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

The Group has one category of dilutive potential ordinary shares, namely share options (Note 35), and the number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

The calculations of basic and diluted earnings per share are based on:

	2019	2018
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent	**1,488,736**	1,352,173

	2019	2018
Weighted average number of ordinary shares in issue outstanding during the year, used in the basic earnings per share calculation	**1,716,304,580**	1,716,304,580
Effect of dilution – weighted average number of ordinary shares:		
Share options	**85,501**	–
Weighted average number of ordinary shares for diluted earnings per share	**1,716,390,081**	1,716,304,580

	2019	2018
	RMB	RMB
Basic and diluted earnings per share	**0.87**	0.79

For the year ended 31 December 2019, the unvested share options under the Share Option Scheme had no dilutive effect on earnings per share. The Group had no other potentially dilutive ordinary shares in issue. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of approval of these financial statements.

12. PROPERTY, PLANT AND EQUIPMENT

31 December 2019

	Transportation equipment RMB'000	Office equipment RMB'000	Electronic equipment RMB'000	Medical equipment RMB'000	Leasehold improvements RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2019:								
Cost	5,037	12,310	29,811	108,661	16,304	169,434	6,629	348,186
Accumulated depreciation	(2,499)	(3,702)	(7,302)	(60,843)	(2,814)	–	–	(77,160)
Net carrying amount	2,538	8,608	22,509	47,818	13,490	169,434	6,629	271,026
At 1 January 2019, net of accumulated depreciation	2,538	8,608	22,509	47,818	13,490	169,434	6,629	271,026
Additions	1,128	6,653	24,198	64,585	4,449	28,418	113,092	242,523
Acquisition of a subsidiary (note 30)	8,993	12,423	276,518	428,436	6,571	974,692	23,380	1,731,013
Depreciation provided during the year	(1,124)	(3,952)	(22,296)	(61,216)	(5,827)	(20,381)	–	(114,796)
Transfers	–	2,609	1,870	43,477	–	1,835	(49,791)	–
Disposals	–	(7)	(1,628)	(5,571)	–	–	–	(7,206)
At 31 December 2019, net of accumulated depreciation	11,535	26,334	301,171	517,529	18,683	1,153,998	93,310	2,122,560
At 31 December 2019:								
Cost	15,158	33,947	328,407	574,738	27,324	1,174,379	93,310	2,247,263
Accumulated depreciation	(3,623)	(7,613)	(27,236)	(57,209)	(8,641)	(20,381)	–	(124,703)
Net carrying amount	11,535	26,334	301,171	517,529	18,683	1,153,998	93,310	2,122,560

As at 31 December 2019, the Group has not obtained the property ownership certificates for buildings with a net book value of RMB587,719,000 (31 December 2018: RMB7,011,000).

The Group was in the process of applying for the property ownership certificates for the above buildings as at 31 December 2019.

As at 31 December 2019, no property, plant and equipment (31 December 2018: Nil) were pledged to secure general banking facilities granted to the Group.

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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	Construction in progress RMB'000	Total RMB'000
At 1 January 2018								
Cost	4,699	6,452	10,611	159,088	17,163	–	2,840	200,853
Accumulated depreciation	(2,289)	(2,606)	(5,419)	(99,544)	(4,112)	–	–	(113,970)
Net carrying amount	2,410	3,846	5,192	59,544	13,051	–	2,840	86,883
At 1 January 2018, net of accumulated depreciation	2,410	3,846	5,192	59,544	13,051	–	2,840	86,883
Additions	–	1,674	3,313	11	2,201	–	6,740	13,939
Acquisition of a subsidiary	522	4,309	12,971	35,446	–	169,434	175	222,857
Depreciation provided during the year	(383)	(1,221)	(1,948)	(24,768)	(1,862)	–	–	(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	8,608	22,509	47,818	13,490	169,434	6,629	271,026
At 31 December 2018:								
Cost	5,037	12,310	29,811	108,661	16,304	169,434	6,629	348,186
Accumulated depreciation	(2,499)	(3,702)	(7,302)	(60,843)	(2,814)	–	–	(77,160)
Net carrying amount	2,538	8,608	22,509	47,818	13,490	169,434	6,629	271,026

13. LEASES

The Group as a lessee

The Group has lease contracts for various items of properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years to indefinite useful life, and no ongoing payments will be made under the terms of these land leases. The right-of-use land for certain hospitals, allocated from the government, is limited to change its nature. Leases of properties generally have lease terms between 2 and 10 years.

(a) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	–
Acquisition of a subsidiary	132,134
Carrying amount at 31 December 2018	132,134

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Right-of-use assets		
	Property RMB'000	Prepaid land lease payments RMB'000	Total RMB'000
As at 1 January 2019	22,851	132,134	154,985
Additions	111,685	–	111,685
Acquisition of Subsidiaries (Note 30)	–	439,800	439,800
Depreciation charge	(13,890)	(2,643)	(16,533)
As 31 December 2019	120,646	569,291	689,937

13. LEASES (CONTINUED)

The Group as a lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	Lease liabilities RMB'000	Finance lease payables RMB'000
Carrying amount at 1 January 2019	22,851	1,328,613
New leases	111,685	2,000,000
Accretion of interest recognised during the year	1,760	21,224
Payments	(10,891)	(355,000)
Carrying amount at 31 December 2019	125,405	2,994,837
Analysed into:		
Current portion	43,313	1,157,341
Non-current portion	82,092	1,837,496

The maturity analysis of lease liabilities (2018: finance lease payables) is disclosed in note 39 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	**22,984**
Depreciation charge of right-of-use assets	**16,533**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	**16,492**
Total amount recognised in profit or loss	**56,009**

(e) The total cash outflow for leases is disclosed in note 31(b) to the financial statements.

13. LEASES (CONTINUED)

The Group as a lessor

The Group leases its medical equipment under operating lease arrangements. The arrangements have ended in 2019. Rental income recognised by the Group during the year was RMB7,207,000 (2018: RMB11,705,000), details of which are included in note 5 to the financial statements.

14. GOODWILL

	RMB'000
At 1 January 2018:	
Cost	9,211
Accumulated impairment	–
Net carrying amount	9,211
Cost at 1 January 2018, net of accumulated impairment	9,211
Impairment during the year	–
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
Cost at 1 January 2019, net of accumulated impairment	**9,211**
Acquisition of subsidiaries (note 30)	**60,697**
Cost and net carrying amount at 31 December 2019	**69,908**
At 31 December 2019:	
Cost	**69,908**
Accumulated impairment	**–**
Net carrying amount	**69,908**

14. GOODWILL (CONTINUED)

Goodwill acquired through business combinations is allocated to each of the acquired subsidiaries (Note 30) which are the cash-generating units ("CGUs") for impairment testing within the hospital group business.

The recoverable amount of CGUs 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% to 15%. As at 31 December 2019, the Group assessed the impairment of goodwill and the recoverable amount exceeded the carrying amount, and hence the goodwill was not regarded as impaired (2018: Nil).

Assumptions were used in the value in use calculation of the CGUs for 31 December 2019 and 31 December 2018. 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. INVESTMENT IN A JOINT VENTURE

	2019 RMB'000
Share of net assets	**498,846**
Unpaid consideration	**(54,039)**
Carrying amount of the investment	**444,807**

15. INVESTMENT IN A JOINT VENTURE (CONTINUED)

Particulars of the Group's joint venture are as follows:

Company name	Place of incorporation/ registration and business	Percentage of Ownership interest	Percentage of Profit sharing	Principal activities
四川環康醫院管理有限公司 (Sichuan Huankang Hospital Management Co., Ltd.)	PRC/Mainland China	53.30%	53.30%	Hospital Management

Under a joint venture agreement with a joint venture partner of Panzhihua Iron and Steel (Group) Company Limited and Panzhihua Pangang Group Mining Company Limited dated 30 September 2019, both parties have agreed to share the control over the economic activities of Sichuan Huankang Hospital Management Co., Ltd. amongst the joint venture partners.

The following table illustrates the summarised financial information in respect of Sichuan Huankang Hospital Management Co., Ltd. adjusted for any differences in accounting policies and reconciled to the carrying amount of the net assets in the financial statements.

15. INVESTMENT IN A JOINT VENTURE (CONTINUED)

	2019 RMB'000
Assets	
Non-current assets	**343,905**
Cash and cash equivalents	**756**
Current assets	**647,114**
Current liabilities	**55,853**
Non-current liabilities	**–**
Net assets	**935,922**
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	**53.30%**
Group's share of net assets of the joint venture, excluding excess of consideration over share of net assets acquired	**498,846**
Unpaid consideration	**(54,039)**
Carrying amount of the investment	**444,807**

	2019 RMB'000
For the period after the Group's investment:	
Revenue	**2,096**
Administrative expenses	**(293)**
Other expenses	**4**
Profit and total comprehensive income for the period after the Group's investment	**5,293**

16. INVESTMENT IN AN ASSOCIATE

	2019 RMB'000
Share of net assets	**4,198**
	4,198

The following table illustrates the summarised financial information of the associate.

	2019 RMB'000
Carrying amount of the investment	**4,198**
Share of the associate's profit for the period after the Group's investment	**619**

17. DERIVATIVE FINANCIAL INSTRUMENTS

		2019		2018	
	Notes	**Assets**	**Liabilities**	Assets	Liabilities
		RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	a	**212,471**	**22,739**	81,250	34,480
Interest rate swaps	b	**133**	**41,591**	–	152
Non-deliverable currency options	c	**–**	**1,219**	–	6,883
Cross-currency interest rate swaps	d	**7,661**	**–**	–	1,282
		220,265	**65,549**	81,250	42,797
Portion classified as non-current:					
Forward currency contracts		**32,623**	**20,367**	81,250	34,480
Interest rate swaps		**133**	**25,629**	–	152
Non-deliverable currency options		**–**	**–**	–	6,883
		32,756	**45,996**	81,250	41,515
Current portion		**187,509**	**19,553**	–	1,282

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge under HKFRS 9

During the year, the Group designated 43 (2018: 21) foreign exchange rate contracts and 5 (2018: Nil) interest rate swap contracts as hedges for future cash flows arising from borrowings which will be settled in United States Dollars and Hong Kong Dollars.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the forward currency contracts and interest rate swaps contracts match the terms of the bank loans (i.e., notional amount, expected payment date and interest rate). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the forward currency contracts and interest rate swaps 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 (i) a total fair value of RMB151,073,000 (31 December 2018: RMB33,296,000) and a total notional amount of USD1,288,700,000 (31 December 2018: USD850,000,000); (ii) a total fair value of RMB11,740 (31 December 2018: Nil) and a total notional amount of HKD2,600,213,000 (31 December 2018: Nil). These forward currency contracts were designated as hedging instruments in cash flow hedges of currency risks arising from bank loans denominated in United States Dollars and Hong Kong Dollars.

The Group holds interest rate swaps contracts, with a negative net fair value of RMB41,584,000 (31 December 2018: Nil), and a total notional amount of USD455,000,000 (31 December 2018: Nil) whereby the Group pays a fixed rate of interest on the USD notional amount at 3.96% to 4.19% per annum. The swaps are being used to hedge the interest rate exposure of three floating rate long-term borrowings denominated in USD with the total face value of USD455,000,000 (31 December 2018: Nil).

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge under HKFRS 9 (continued)

The Group holds the following interest rate swap contracts and forward currency contracts:

	Maturity						
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Total
As at 31 December 2019							
Forward currency contracts							
Notional amount (in USD'000)	**5,550**	**–**	**5,550**	**530,000**	**660,100**	**87,500**	**1,288,700**
Average forward rate (USD/RMB)	**7.05**	**–**	**7.06**	**6.75**	**7.06**	**7.22**	**–**
Notional amount (in HKD'000)	**–**	**–**	**–**	**1,675,536**	**924,677**	**–**	**2,600,213**
Average forward rate (HKD/USD)	**–**	**–**	**–**	**7.84**	**7.84**	**–**	**–**
Interest rate swap contracts							
Notional amount (in USD'000)	**–**	**–**	**–**	**240,000**	**215,000**	**–**	**455,000**
Average fixed rate	**–**	**–**	**–**	**4.18%**	**4.02%**	**–**	**–**
Hedge rate	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	
As at 31 December 2018							
Forward currency contracts							
Notional amount (in USD'000)	–	–	–	–	850,000	–	850,000
Average forward rate (USD/RMB)	–	–	–	–	6.81	–	6.81
Hedge rate	100%	100%	100%	100%	100%	100%	

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge under HKFRS 9 (continued)

The impacts of the hedging instruments on the statement of financial position are as follows:

	Notional amount USD/HKD'000	Carrying amount RMB'000	Line item in the statement of financial position	Change in fair value RMB'000
As at 31 December 2019				
Forward currency contracts (USD/RMB)	**850,000**	**172,169**	**Derivative financial instruments (assets)**	**138,873**
Forward currency contracts (USD/RMB)	**438,700**	**(21,096)**	**Derivative financial instruments (liabilities)**	**(21,096)**
Forward currency contracts (HKD/USD)	**2,600,213**	**11,740**	**Derivative financial instruments (assets)**	**11,740**
Interest rate swaps	**455,000**	**(41,584)**	**Derivative financial instruments (liabilities)**	**(41,584)**
As at 31 December 2018				
Forward currency contracts (USD/RMB)	508,000	67,776	Derivative financial instruments (assets)	67,776
Forward currency contracts (USD/RMB)	342,000	(34,480)	Derivative financial instruments (liabilities)	(34,480)

The impacts of the hedged items on the statement of financial position are as follows:

	Cash flow hedge reserve	
	2019	2018
	RMB'000	RMB'000
Unsecured bank loans	**179,266**	72,829

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Cash flow hedge under HKFRS 9 (continued)

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 2019

	Total hedging gain/(loss) recognised in other comprehensive income			Amount reclassified from other comprehensive income to profit or loss			Line item in the statement of profit or loss
	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	
Forward currency contracts	129,517	(25,385)	104,132	(56,793)	8,250	(48,543)	Cost of sales
Interest rate swaps	(41,584)	–	(41,584)	–	–	–	N/A
Total	87,933	(25,385)	62,548	(56,793)	8,250	(48,543)	

Year ended 31 December 2018

	Total hedging gain/(loss) recognised in other comprehensive income			Amount reclassified from other comprehensive income to profit or loss			Line item in the statement of profit or loss
	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	Gross amount RMB'000	Tax effect RMB'000	Total RMB'000	
Forward currency contracts	33,296	(4,047)	29,249	(122,473)	20,395	(102,078)	Cost of sales
Total	33,296	(4,047)	29,249	(122,473)	20,395	(102,078)	

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivative financial instruments – transactions not qualifying as hedges:

a) Forward currency contracts with a total nominal amount of USD180,000,000 and a total nominal amount HKD535,764,000 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 RMB13,446,000 (2018: a gain of RMB30,318,000) was included in the statement of profit or loss during the year ended 31 December 2019.

b) Interest rate swaps with a total nominal amount of RMB124,000,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised gain on fair value of the financial derivatives amounting to RMB278,000 (2018: a loss of RMB152,000) was included in the statement of profit or loss during the year ended 31 December 2019.

c) Non-deliverable currency options with a total nominal of amount USD295,000,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised gain on fair value of the financial derivatives amounting to RMB5,664,000 (2018: a loss of RMB6,883,000) was included in the statement of profit or loss during the year ended 31 December 2019.

d) Cross-currency interest rate swaps with a total nominal of amount USD30,000,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised gain on fair value of the financial derivatives amounting to RMB7,661,000 (2018: a loss of RMB1,282,000) was included in the statement of profit or loss during the year ended 31 December 2019.

18. INVENTORIES

	2019 **RMB'000**	2018 RMB'000
Finished goods	**156,726**	40,537
	156,726	40,537

19. LOANS AND ACCOUNTS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Loans and accounts receivables due within 1 year	**16,123,097**	11,826,005
Loans and accounts receivables due after 1 year	**33,408,641**	31,844,301
	49,531,738	43,670,306

19a. Loans and accounts receivables by nature

	2019 RMB'000	2018 RMB'000
Gross lease receivables (note 19b)*	**34,361,725**	52,064,559
Less: Unearned finance income	**(4,474,394)**	(7,793,895)
Net lease receivables (note 19b)*/**	**29,887,331**	44,270,664
Long-term receivables arising from sale-and-leaseback arrangements (note 19c)*/**	**19,898,308**	–
Subtotal of interest-earning assets	**49,785,639**	44,270,664
Accounts receivables (note 19d)*	**666,309**	85,315
Subtotal of loans and accounts receivables	**50,451,948**	44,355,979
Less:		
Provision of accounts receivables (note 19d)	**(34,835)**	(378)
Provision of lease receivables (note 19e)	**(689,052)**	(685,295)
Provision for long-term receivables arising from sale-and-leaseback arrangements (note 19e)	**(196,323)**	–
	49,531,738	43,670,306

* These balances included balances with related parties which are disclosed in note 19g to the financial statements.

** These balances are included in the interest-earning assets disclosed in note 19e.

19. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

19b(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:

	2019 RMB'000	2018 RMB'000
Gross lease receivables:		
Within 1 year	**–**	22,205,420
1 to 2 years	**16,980,689**	15,526,914
2 to 3 years	**9,524,527**	9,924,656
3 years and beyond	**7,856,509**	4,407,569
	34,361,725	52,064,559

	2019 RMB'000	2018 RMB'000
Net lease receivables:		
Within 1 year	**–**	18,267,549
1 to 2 years	**14,452,050**	13,351,465
2 to 3 years	**8,344,531**	8,693,929
3 years and beyond	**7,090,750**	3,957,721
	29,887,331	44,270,664

19b(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:

	2019 RMB'000	2018 RMB'000
Gross lease receivables:		
Due within 1 year	**13,520,871**	14,911,405
Due in 1 to 2 years	**10,189,446**	14,921,639
Due in 2 to 3 years	**6,896,503**	11,188,175
Due after 3 years and beyond	**3,754,905**	11,043,340
	34,361,725	52,064,559

19. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

19b(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: (continued)

	2019 RMB'000	2018 RMB'000
Net lease receivables:		
Due within 1 year	**11,474,588**	11,994,156
Due in 1 to 2 years	**8,709,385**	12,441,386
Due in 2 to 3 years	**6,197,283**	9,732,913
Due after 3 years and beyond	**3,506,075**	10,102,209
	29,887,331	44,270,664

There was no unguaranteed residual value in connection with finance lease arrangements or contingent lease arrangements of the Group that need to be recorded as at the end of the reporting period.

As at 31 December 2019, the amounts of the gross lease receivables and net lease receivables pledged as security for the Group's borrowings were RMB6,238,432,000 and RMB5,500,055,000 (2018: RMB5,643,899,000 and RMB4,855,986,000).

19c.(1) An ageing analysis of long-term receivables arising from sale-and-leaseback arrangements, determined based on the age of the receivables since the effective dates of the relevant loan contracts, as at the end of the reporting period is as follows:

	2019 RMB'000
Within 1 year	**19,898,308**
Total	**19,898,308**

19. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

19c.(2) The table below illustrates the amounts of long-term receivables arising from sale-and-leaseback arrangements that the Group expects to receive in the following consecutive accounting years:

	2019 **RMB'000**
Due within 1 year	**4,404,034**
Due in 1 to 2 years	**4,386,836**
Due in 2 to 3 years	**4,166,812**
Due after 3 years and beyond	**6,940,626**
Total	**19,898,308**

Upon the application of HKFRS 16 on 1 January 2019, part of the receivables arising from sale-and-leaseback transactions newly entered into on or after 1 January 2019 is classified as long term receivables arising from sale-and-leaseback arrangements within the scope of HKFRS 9. The measurement of sale-and-leaseback transactions entered into before 1 January 2019 remains unchanged.

As at 31 December 2019, the Group's long-term receivables arising from sale-and-leaseback arrangements pledged or charged as security for the Group's bank and other borrowings amounted to RMB1,508,560,000.

19d(1). 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:

	2019 **RMB'000**	2018 RMB'000
Within 1 year	**646,182**	82,033
More than 1 year	**20,127**	3,282
	666,309	85,315

Accounts receivables arose from the sale of medical equipment and medicine, the provision of medical services and the provision of advisory services. Except for some specific contracts, the Group generally does not provide credit terms to customers.

19. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

19d(2). Provision for accounts receivables

	At beginning of year RMB'000	Reversal RMB'000	Provision RMB'000	At end of year RMB'000
2019	**378**	**–**	**34,457**	**34,835**
2018	558	(460)	280	378

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns.

Set out below is the information about the credit risk exposure on the Group's accounts receivables using a provision matrix:

As at 31 December 2019

	Ageing		
	Within 1 year RMB'000	Over1 years RMB'000	Total RMB'000
Gross carrying amount	**646,182**	**20,127**	**666,309**
Expected credit loss	**33,011**	**1,824**	**34,835**
Average expected credit loss rate	**5%**	**9%**	**5%**

19. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

19e. Analysis of interest-earning assets

As at 31 December 2019	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL-impaired) RMB'000	Total RMB'000
Total interest-earning assets	40,200,852	9,138,659	446,128	49,785,639
Allowance for impairment losses	(403,611)	(303,539)	(178,225)	(885,375)
Interest-earning assets, net	39,797,241	8,835,120	267,903	48,900,264

19f. Change in provision for interest-earning assets

The Group has applied the general approach to providing for expected credited losses ("ECLs"), which permits the use of either a twelve-month basis or a lifetime basis to record expected credit losses based on an expected credit loss model for interest-earning assets.

The Group has conducted an assessment of ECLs according to forward-looking information and used appropriate models and a large number of assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and the borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group has adopted judgement, assumptions and estimation techniques in order to measure ECLs according to the requirements of accounting standards, such as the criteria for judging significant increases in credit risk, definition of credit-impaired financial assets, parameters for measuring ECLs and forward-looking information.

	2019			
	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL-impaired) RMB'000	Total RMB'000
At beginning of the year	388,859	174,194	122,242	685,295
Impairment losses for the year	44,831	65,576	89,673	200,080
Conversion to Stage I	52,621	(52,621)	–	–
Conversion to Stage II	(82,700)	121,369	(38,669)	–
Conversion to Stage III	–	(4,979)	4,979	–
At end of the year	403,611	303,539	178,225	885,375

19. LOANS AND ACCOUNTS RECEIVABLES (CONTINUED)

19g. 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:

	2019 **RMB'000**	2018 RMB'000
Staff Hospital of Qiqihar No.2 Machine Tool (Group) Co., Ltd.	**1,245**	2,687

Net lease receivables:

		2019 **RMB'000**	2018 RMB'000
Staff Hospital of Qiqihar No.2 Machine Tool (Group) Co., Ltd.	**(i)**	**1,188**	2,457

Accounts receivables:

		2019 **RMB'000**	2018 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 an annual interest rate of 8.69%.

(ii) The balances with the related party are unsecured, interest-free and repayable on demand.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**2019**	2018
		RMB'000	RMB'000
Current:			
Prepayments		**17,820**	16,038
Other receivables		**288,669**	52,616
Other current assets		**3,353**	958
Due from related parties	20a	**1,874**	1,802
Interest receivables		**8,354**	–
		320,070	71,414
Non-current:			
Prepayments for non-current assets		**12,313**	–
		12,313	–
		332,383	71,414

20a. BALANCES WITH RELATED PARTIES

Particulars of amounts due from related parties are as follows:

	2019	2018
	RMB'000	RMB'000
Due from related parties:		
Genertec Finance Co., Ltd.	**429**	381
General Technology Group Property Management Ltd.	**1,011**	994
China National Corporation For Overseas Economic Cooperation	**112**	112
Paryocean Properties Co., Ltd.	**322**	315
	1,874	1,802

The above related parties are subsidiaries of Genertec Group.

The balances with the related parties are unsecured and interest-free.

21. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2019 **RMB'000**	2018 RMB'000
Cash and bank balances	**3,679,376**	2,614,953
Time deposits	**247,500**	107,672
	3,926,876	2,722,625
Less: Restricted deposits:		
Pledged deposits and restricted bank deposits	**(293,509)**	(441,480)
Time deposits with original maturity of more than three months	**(247,500)**	(107,672)
	(541,009)	(549,152)
Cash and cash equivalents	**3,385,867**	2,173,473

As at 31 December 2019, the cash and bank balances of the Group denominated in RMB amounted to RMB3,126,757,000 (2018: RMB2,152,030,000). 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 2019, cash of RMB293,509,000 (31 December 2018: RMB441,480,000) was pledged and restricted for bank and other borrowings.

As at 31 December 2019, cash of RMB997,959,000 (31 December 2018: RMB651,293,000) was deposited with Genertec Finance Co., Ltd., a related party.

22. TRADE PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**1,289,265**	482,236
Due to related parties (note 22b)	**171**	145
	1,289,436	482,381

The trade payables are non-interest-bearing and are normally repayable within one year.

22a. An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**1,260,601**	466,068
1 to 2 years	**6,213**	42
2 to 3 years	**495**	7,606
Over 3 years	**22,127**	8,665
	1,289,436	482,381

22b. BALANCES WITH RELATED PARTIES

Particulars of the amounts due to related parties are as follows:

	2019 RMB'000	2018 RMB'000
Trade payables:		
Genertec International Logistics Co., Ltd.	**87**	61
Genertec Italia s.r.l.	**84**	84
	171	145

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.

23. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Current:			
Lease deposits due within one year		**353,029**	195,111
Accrued salaries		**278,047**	128,119
Welfare payables		**10,020**	8,508
Current portion of post-retirement benefit obligation	26	**7,609**	–
Contract liabilities	23a	**134,284**	40,182
Due to related parties	23b	**663,604**	–
Other taxes payable		**47,953**	51,488
Interest payable		**278,556**	299,325
Other payables		**614,624**	202,985
		2,387,726	925,718
Non-current:			
Lease deposits due after 1 year		**2,001,420**	2,093,213
Accrued salaries		**494,424**	403,878
Non-current post-employment benefit obligation	26	**89,817**	–
		2,585,661	2,497,091
		4,973,387	3,422,809

23a. Details of contract liabilities are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000	1 January 2018 RMB'000
Sale of industrial products	**7,751**	17,048	7,261
Service fee income	**35,560**	23,134	–
Healthcare service	**90,973**	–	–
	134,284	40,182	7,261

Contract liabilities include short-term advances received to deliver goods and render services.

23. OTHER PAYABLES AND ACCRUALS (CONTINUED)

23b. BALANCES WITH RELATED PARTIES

Details of the amounts due to related parties are as follow:

		2019 **RMB'000**	2018 RMB'000
Genertec Hong Kong International Capital Limited	(i)	**17,956**	–
China General Technology (Group) Holding Limited	(i)	**200,000**	–
Sichuan Huankang Hospital Management Co., Ltd.	(ii)	**445,648**	–
		663,604	–

(i) The above related parties are subsidiaries of Genertec Group. The balances with related parties were unsecured and repayable based on the payment schedule agreed between the Group and the parties.

(ii) The above related party is a joint venture of the Group. The balance with a related party was unsecured and repayable based on the payment schedule agreed between the Group and the party.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			31 December 2018		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current:						
Bank loans – unsecured	**2.73~4.57**	**2020**	**2,578,394**	3.43~5.22	2019	2,146,653
Current portion of long-term bank loans:						
– secured	**4.50~5.51**	**2020**	**880,540**	4.28~5.70	2019	582,125
– unsecured	**2.00~5.94**	**2020**	**5,607,520**	4.28~5.94	2019	3,160,445
Current portion of long-term other loans: – unsecured	**–**	**–**	**–**	5.00	2019	450,000
Lease liabilities (note 13(c))						
– secured	**4.75~5.04**	**2020**	**1,157,341**	4.75~5.04	2019	321,232
– unsecured	**4.75~4.90**	**2020**	**43,313**	–	–	–
Bonds payables						
– secured	**5.50~6.43**	**2020**	**224,088**	–	–	–
– unsecured	**2.80~3.45**	**2020**	**4,000,000**	4.08~5.50	2019	4,687,901
Due to a related party						
– unsecured	**4.75**	**2020**	**495,883**	4.75	2019	998,442
			14,987,079			12,346,798
Non-current:						
Bank loans						
– secured	**4.50~5.51**	**2021~2024**	**1,393,421**	4.75~5.70	2020~2023	1,152,033
– unsecured	**2.00~5.94**	**2021~2022**	**7,619,195**	2.42~5.94	2020~2022	9,402,798
Bonds payable						
– secured	**–**	**–**	**–**	5.50~6.43	2020	546,169
– unsecured	**3.13~6.50**	**2021~2024**	**10,585,552**	3.13~6.50	2021~2023	7,530,288
Lease liabilities (note 13(c))						
– secured	**4.75~5.04**	**2021~2022**	**1,837,496**	4.75~5.04	2020~2022	1,007,381
– unsecured	**4.75~4.90**	**2021~2023**	**82,092**	–	–	–
Due to a related party						
– unsecured	**4.35~4.75**	**2021~2022**	**1,498,008**	4.75	2020~2021	996,522
			23,015,764			20,635,191
			38,002,843			32,981,989

24. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	9,066,454	5,889,223
In the second year	6,278,205	2,857,355
In the third to fifth years, inclusive	2,734,411	7,697,476
	18,079,070	16,444,054
Other borrowings repayable:		
Within one year	5,920,625	6,457,575
In the second year	8,997,272	1,871,169
In the third to fifth years, inclusive	5,005,876	8,209,191
	19,923,773	16,537,935
	38,002,843	32,981,989

Notes:

(a) The Group, as a lessee, engaged in sale and leaseback transactions with certain finance leasing companies for financing purposes. These leases were classified as finance leases prior to HKFRS 16 becoming effective on 1 January 2019 and had remaining lease terms ranging from 2 to 4 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.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Notes: (continued)

(a) (continued)

As at 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	2018	
	Minimum lease payments RMB'000	Present value of minimum lease payments RMB'000
Amounts payable:		
Within one year	388,414	321,232
In the second year	850,124	825,000
In the third to fifth years, inclusive	193,462	182,381
Total minimum finance lease payments	1,432,000	1,328,613
Future finance charges	(103,387)	
Total net finance lease payables	1,328,613	
Portion classified as current liabilities	(321,232)	
Non-current portion	1,007,381	

(b) In May 2015, the Company's wholly-owned subsidiary, China Universal Leasing Co., Ltd. ("CULC"), issued a batch of leasing asset-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 2019, the amortised cost of the debt securities issued amounted to RMB224,088,000 (2018: RMB546,169,000).

(c) As at 31 December 2019, the Group's bank and other borrowings secured by loans and accounts receivables, cash and bank balances and time deposits were RMB5,492,886,000 (2018: RMB3,608,940,000).

24. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Notes: (continued)

(d) As at 31 December 2019, the principal amounts of the Group's borrowings from related parties were RMB1,000,000,000 from China General Technology (Group) Holding Co., Ltd. (PRC) and RMB1,000,000,000 from Genertec HONGKONG International Capital Limited (31 December 2018: RMB1,000,000,000 from Genertec Finance Co., Ltd. and RMB1,000,000,000 from China General Technology (Group) Holding Co., Ltd. (PRC)).

(e) As at 31 December 2019, China General Technology (Group) Holding Limited provided comfort letter for bank borrowings in amount of RMB10,053,113,000 (31 December 2018: RMB6,576,849,000).

25. 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 hedges RMB'000	Total RMB'000
Gross deferred tax assets at 1 January 2019	**163,451**	**94,371**	**20,347**	**278,169**
Credited to the statement of profit or loss during the year	**50,610**	**26,592**	**7,211**	**84,413**
Credited to reserves	**–**	**–**	**(17,135)**	**(17,135)**
Gross deferred tax assets at 31 December 2019	**214,061**	**120,963**	**10,423**	**345,447**
Gross deferred tax assets at 1 January 2018	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 reserves	–	–	16,349	16,349
Gross deferred tax assets at 31 December 2018	163,451	94,371	20,347	278,169

25. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Lease deposits RMB'000	Fair value gain on derivative financial instruments RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax liabilities at 1 January 2019	**29,639**	**59**	**–**	**29,698**
Charged to the statement of profit or loss during the year	**488**	**4,902**	**1,774**	**7,164**
Gross deferred tax liabilities at 31 December 2019	**30,127**	**4,961**	**1,774**	**36,862**
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

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:

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**308,585**	248,471

The Company has tax losses arising in Hong Kong of RMB105,133,000 (2018: RMB79,513,000) 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 RMB15,608,000 (2018: RMB8,529,000) 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.

25. DEFERRED TAX (CONTINUED)

Deferred tax liabilities (continued)

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 2019, 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 RMB3,796,256,000 (2018: RMB3,051,194,000).

26. POST-RETIREMENT BENEFIT OBLIGATIONS

The Group provides eligible retirees with other post-retirement benefits, including retirement subsidies, transportation allowance as well as other welfare. The expected cost of providing these post-retirement benefits is actuarially determined and recognised by using the projected unit credit method, which involves a number of assumptions and estimates, including inflation rate, discount rate, etc.

The plan is exposed to interest rate risk and the risk of changes in the life expectancy for pensioners.

The most recent actuarial valuation of the post-retirement benefit obligations was carried out at 31 December 2019 using the projected unit credit actuarial valuation method.

The post-retirement benefit obligations recognised in the consolidated statement of financial position are as follows:

	2019 RMB'000
Post-retirement benefit obligations	**97,426**
Less: current portion	**(7,609)**
Non-current portion	**89,817**

26. POST-RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The principal actuarial assumptions utilised as at the end of the reporting period are as follows:

	2019
Discount rates for post-retirement benefits	**3.20%**
Mortality rate	**China Insurance Life Mortality Table (2010-2013). CL5 for Male and CL6 for Female**
Total military welfare expense growth rate	**6.00%**
Growth rate of work-related injury and living expenses	**2.50%**

A quantitative sensitivity analysis for significant assumptions at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in post-retirement benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in post-retirement benefit obligations RMB'000
Discount rates for post-retirement benefits	**0.25**	**(2,551)**	**0.25**	**2,665**
Annual increase rate of military welfare expense	**0.25**	**778**	**0.25**	**(748)**
Annual increase rate of work-related injury and living expenses	**0.25**	**36**	**0.25**	**(34)**

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net post-retirement benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

26. POST-RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Expected contributions to be made in the future years out of the post-retirement benefit obligations were as follows:

	2019 RMB'000
Within 1 year	**7,609**
Between 2 and 5 years	**28,412**
Between 6 and 10 years	**31,900**
Over 10 years	**82,231**
Total expected payments	**150,152**

The average duration of the post-retirement benefit obligations at the end of 2019 was 10 years.

The movements in the post-retirement benefit obligations were as follows:

	RMB'000
1 January 2019	**–**
Acquisition of subsidiaries	**96,446**
Pension cost charged to profit or loss:	
Net interest	**2,337**
Sub-total included in profit or loss	**2,337**
Remeasurement (gains)/losses in other comprehensive income:	
Experience adjustments	**3,593**
Sub-total included in other comprehensive income	**3,593**
Benefits settled	**(4,950)**
31 December 2019	**97,426**

27. SHARE CAPITAL

	2019	2018
	RMB'000	RMB'000
Issued and fully paid:		
1,716,304,580 (2018: 1,716,304,580) ordinary shares	**4,327,842**	4,327,842

28. 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 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 reserve according to the PRC accounting standards and regulations (after offsetting previous years' losses) to the statutory reserve. The PRC subsidiary may discontinue the contribution when the aggregate sum of the statutory reserve is more than 50% of its registered capital. Upon contribution to the statutory reserve using its post-tax profit, a company may make further contributions to the statutory reserve using its post-tax profit in accordance with a resolution of the board of directors. The appropriation to statutory and discretionary 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 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.

29. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2019
Percentage of equity interest held by non-controlling interest	
Shanxi Yangmei General Hospital Medical Management Co., Ltd.	**49.00%**
Genertec Ansteel Hospital Management Co., Ltd.	**48.85%**

	2019 **RMB'000**
Profit for the year allocated to non-controlling interests:	
Genertec Ansteel Hospital Management Co., Ltd.	**18,741**
Accumulated balances of non-controlling interests at the reporting dates:	
Shanxi Yangmei General Hospital Medical Management Co., Ltd.	**649,356**
Genertec Ansteel Hospital Management Co., Ltd.	**496,008**

29. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2019	Shanxi Yangmei General Hospital Medical Management Co., Ltd. RMB'000	Genertec Ansteel Hospital Management Co., Ltd. RMB'000
Revenue	–	519,292
Total expenses	–	481,235
Profit for the year	–	38,057
Total comprehensive income for the year	–	34,464
Current assets	1,313,180	605,979
Non-current assets	720,392	790,315
Current liabilities	(708,357)	(290,809)
Non-current liabilities	–	(89,547)
Net cash flows used in operating activities	–	(462,268)
Net cash flows used in investing activities	–	(34,970)
Net cash flows from financing activities	–	522,192
Net increase in cash and cash equivalents	–	24,954

30. BUSINESS COMBINATIONS

The acquisitions of subsidiaries accounted for as business combinations are set out as follows:

In January 2019, Anhui Huankang Hospital Management Co., Ltd., a wholly-owned subsidiary of the Group, acquired a 100% equity interest in Anhua Hospital Group at a consideration of RMB36,481,000. The acquisition was completed on 1 January 2019 when the Group obtained control of the operating and financial policies of Anhua Hospital Group.

30. BUSINESS COMBINATIONS (CONTINUED)

On 19 December 2018, the Group and Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd.(i)entered into a cooperation agreement with China XD Group Co., Ltd. ("Xi'an XD Group") in connection with the formation of Genertec Universal (Xi'an) Co., Ltd., whose registered capital would be contributed by Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. with cash of RMB550,000,000 and Xi'an XD Group with assessed assets of Xi'an XD Group Hospital, respectively. Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. acquired a 55% equity interest in Genertec Universal (Xi'an) Co., Ltd. Upon completion of the transaction, Genertec Universal (Xi'an) Co.,Ltd. is the promoter of Xi'an XD Group Hospital. The acquisition had been completed on 1 January 2019 and accounted for using the acquisition method. The consolidated financial statements include the results of acquired subsidiary since its acquisition date.

On 28 March 2019, the Group and Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. entered into a cooperation agreement with China Railway State Asset Management Co., Ltd. ("CR State Asset") in connection with the formation of Genertec Universal Railway (Xi'an) Hospital Management Co., Ltd., whose registered capital would be contributed by Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. with cash of RMB234,720,000 and CR State Asset with assessed assets of CRFG Medical Institutions, respectively. Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. acquired a 51% equity interest in Genertec Universal Railway (Xi'an) Hospital Management Co., Ltd. Upon completion of the transaction, Genertec Universal Railway (Xi'an) Hospital Management Co., Ltd. is the promoter of CRFG Medical Institutions. The acquisition had been completed on 31 March 2019 and accounted for using the acquisition method. The consolidated financial statements include the results of the acquired subsidiary since its acquisition date.

On 21 December 2018, the Group and Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. entered into a cooperation agreement with AECC Xi'an Aero-engine Ltd. in connection with the formation of Genertec Universal Xi'an Aero-engine Hospital (Xi'an) Co., Ltd., whose registered capital would be contributed by Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. with cash of RMB433,521,000 and AECC Xi'an Aero-engine Ltd. with assessed assets of AECC Xi'an Aero-engine Hospital, respectively. Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. acquired a 78.48% equity interest in Genertec Universal Xi'an Aero-engine Hospital (Xi'an) Co., Ltd. The acquisition had been completed on 31 March 2019 and accounted for using the acquisition method. The consolidated financial statements include the results of the acquired subsidiary since its acquisition date.

30. BUSINESS COMBINATIONS (CONTINUED)

On 30 January 2019, the Group and Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. entered into a cooperation agreement with Ansteel Group Corporation Limited ("Ansteel Group") in connection with the formation of Genertec Ansteel Hospital Management Co., Ltd., whose registered capital would be contributed by Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. with cash of RMB501,670,000 and Ansteel Group with assessed equity of Ansteel Group (Anshan) Health Industry Co., Ltd. and assessed assets of Ansteel Group General Hospital, respectively. Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. acquired a 51.15% equity interest in Genertec Ansteel Hospital Management Co., Ltd. Upon completion of the transaction, Genertec Ansteel Hospital Management Co., Ltd. is the promoter of Ansteel Group General Hospital. The acquisition had been completed on 1 May 2019 and accounted for using the acquisition method. The consolidated financial statements include the results of the acquired subsidiary since its acquisition date.

On 18 March 2019, the Group and Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. entered into a cooperation agreement with CEC Caihong Group Co., Ltd. ("CEC Caihong") in connection with the formation of Genertec Universal Caihong (Xianyang) Hospital Management Co., Ltd., whose registered capital would be contributed by Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. with cash of RMB200,000,000 and CEC Caihong with assessed equity of Xianyang Caihong Hospital, respectively. Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. acquired a 52.63% equity interest in Genertec Universal Caihong (Xianyang) Hospital Management Co.,Ltd. Upon completion of the transaction, Genertec Universal Caihong (Xianyang) Hospital Management Co., Ltd. is the promoter of Xianyang Caihong Hospital. The acquisition had been completed on 1 September 2019 and accounted for using the acquisition method. The consolidated financial statements include the results of the acquired subsidiary since its acquisition date.

On 28 December 2019, the Group and Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. entered into a cooperation agreement with Yang Quan Coal Industry (Group) Co., Ltd. ("Yang Quan Coal Industry") and Shanxi Yangmei General Hospital Medical Management Co., Ltd. ("Yangmei Hospital Management"), a wholly-owned subsidiary of Yang Quan Coal Industry. Pursuant to the cooperation agreement, Yangmei Hospital Management is the promoter of all of the target hospitals, Yang Quan Coal Industry agreed to make a capital contribution in the amount of approximately RMB649,356,000 with certain assets in the target hospitals, and Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. agreed to make a capital contribution in the amount of RMB675,860,000 in cash, to increase the registered capital and the capital reserve of Yangmei Hospital Management. Upon completion of the transaction under the cooperation agreement, the registered capital of Yangmei Hospital Management will be increased from RMB600,000,000 to RMB1,380,000,000, and will be held by Hospital Investment Co., Ltd. and Yangmei Hospital Management as to 51% and 49%, respectively. The acquisition had been completed on 31 December 2019 and accounted for using the acquisition method.

Note (i): On 26 April 2019, Wiseman Hospital Investment Management (Tianjin) Co., Ltd. changed its name to Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd..

30. BUSINESS COMBINATIONS (CONTINUED)

The fair values of the identifiable assets and liabilities of all the subsidiaries acquired during the period as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Assets	
Property, plant and equipment	1,731,013
Right-of-use assets (note 13(c))	439,800
Cash and cash equivalents	1,870,942
Loans and accounts receivables	540,520
Prepayments, deposits and other receivables	284,573
Receivable of consideration to be paid as capital injection	1,218,240
Inventories	85,029
Investment in an associate	4,020
Other assets	26,792
	6,200,929
Liabilities	
Trade payables	736,343
Other payables and accruals	691,032
Interest-bearing bank and other borrowings	149,500
	1,576,875
Total identifiable net assets at fair value	4,624,054
Non-controlling interests	(2,052,500)
Goodwill arising on acquisition	60,697
Purchase consideration transferred	2,632,251
Including:	
Consideration paid as additional capital injection to the subsidiaries upon acquisition	1,377,530
Consideration paid as additional capital injection to the subsidiaries after acquisition	993,613
Consideration unpaid as additional capital injection to the subsidiaries after acquisition	224,627
Consideration paid upon acquisition	36,481
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiaries included in cash flows from investing activities	1,870,942
Cash paid	(1,414,011)
Net inflow of cash and cash equivalents included in cash flows from investing activities	456,931
Transaction costs of the acquisition included in cash flows from operating activities	1,728

30. BUSINESS COMBINATIONS (CONTINUED)

If the acquisition had taken place at the beginning of the year, revenue of the Group would have been RMB8,263,324,000 and net profit of the Group for the year would have been RMB1,685,581,000.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining their assets and activities with those of the Group. The goodwill is not deductible for income tax purposes.

The fair values of the loans and accounts receivables and prepayments, deposits and other receivables as at the dates of acquisitions amounted to RMB540,520,000 and RMB284,573,000, respectively. The gross contractual amount of loans and accounts receivables was RMB557,275,000, of which RMB16,755,000 was expected to be uncollectible.

The Group incurred transaction costs of RMB1,728,000 for these acquisitions. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Bonds RMB'000	Finance lease payables/ Lease liabilities RMB'000	Due to related parties RMB'000
At 31 December 2018	16,894,053	12,764,358	1,328,613	1,994,965
Effective of adoption of HKFRS16 (Note 13(b))	–	–	22,851	–
At 1 January 2019	**16,894,053**	**12,764,358**	**1,351,464**	**1,994,965**
Changes from financing cash flows				
Proceeds from new borrowing	**12,749,353**	**14,680,460**	**2,000,000**	**1,000,000**
Acquisition of subsidiaries (Note 30)	**149,500**	**–**	**–**	**–**
Foreign exchange movement	**252,514**	**–**	**–**	**–**
Repayment of borrowings	**(11,988,461)**	**(12,642,938)**	**(365,891)**	**(1,000,000)**
Interest expense	**22,111**	**7,760**	**134,669**	**(1,074)**
At 31 December 2019	**18,079,070**	**14,809,640**	**3,120,242**	**1,993,891**

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(a) Changes in liabilities arising from financing activities (continued)

	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	–	–	–
Proceeds from new borrowing	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

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	**16,492**
Within financing activities	**10,891**
	27,383

32. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in notes 19, 21 and 24 to the financial statements.

33. COMMITMENTS

The Group had the following capital commitments and credit commitments at the end of the reporting period:

(a) Capital commitments

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for	**41,158**	30,120

In addition to the capital commitments listed above, the Group has agreed with certain parties related hospital investment commitments as follows:

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.

   As of 31 December 2019, the Group had invested RMB84,437,000 to establish the project company, Xi'an Ronghui Hospital Construction Management Co., Ltd., and 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. As of 31 December 2019, the Group had invested RMB12,768,000 to the project.

33. COMMITMENTS (CONTINUED)

(a) Capital commitments (continued)

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 billion 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). As of 31 December 2019, the Group had invested RMB2,300,000 to establish the project company, Genertec Universal Medical Hospital Management Handan Co., Ltd.. As of 31 December 2019, the Group had invested RMB827,000 to the project.

iii) On 31 January 2019, the Group and Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. entered into a cooperation agreement with Panzhihua Iron and Steel (Group) Company Limited and Panzhihua Pangang Group Mining Company in connection with the formation of Sichuan Huankang Hospital Management Co., Ltd. Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. acquired a 53.3% equity interest in Sichuan Huankang Hospital Management Co., Ltd. with cash of RMB496,025,000. As of 31 December 2019, Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. had invested RMB441,986,000 of committed amount.

iv) On 30 November 2019, the Group and Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd., entered into a cooperation agreement with Chengdu CLP Jinjiang Information Industry Co., Ltd. in connection with the formation of a company. Pursuant to the cooperation agreement, the total investment of the company to be established is RMB11,000,000, of which Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. will contribute RMB8,966,400 in cash and Chengdu CLP Jinjiang Information Industry Co., Ltd. will contribute RMB2,033,600 in form of the net assets of Chengdu CLP Jinjiang Information Industry Hospital, respectively. After the establishment of the company, it will become the new promoter of Chengdu CLP Jinjiang Information Industry Hospital in place of Chengdu CLP Jinjiang Information Industry Co., Ltd.

33. COMMITMENTS (CONTINUED)

(b) Credit commitments

	2019 RMB'000	2018 RMB'000
Credit commitments	**1,411,699**	1,722,496

Credit commitments represent undrawn finance lease facilities agreed and granted to customers. They are conditionally revocable commitments.

(c) Operating lease commitments as at 31 December 2018

The Group leased 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
Within one year	15,249
One to two years, inclusive	10,669
Two to three years, inclusive	3,337
More than three years	4,305
	33,560

34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances in notes 19, 20, 21, 22 23 and 24 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.

(i) Interest income from cash at banks:

	2019 **RMB'000**	2018 RMB'000
Genertec Finance Co., Ltd.	**8,515**	6,907

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:

	2019 **RMB'000**	2018 RMB'000
China National Instruments Import & Export (Group) Corporation	**2,251**	92
China General Technology (Group) Holding Co., Ltd.	**–**	70
China International Advertising Co., Ltd	**4**	2
Genertec Italia s.r.l.	**2,073**	4,105

The purchases from the related parties were made on terms mutually agreed between the Group and the respective parties.

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with Genertec Group and companies under Genertec Group (continued)

(iii) Rental as a lessee:

	2019 RMB'000 (rental payment)	2018 RMB'000 (rental expense)
China General Technology (Group) Holding Co., Ltd.	**3,194**	3,228
General Technology Group Property Management Ltd.	**11,569**	10,790
China National Corporation For Overseas Economic Cooperation	**1,135**	1,348
Beijing Mingqiang Property Management Ltd.	**–**	19
Paryocean Properties Co., Ltd.	**1,270**	960

The rentals are charged based on terms mutually agreed between the Group and the respective parties.

(iv) Interest expenses:

	2019 RMB'000	2018 RMB'000
China General Technology (Group) Holding Co., Ltd.	**44,766**	1,979
Genertec Hong Kong International Capital Limited	**16,939**	–
Genertec Finance Co., Ltd.	**34,812**	94,848
Sichuan Huankang Hospital Management Co., Ltd.	**3,892**	–

The interest expenses were charged at rates ranging from 3.20% to 4.75% per annum.

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with Genertec Group and companies under Genertec Group (continued)

(v) Consulting service fees:

	2019 RMB'000	2018 RMB'000
Genertec (Beijing) Investment Fund Management Co., Ltd.	–	2,830

The consulting service expenses were charged based on prices mutually agreed between the parties.

(vi) Transportation expense:

	2019 RMB'000	2018 RMB'000
Genertec International Logistics Co., Ltd.	**27**	123

The transportation expense was charged based on prices mutually agreed between the parties.

(vii) Finance lease income:

	2019 RMB'000	2018 RMB'000
Staff Hospital of Qiqihar No.2 Machine Tool (Group) Co., Ltd.	**152**	241

The finance lease income was charged at a rate of 8.69% per annum.

(viii) Liquidity support

A subsidiary of Genertec Group, China Xinxing Construction Engineering Co., Ltd., issued accounts receivables assets-backed securities to institutional investors through an asset management plan in January 2020. The asset-backed securities have a preference tranche with a principal amount of RMB495 million and one subordinated tranche. Preference tranche is estimated to mature on 14 December 2021. China Universal Leasing Co., Ltd., a wholly-owned subsidiary of the Group, provided liquidity support to the preference tranche of asset-backed securities.

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.

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(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 2019 and 2018 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:

	2019 **RMB'000**	2018 RMB'000
Short-term employee benefits	**17,226**	15,164

35. SHARE OPTION SCHEME

Pursuant to a resolution in writing passed on 31 December 2019 by the shareholders of the Company, a share option scheme (the "Share Option Scheme") has been adopted by the Company.

The Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants certain qualified participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include senior and middle management personnel, as well as other key employees of the Company or any subsidiary (the "Grantees"). The total number of new shares in respect of which options may be granted under the Share Option Scheme is 16,065,000 shares, which is 0.94% of the Company's issued share capital as at the date of approval of the Share Option Scheme by the shareholders at the General Meeting. The Share Option Scheme will be valid for 5 years from the date of its adoption.

The offer of a grant of share options ("Share Options") may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HKD1 in total by the Grantees subject to any early termination, the share option scheme will remain in force for a period of 5 years commencing on the date on which the share option scheme is approved by the shareholders of the Company. The vesting of the share options is mainly subject to fulfilment of the Company's performance targets, the Grantees remaining at all times after the offer date and on each vesting date as an employee of the Group, as well as the Grantees achieving a specified level in annual personal performance evaluations.

35. SHARE OPTION SCHEME (CONTINUED)

The exercise price in respect of any option shall be such price as determined by the Board or the Administration Committee of the Share Option Scheme and notified to the Grantees and which shall not be less than the highest of: (i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheet on the offer date; (ii) the average of the closing prices of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the Offer Date; and (iii) the nominal value of the shares as at the offer date. The exercise price of the share options is subject to adjustment in the case of rights or other similar changes in the Company's share capital.

On 31 December 2019, the Board announced that, the Company has resolved to the offer to grant Share Options to the Grantees under the Share Option Scheme to subscribe for a total of 16,065,000 ordinary shares in the capital of the Company, including 991,000 reserved options.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price per share option* HKD	Number of share options
31 December 2021	5.97	5,024,667
31 December 2022	5.97	5,024,667
31 December 2023	5.97	5,024,666

* Movements in the number of the Share Options outstanding and their related weighted average exercise prices granted under the Share Option Scheme during the year are as follows:

Exercise price per share option (HKD)	Date of grant	Outstanding as at 1 January 2019	Granted during the year ended 31 December 2019	Outstanding as at 31 December 2019
5.97	2019/12/31	–	15,074,000	15,074,000

The fair value (measured as at the grant dates) of the Share Options that were outstanding as at 31 December 2019 was RMB16,312,000. The weighted average fair values were HKD1.12, HKD1.22 and HKD1.28 per option each for three tranches with two-year, three-year and four-year vesting periods, respectively. There is no share option expense recognised during the year ended 31 December 2019 in employee benefit expense.

35. SHARE OPTION SCHEME (CONTINUED)

The fair values of the Share Options were estimated as at their respective dates of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the main inputs to the model used:

Expected dividend yield (%)	4.61
Expected volatility (%)	30.62
Risk-free interest rate (%)	1.70
Validity period of the share options (year)	5
Share price (HKD per share)	5.97
Expected exercise trigger multiple	2

Estimation of the value of the share options is subjective and uncertain as such values are subject to a number of assumptions and with regard to the limitation of the model. The expected volatility is based on the historical volatility reflecting the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The expected exercise trigger multiple is also estimated and is not necessarily indicative of the exercise patterns that may occur.

All significant features necessary to be considered for the measurement of fair values of the share options granted in the year were incorporated into such measurement.

At 31 December 2019, the Company had 15,074,000 non-vested share options (including 2,644,000 non-vested share options granted to certain executive directors, 3,394,000 non-vested share options granted to certain employees among five highest paid employees and 4,596,000 non-vested share options granted to certain key management personnel) outstanding under the Share Option Scheme. Should all of them be vested, the exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 15,074,000 additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 15,074,000 share options outstanding under the Share Option Scheme, which represented approximately 0.88% of the Company's shares in issue as at that date.

36. OTHER EQUITY INSTRUMENTS

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 the renewable corporate bond with a total principal amount of RMB1,660,000,000, 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.

For the year ended 31 December 2019, the profits attributable to holders of the renewable corporate bond based on the applicable distribution rates, were RMB99,600,000 and the distribution made by the Group to the holders of the renewable corporate bond was RMB99,694,000.

37. 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:

2019

	RMB'000
Financial assets	
Financial assets at amortised costs:	
Loans and accounts receivables	**49,531,738**
Financial assets included in prepayments, deposits and other receivables	**249,983**
Restricted deposits	**541,009**
Cash and cash equivalents	**3,385,867**
Financial assets at fair value through profit or loss:	
Derivative financial instruments	**69,652**
Hedging instruments designated in cash flow hedges:	
Derivative financial instruments designated as cash flow hedge	**150,613**
	53,928,862
Financial liabilities	
Financial liabilities at amortised cost:	
Trade payables	**1,289,436**
Financial liabilities included in other payables and accruals	**3,908,968**
Interest-bearing bank and other borrowings	**38,002,843**
Financial liabilities at fair value through profit or loss:	
Derivative financial instruments	**2,869**
Hedging instruments designated in cash flow hedges:	
Derivative financial instruments designated as cash flow hedge	**62,680**
	43,266,796

37. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

2018

	RMB'000
Financial assets	
Financial assets at amortised costs:	
Loans and accounts receivables	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 hedge	11,630
	46,498,612
Financial liabilities	
Financial liabilities at amortised cost:	
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 hedge	34,480
	37,291,029

38. 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, and interest-bearing bank and borrowings.

Cash and bank balances, restricted deposits, accounts receivables, 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, long-term receivables arising from sale-and-leaseback arrangements, interest-bearing bank and other borrowings excluding bonds issued and short-term borrowings

Substantially all of the lease receivables, long-term receivables arising from sale-and-leaseback arrangements, 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 2019.

	Carrying amounts		**Fair values**	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bonds issued	**14,809,640**	12,765,188	**14,863,388**	12,762,340

38. 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 two counterparties, the interest rate swaps are 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 several counterparties, the foreign exchange rate swaps are 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, the foreign exchange rate options are 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, the cross-currency interest rate swaps are measured using valuation techniques similar to the present value calculations of the forward pricing and swap models, which incorporate various market observable inputs.

38. 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 2019, fair value changes resulting from changes in the unobservable inputs were not significant.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets and liabilities measured at fair value:

As at 31 December 2019

Forward currency contracts

	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Derivative financial assets				
– Forward currency contracts	**–**	**212,471**	**–**	**212,471**
– Interest rate swap contracts	**–**	**133**	**–**	**133**
– Cross-currency interest rate swaps	**–**	**7,661**	**–**	**7,661**
	–	**220,265**	**–**	**220,265**
Derivative financial liabilities				
– Forward currency contracts	**–**	**22,739**	**–**	**22,739**
– Interest rate swap contracts	**–**	**41,591**	**–**	**41,591**
– Non-deliverable currency options	**–**	**1,219**	**–**	**1,219**
	–	**65,549**	**–**	**65,549**

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
	–	81,250	–	81,250
Derivative financial liabilities				
– Forward currency contracts	–	34,480	–	34,480
– Interest rate swap contracts	–	152	–	152
– Non-deliverable currency options	–	6,883	–	6,883
– Cross-currency interest rate swaps	–	1,282	–	1,282
	–	42,797	–	42,797

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2019

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Bonds issued	**14,677,264**	**186,124**	**–**	**14,863,388**

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

During the year ended 31 December 2019, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (2018: Nil).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise loans and accounts 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 loans and accounts 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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 loans and accounts 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	
	2019	2018
	RMB'000	RMB'000
Change in basis points		
+100 basis points	**165,379**	75,794
– 100 basis points	**(165,379)**	(75,794)

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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 USD, 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 17).

The exchange rate of RMB to the United States Dollar ("USD") is managed under a floating exchange rate system. The Hong Kong Dollar ("HKD") exchange rate has been pegged to USD and therefore the exchange rate of RMB to HKD has fluctuated in line with the changes in the exchange rate of RMB to USD.

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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Currency risk (continued)

Currency	Increase/ (decrease) in foreign exchange rate %	Increase/(decrease) in profit before tax as at 31 December 2019 RMB'000	2018 RMB'000
If RMB strengthens against USD/HKD	(1)	**(299)**	460
If RMB weakens against USD/HKD	1	**299**	(460)

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 loans and accounts receivables regularly to mitigate the risk of significant exposure from bad debts.

Other financial assets of the Group include cash and bank deposits, accounts receivables, 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.

39. 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 2019		As at 31 December 2018	
	RMB'000	**%**	RMB'000	%
Interest-earning assets				
Healthcare	**34,629,870**	**70**	34,649,213	78
Education	**4,048,525**	**8**	6,287,150	14
Others	**11,107,244**	**22**	3,334,301	8
	49,785,639	**100**	44,270,664	100
Less: loss allowance for impairment of interest-earning assets	**885,375**		685,295	
Net	**48,900,264**		43,585,369	

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.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on the customers' creditworthiness unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2019

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Simplified Approach RMB'000	Total RMB'000
Accounts receivable	–	–	–	631,474	631,474
Interest-earning assets	39,797,241	8,835,120	267,903	–	48,900,264
Financial assets included in prepayments, other receivables and other assets	249,983	–	–	–	249,983
Pledged deposits	5,492,886	–	–	–	5,492,886
Cash and cash equivalents	3,385,867	–	–	–	3,385,867
	48,925,977	8,835,120	267,903	631,474	58,660,474

As at 31 December 2018

	Stage I (12-month ECL) RMB'000	Stage II (Lifetime ECL) RMB'000	Stage III (Lifetime ECL – impaired) RMB'000	Simplified Approach RMB'000	Total RMB'000
Accounts receivable	–	–	–	85,316	85,316
Interest-earning assets	36,868,490	6,478,898	237,981	–	43,585,369
Financial assets included in prepayments, other receivables and other assets	24,431	–	–	–	24,431
Pledged deposits	3,608,940	–	–	–	3,608,940
Cash and cash equivalents	2,133,473	–	–	–	2,133,473
	42,635,334	6,478,898	237,981	85,316	49,437,529

Note: Among which, all the financial assets in stage 1 are credit rated as Pass.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As 31 December 2019, no assets were past due over 30 days and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

When the lease payment for a period is past due by one day as at each reporting date, the whole interest-earning assets is classified as past due.

Liquidity risk

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.

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 2019					
	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	268,932	5,358,112	13,991,448	38,624,750	104,163	58,347,405
Financial assets included in prepayments, deposits and other receivables	1,078	165,874	83,031	–	–	249,983
Restricted deposits	–	260,617	289,221	–	–	549,838
Derivative financial assets	–	7,661	179,848	32,756	–	220,265
Cash and cash equivalents	3,385,867	–	–	–	–	3,385,867
Total financial assets	3,655,877	5,792,264	14,543,548	38,657,506	104,163	62,753,358
FINANCIAL LIABILITIES:						
Trade payables	–	470,734	818,702	–	–	1,289,436
Financial liabilities included In other payables and accruals	496,991	473,739	624,578	2,593,069	21,052	4,209,429
Derivative financial liabilities	–	371	19,182	45,996	–	65,549
Interest-bearing bank and other borrowings	–	5,382,987	11,140,679	24,525,911	593	41,050,170
Total financial liabilities	496,991	6,327,831	12,603,141	27,164,976	21,645	46,614,584

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

	As at 31 December 2018					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

The table below summarises the maturity profile of the Group's credit commitments based on contractual undiscounted cash flows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Credit commitments:		
Less than 3 months	**175,000**	381,030
3 to 12 months	**1,050,952**	356,700
	1,225,952	737,730

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 using a gearing ratio, which is calculated as bank and other borrowings divided by total equity. The gearing ratio as at the reporting date is as follows:

Group

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Bank and other borrowings	**38,002,843**	32,981,989
Total equity	**13,447,208**	10,256,808
Gearing ratio	**2.83**	3.22

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 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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

In accordance with the aforementioned requirements of the MOFCOM, CULC and TJ-Leasing should maintain their risk assets ("Risk Assets") within 10 times of their equity. Risk Assets shall be determined on the basis of the total assets less cash. The calculations of the ratios of the Risk Assets to equity as at each reporting date are as follows:

CULC

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total assets	**49,863,200**	43,682,276
Less: Cash and cash equivalents	**(1,447,555)**	(1,576,660)
Total Risk Assets	**48,415,645**	42,105,616
Equity	**9,844,529**	9,574,323
Ratio of Risk Assets to equity	**4.92**	4.40

TJ-Leasing

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Total assets	**15,925,567**	12,027,788
Less: Cash and cash equivalents	**(784)**	(213,897)
Total Risk Assets	**15,924,783**	11,813,891
Equity	**2,787,563**	1,998,668
Ratio of Risk Assets to equity	**5.71**	5.91

40. EVENTS AFTER THE REPORTING PERIOD

ECLs at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Since early January 2020, the coronavirus outbreak has spread across mainland China and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECLs under HKFRS 9 in 2020.

41. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

42. 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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**494**	552
Prepayments, deposits and other receivables	**5,659,365**	4,906,854
Investments in subsidiaries	**5,606,726**	5,606,726
Right-of-use assets	**1,579**	–
Derivative financial instruments	**3,498**	27,067
Total non-current assets	**11,271,662**	10,541,199
CURRENT ASSETS		
Accounts receivables	**–**	2,982
Prepayments, deposits and other receivables	**2,798,770**	38,257
Dividends receivable from a subsidiary	**451,250**	484,500
Derivative financial instruments	**56,449**	–
Restricted deposits	**175,365**	335,675
Cash and cash equivalents	**619,285**	235,771
Total current assets	**4,101,119**	1,097,185
CURRENT LIABILITIES		
Trade payables	**96**	96
Other payables and accruals	**10,399**	8,647
Interest-bearing bank and other borrowings	**4,327,052**	–
Derivative financial liabilities	**17,172**	–
Total current liabilities	**4,354,719**	8,743
NET CURRENT (LIABILITIES)/ASSETS	**(253,600)**	1,088,442
TOTAL ASSETS LESS CURRENT LIABILITIES	**11,018,062**	11,629,641
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**6,229,450**	6,826,668
Other payables and accruals	**–**	3,188
Derivative financial liabilities	**25,629**	5,038
Net assets	**4,762,983**	4,794,747
EQUITY		
Share capital	**4,327,842**	4,327,842
Reserves (note)	**435,141**	466,905
Total equity	**4,762,983**	4,794,747

Peng Jiahong
Director

Yu Gang
Director

42. 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 2019	**33,302**	**(22,061)**	**455,664**	**466,905**
Profit for the year	**–**	**–**	**408,355**	**408,355**
Other comprehensive loss for the year:				
Cash flow hedges, net of tax	**–**	**(32,909)**	**–**	**(32,909)**
Dividends	**–**	**–**	**(407,210)**	**(407,210)**
At 31 December 2019	**33,302**	**(54,970)**	**456,809**	**435,141**
Balance at 1 January 2018	33,302	–	347,099	380,401
Profit for the year	–	–	445,358	445,358
Other comprehensive loss 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

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2020.

通用環球醫療集團有限公司
GENERTEC UNIVERSAL MEDICAL GROUP COMPANY LIMITED