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**GENERTEC UNIVERSAL MEDICAL GROUP
COMPANY LIMITED**

通用環球醫療集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2666)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- For the six months ended 30 June 2018, the revenue amounted to approximately RMB2,094.8 million, representing an increase of 26.7% as compared with that of approximately RMB1,653.9 million for the corresponding period of 2017.
- For the six months ended 30 June 2018, the profit before tax amounted to approximately RMB1,001.7 million, representing an increase of 25.2% as compared with that of approximately RMB799.9 million for the corresponding period of 2017.
- For the six months ended 30 June 2018, the profit for the period amounted to approximately RMB733.3 million, representing an increase of 26.7% as compared with that of approximately RMB578.9 million for the corresponding period of 2017.
- As at 30 June 2018, the total assets amounted to approximately RMB42,948.7 million, representing an increase of 13.8% as compared with that of approximately RMB37,732.5 million as at 31 December 2017.
- As at 30 June 2018, the shareholder's equity amounted to approximately RMB7,832.9 million, representing an increase of 4.9% as compared with that of approximately RMB7,468.8 million as at 31 December 2017.
- For the six months ended 30 June 2018, the return on equity was 19.17%.
- For the six months ended 30 June 2018, the return on assets was 3.64%.

In this announcement, “we”, “us” and “our” refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the “**Board**”) of directors (the “**Directors**”) of Genertec Universal Medical Group Company Limited (the “**Company**” or “**Universal Medical**”) is pleased to announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 30 June 2018 with the comparative figures for the corresponding period or the end of 2017 are as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB’000	RMB’000
REVENUE	5	2,094,780	1,653,892
Cost of sales		<u>(767,807)</u>	<u>(574,295)</u>
Gross profit		1,326,973	1,079,597
Other income and gains	5	44,208	9,949
Selling and distribution costs		(171,216)	(157,916)
Administrative expenses		(128,089)	(115,387)
Other expenses		(70,149)	(15,823)
Finance costs		<u>(68)</u>	<u>(512)</u>
PROFIT BEFORE TAX	6	1,001,659	799,908
Income tax expense	7	<u>(268,406)</u>	<u>(220,993)</u>
PROFIT FOR THE PERIOD		<u>733,253</u>	<u>578,915</u>
Attributable to:			
The owners of the parent		735,532	578,953
Non-controlling interests		<u>(2,279)</u>	<u>(38)</u>
		<u>733,253</u>	<u>578,915</u>

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Notes			
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE PARENT			
Basic and diluted (expressed in RMB per share)	9	<u>0.43</u>	<u>0.34</u>
PROFIT FOR THE PERIOD		<u>733,253</u>	<u>578,915</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the period		10,175	—
Reclassification to the consolidated statement of profit or loss		(32,675)	—
Income tax effect		5,625	—
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>(16,875)</u>	<u>—</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>716,378</u>	<u>578,915</u>
Attributable to:			
The owners of the parent		718,657	578,953
Non-controlling interests		<u>(2,279)</u>	<u>(38)</u>
		<u>716,378</u>	<u>578,915</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	10	74,189	86,883
Goodwill		9,211	9,211
Loans and accounts receivable	12	29,490,534	25,385,314
Prepayments, deposits and other receivables		43,961	111,111
Available-for-sale investments		–	43,961
Derivative financial assets		16,753	–
Deferred tax assets		193,403	163,876
Other assets		5,478	4,678
Total non-current assets		29,833,529	25,805,034
CURRENT ASSETS			
Inventories		25,159	21,045
Loans and accounts receivable	12	10,750,573	9,184,775
Prepayments, deposits and other receivables		118,959	34,126
Derivative financial assets		16,514	5,273
Restricted deposits	13	259,253	932,376
Cash and cash equivalents	13	1,944,687	1,749,884
Total current assets		13,115,145	11,927,479
CURRENT LIABILITIES			
Trade payables	14	1,075,742	264,697
Other payables and accruals		726,020	845,314
Interest-bearing bank and other borrowings	15	15,458,296	10,963,552
Derivative financial liabilities		2,655	16,844
Taxes payable		62,487	70,355
Total current liabilities		17,325,200	12,160,762
NET CURRENT LIABILITIES		(4,210,055)	(233,283)
TOTAL ASSETS LESS CURRENT LIABILITIES		25,623,474	25,571,751

		30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	15,481,550	15,919,143
Other payables and accruals		2,252,168	2,139,821
Derivative financial liabilities		12,925	—
Other liabilities		43,961	43,961
		<u>17,790,604</u>	<u>18,102,925</u>
Total non-current liabilities		<u>17,790,604</u>	<u>18,102,925</u>
Net assets		<u>7,832,870</u>	<u>7,468,826</u>
EQUITY			
Equity attributable to the owners of the parent			
Share capital	16	4,327,842	4,327,842
Reserves	17	3,507,082	3,140,759
		<u>7,834,924</u>	<u>7,468,601</u>
Non-controlling interests		<u>(2,054)</u>	<u>225</u>
Total equity		<u>7,832,870</u>	<u>7,468,826</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Equity attributable to the owners of the parent						Non-controlling interests	Total
	Share capital	Capital reserve*	Statutory reserve*	Exchange fluctuation reserve*	Hedging reserve*	Retained profits*		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 16)	(Note 17)	(Note 17)	(Note 17)				
At 31 December 2017 (Audited)	4,327,842	33,302	399,326	29,248	-	2,678,883	7,468,601	225
Changes in accounting policies Impact of adopting HKFRS 9 (Note 2.2)	-	-	-	-	-	(15,541)	(15,541)	-
At 1 January 2018	4,327,842	33,302	399,326	29,248	-	2,663,342	7,453,060	225
Profit for the period	-	-	-	-	-	735,532	735,532	(2,279)
Other comprehensive income								
Cash flow hedges, net of tax	-	-	-	-	(16,875)	-	(16,875)	-
Total comprehensive income for the period	-	-	-	-	(16,875)	735,532	718,657	(2,279)
Dividends (Note 8)	-	-	-	-	-	(336,793)	(336,793)	-
At 30 June 2018 (Unaudited)	4,327,842	33,302	399,326	29,248	(16,875)	3,062,081	7,834,924	(2,054)

* These reserve accounts comprise the consolidated reserves of RMB3,507,082,000 (31 December 2017: RMB3,140,759,000) in the interim condensed consolidated statement of financial position.

For the six months ended 30 June 2017

	Equity attributable to the owners of the parent						Non-controlling interests	Total
	Share capital	Capital reserve	Statutory reserve	Exchange fluctuation reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 16)	(Note 17)	(Note 17)	(Note 17)				
At 1 January 2017 (Audited)	4,327,842	33,302	278,201	29,248	1,905,798	6,574,391	-	6,574,391
Profit for the period	-	-	-	-	578,953	578,953	(38)	578,915
Total comprehensive income for the period	-	-	-	-	578,953	578,953	(38)	578,915
Acquisition of a subsidiary	-	-	-	-	-	-	213	213
Dividends	-	-	-	-	(254,448)	(254,448)	-	(254,448)
At 30 June 2017 (Unaudited)	4,327,842	33,302	278,201	29,248	2,230,303	6,898,896	175	6,899,071

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
	Notes		
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,001,659	799,908
Adjustments for:			
Finance costs	6	699,749	536,503
Interest income	5	(24,924)	(4,911)
Derivative instruments – transactions not qualifying as hedges:			
Unrealised fair value (gains)/losses, net	6	(19,083)	1,610
Realised fair value losses, net	6	15,478	–
Depreciation and amortisation		16,819	12,270
Interest income from available-for-sale investments		–	(4,902)
Provision for impairment of loans and accounts receivable and other receivables	6	19,637	22,487
Foreign exchange losses, net		89,812	889
		<u>1,799,147</u>	<u>1,363,854</u>
Increase in inventories		(4,114)	(5,201)
Increase in loans and accounts receivable		(5,709,375)	(2,807,119)
Decrease/(increase) in prepayments, deposits and other receivables		47,281	(9,252)
(Increase)/decrease in amounts due from related parties		(2,751)	5,678
Increase in other assets		(800)	(574)
Increase in trade payables		810,292	11,071
Decrease in other payables and accruals		(98,984)	(136,436)
Increase/(decrease) in amounts due to related parties		<u>2,487</u>	<u>(1,532)</u>
Net cash flows used in operating activities before tax and interest		(3,156,817)	(1,579,511)
Interest received		24,924	4,911
Income tax paid		<u>(293,895)</u>	<u>(255,844)</u>
Net cash flows used in operating activities		<u>(3,425,788)</u>	<u>(1,830,444)</u>

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayments of investments		–	8,359
Realised losses on derivative financial instruments not qualifying as hedges	6	(15,478)	–
Interest income from available-for-sale investments		–	4,902
Decrease/(increase) in time deposits		410,104	(538,401)
Acquisition of a subsidiary		–	(11,035)
Cash paid for acquisition of property, plant and equipment and other non-current assets		(4,203)	(7,412)
Net cash flows from/(used in) investing activities		390,423	(543,587)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash received from new borrowings		10,460,661	6,288,204
Repayments of borrowings		(6,502,146)	(3,555,233)
Cash paid for restricted deposits		(97,601)	(321,888)
Decrease in restricted deposits		360,620	170,002
Interest paid		(630,348)	(590,633)
Dividends paid		(336,793)	(254,448)
Net cash flows from financing activities		3,254,393	1,736,004
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		219,028	(638,027)
Cash and cash equivalents at beginning of the period		1,749,884	1,272,458
Effect of exchange rate changes on cash and cash equivalents		(24,225)	(24,909)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD			
		1,944,687	609,522
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,203,940	981,314
Less: restricted deposits		(259,253)	(371,792)
Cash and cash equivalents as stated in the statement of financial position	13	1,944,687	609,522
Cash and cash equivalents as stated in the statement of cash flows	13	1,944,687	609,522

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE 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 with effect from 17 February 2015 and then to Universal Medical Financial & Technical Advisory Services Company Limited with effect from 11 June 2015. 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 with effect from 9 July 2018. 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**”) is principally engaged in the provision of financing to its customers under finance lease arrangements, the provision of advisory services, the sale of medical equipment, the provision of medical equipment leases under operating lease arrangements, and the provision of other services as approved by the Ministry of Commerce of the People’s Republic of China (the “**PRC**”) in Mainland China.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 are prepared in accordance with HKAS 34.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) and included in the 2017 annual report of the Company.

These interim condensed consolidated financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (“**RMB’000**”) except when otherwise indicated.

2.2 Significant accounting policies

Standards, amendments and interpretations effective in 2018

Except as described below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2017.

On 1 January 2018, the Group adopted the following new standard, amendments and interpretation.

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

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group has applied, for the first time, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 9 *Financial Instruments*. As required by HKAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

HKFRS 9 – Financial Instruments

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

Classification and measurement

Under HKFRS 9, financial assets are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the financial assets and their contractual cash flow characteristics. In addition, investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of "other" business model. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its lease receivables.

Hedge accounting

The new hedge accounting model aims to provide a better link among an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, HKFRS 9 includes an accounting policy choice to remain with HKAS 39 hedge accounting. The Group chose to adopt the new hedge accounting requirements in HKFRS 9 from 1 January 2018.

The impacts of transition to HKFRS 9

Considering the impact of this standard on the consolidated financial statements, the Group recorded an adjustment to 1 January 2018 shareholders' equity at the adoption date, but did not restate comparative periods. The impact of the Group's adoption of HKFRS 9 is disclosed as follows:

Transition disclosures of the balances in financial statements from HKAS 39 to HKFRS 9

A reconciliation of the carrying amounts under HKAS 39 to the balances reported under HKFRS 9 as of 1 January 2018 is as follows:

	HKAS 39			Remeasurement		HKFRS 9	
	measurement		Re-	ECL	Other	Amount	Category
	Category	Amount	classification				
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Financial assets							
Loans and accounts receivable	L&R	34,570,089	–	(20,722)	–	34,549,367	AC
Financial assets included in prepayments, deposits and other receivables	L&R	145,237	43,961	–	–	189,198	AC
From: Available-for-sale investments		–	43,961	–	–	43,961	AC
Restricted deposits	L&R	932,376	–	–	–	932,376	AC
Available-for-sale investments	AFS	43,961	(43,961)	–	–	–	
To: Prepayments, deposits and other receivables		–	(43,961)	–	–	–	
Derivative financial assets	FVPL	5,273	–	–	–	5,273	FVPL
Cash and cash equivalents	L&R	1,749,884	–	–	–	1,749,884	AC
Non-financial assets							
Include: Deferred tax assets	N/A	285,693	–	5,181	–	290,874	N/A
Total assets		37,732,513	–	(15,541)	–	37,716,972	

	HKAS 39		Re- classification	Remeasurement		HKFRS 9	
	Category	Amount RMB'000		ECL RMB'000	Other RMB'000	Amount RMB'000	Category
Financial liabilities:							
Trade payables	AC	264,697	-	-	-	264,697	AC
Financial liabilities included in other payables and accruals	AC	2,985,135	-	-	-	2,985,135	AC
Derivative financial liabilities	FVPL	16,844	-	-	-	16,844	FVPL
Interest-bearing bank and other borrowings	AC	26,882,695	-	-	-	26,882,695	AC
Non-financial liabilities							
Include: Deferred tax liabilities	N/A	114,316	-	-	-	114,316	N/A
Total liabilities		<u>30,263,687</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,263,687</u>	

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

The impact of transition from HKAS 39 to HKFRS 9 on other comprehensive income and retained profits is as follows:

	Other comprehensive income and retained profits RMB'000
Other comprehensive income	
Closing balance under HKAS 39 at 31 December 2017	29,248
Opening balance under HKFRS 9 at 1 January 2018	29,248
Retained profits	
Closing balance under HKAS 39 at 31 December 2017	7,468,601
Recognition of HKFRS 9 ECLs	(20,722)
Income tax in relation to the above	-
Deferred tax in relation to the above	<u>5,181</u>
Opening balance under HKFRS 9 at 1 January 2018	7,453,060
Total change in equity due to adopting HKFRS 9	<u>15,541</u>

The impact of transition to HKFRS 9 on provision allowances is as follows:

The following table reconciles the aggregate opening loan loss provision allowances under HKAS 39 at 31 December 2017 to the ECL allowances under HKFRS 9 at 1 January 2018:

Measurement Category	Loss provision under HKAS 39 at 31 December 2017	Re-measurement	ECLs under HKFRS 9 at 1 January 2018
	RMB'000	RMB'000	RMB'000
L&R per HKAS 39/financial assets at AC under HKFRS 9			
Loans and accounts receivable	518,397	20,722	539,119
Total	<u>518,397</u>	<u>20,722</u>	<u>539,119</u>

HKFRS 15 – Revenue from Contracts with Customers

The Group adopted HKFRS 15 *Revenue from Contracts with Customers* on its effective date of 1 January 2018. The Group adopted the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2018. Since the Group's current practice is in line with the clarifications issued, there is no significant effect on its financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing the condensed consolidated financial statements, the significant judgement made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017 other than those relating to HKFRS 9 which was first adopted on 1 January 2018.

Management believes that the Group's critical accounting estimates and judgements are those which relate to classification between finance leases and operating leases, impairment of non-financial assets (other than goodwill), deferred tax assets, provision for loans and accounts receivables and fair value of financial instruments. The implementation of HKFRS 9 resulted in a change to the assessment of the critical accounting estimates and judgements related to provision for loans and accounts receivable.

The Group follows the guidance of HKFRS 9 to determine provision for loans and accounts receivable. Provision for loans and accounts receivable is made based on the assessment of the expected losses of loans and accounts receivable. The assessment of the expected losses of loans and accounts receivable requires management's judgement and estimation. Management measures and monitors the asset quality of the lease receivable portfolio by classifying the lease receivables using the 5-category classification system by referring to guidelines promulgated by the China Banking Regulatory Commission relating to asset quality for financial institutions under its regulation and measure the expected losses based on credit risk characteristic, the collection history of lessees and expected further change of credit risks, including the consideration of factors such as industry or geographical location of each lessor.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of financing to its customers under finance lease arrangements, the provision of advisory services, the sale of medical equipment, and the provision of medical equipment leases under operating lease arrangements, and the provision of other services in Mainland China. For management purposes, the aforesaid businesses are integral and the Group has not organised them into different operating segments.

Geographical information

- (a) All the sales to external customers of the Group are generated in Mainland China.
- (b) All non-current assets of the operations, excluding financial instruments and deferred tax assets, are all located in Mainland China.

Information about a major customer

There was no single customer from which the revenue constituted 10% or more of the total revenue of the Group during the period.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value added tax, after allowances for returns and trade discounts; and the value of services rendered and gross leasing income received, net of value added tax, during the period.

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Finance lease income	1,507,885	1,196,430
Service fee income	532,757	419,721
Operating lease income	4,700	10,287
Sale of goods	62,025	34,369
Others	115	2,202
Tax and surcharges	(12,702)	(9,117)
	2,094,780	1,653,892
Other income and gains		
Interest income from bank deposits	24,924	4,911
Interest income from available-for-sale investments	–	4,902
Derivative instruments – transactions not qualifying as hedges		
– Unrealised fair value gains, net	19,083	–
Others	201	136
	44,208	9,949

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of borrowings included in cost of sales	699,749	536,503
Cost of inventories sold	55,422	28,188
Cost of operating leases	12,636	9,604
Depreciation and amortisation recognised as an expense	4,183	2,666
Rental expenses	13,516	11,214
Employee benefit expense (including directors' remuneration)		
– Wages and salaries	186,823	163,607
– Pension scheme contributions	16,735	11,935
– Other employee benefits	14,144	11,131
	217,702	186,673
Impairment of loans and accounts receivable and other receivables	19,637	22,487
Foreign exchange losses, net	53,561	14,882
Derivative instruments		
– transactions not qualifying as hedges		
– unrealised fair value (gains)/losses, net	(19,083)	1,610
– realised fair value losses/(gains), net	15,478	(787)

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China		
Charge for the period	285,066	232,367
Underprovision in prior years	2,061	2,661
Deferred tax	(18,721)	(14,035)
Total tax charge for the period	268,406	220,993

Hong Kong profits tax is provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rate of 25% (six months ended 30 June 2017: 25%) on the estimated assessable profits for the six months ended 30 June 2018, based on existing legislation, interpretations and practices in respect thereof.

The subsidiaries incorporated in the Cayman Islands are exempted from income tax in the Cayman Islands.

A reconciliation of the tax charge applicable to profit before tax using the statutory/applicable rate for the jurisdiction in which the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit before tax	<u>1,001,659</u>	<u>799,908</u>
At PRC statutory income tax rate of 25%	250,415	199,977
Expenses not deductible for tax purpose	2,526	1,585
Income not subject to tax	(13,186)	–
Adjustment on current income tax in respect of prior years	2,061	2,661
Unrecognised tax losses	14,661	7,611
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	<u>11,929</u>	<u>9,159</u>
Income tax expense as reported in the condensed consolidated statement of profit or loss	<u>268,406</u>	<u>220,993</u>

8. DIVIDENDS

A final dividend of HK\$0.24 per share totalling HK\$411,913,000 (equivalent to RMB336,793,000) in respect of the year ended 31 December 2017 had been approved at the annual general meeting of the Company held on 5 June 2018 and was paid on 25 June 2018.

The board of directors resolved not to declare any interim dividend to shareholders in respect of the period for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE PARENT

Basic earnings per share for the six months ended 30 June 2018 and 2017 are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the respective periods.

The calculation of basic earnings per share is based on:

Earnings

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>735,532</u>	<u>578,953</u>

Shares

	Number of shares For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	<u>1,716,304,580</u>	<u>1,716,304,580</u>

Diluted earnings per share for the six months ended 2018 and 2017 were the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment at a total cost of RMB3,064,000 (six months ended 30 June 2017: RMB6,099,000). No property, plant and equipment of the Group was disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

11. FINANCIAL INSTRUMENTS BY CATEGORY

30 June 2018
(Unaudited)
RMB'000

Assets as per the statement of financial position

Financial assets at amortised costs:

Loans and accounts receivable	40,241,107
Financial assets included in prepayments, deposits and other receivables	47,172
Restricted deposits	259,253
Cash and cash equivalents	1,944,687

Financial assets at fair value through profit or loss:

Derivative financial assets	17,172
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Hedging instruments designated in cash flow hedges:

Derivative financial instruments designated as cash flow hedging	16,095
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Total	42,525,486
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Liabilities as per the statement of financial position

Financial liabilities at amortised costs:

Trade payables	1,075,742
Financial liabilities included in other payables and accruals	2,506,280
Interest-bearing bank and other borrowings	30,939,846

Financial liabilities at fair value through profit or loss:

Derivative financial liabilities	9,660
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Hedging instruments designated in cash flow hedges:

Derivative financial instruments designated as cash flow hedging	5,920
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Total	34,537,448
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12. LOANS AND ACCOUNTS RECEIVABLE

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Loans and accounts receivable due within one year	10,750,573	9,184,775
Loans and accounts receivable due after one year	29,490,534	25,385,314
	40,241,107	34,570,089

12a. Loans and accounts receivable by nature

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Gross lease receivables (<i>note 12b</i>)*	47,900,909	41,226,465
Less: Unearned finance income	(7,167,666)	(6,205,173)
Net lease receivables (<i>note 12b</i>)*	40,733,243	35,021,292
Accounts receivable (<i>note 12d</i>)*	67,178	67,752
Less: Provision for accounts receivable (<i>note 12c</i>)	(410)	(558)
Provision for lease receivables (<i>note 12c</i>)	(558,904)	(518,397)
	<u>40,241,107</u>	<u>34,570,089</u>

* These balances included balances with related parties which are disclosed in note 12e to the interim condensed consolidated financial statements.

12b (1). An ageing analysis of lease receivables, determined based on the age of the receivables since the effective date of the relevant lease contracts, as at the end of the reporting period is as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Gross lease receivables		
Within 1 year	23,012,844	19,456,422
1 to 2 years	14,379,165	13,664,716
2 to 3 years	8,347,702	5,834,517
3 years and beyond	2,161,198	2,270,810
Total	<u>47,900,909</u>	<u>41,226,465</u>
Net lease receivables		
Within 1 year	19,150,180	16,229,377
1 to 2 years	12,342,700	11,654,265
2 to 3 years	7,302,895	5,084,218
3 years and beyond	1,937,468	2,053,432
Total	<u>40,733,243</u>	<u>35,021,292</u>

12b (2). The table below illustrates the gross and net amounts of lease receivables the Group expects to receive in the following consecutive accounting years:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Gross lease receivables		
Due within 1 year	13,499,601	11,566,541
Due in 1 to 2 years	12,591,000	10,597,208
Due in 2 to 3 years	10,706,272	9,227,610
Due after 3 years and beyond	11,104,036	9,835,106
	<u>47,900,909</u>	<u>41,226,465</u>
Total	<u>47,900,909</u>	<u>41,226,465</u>
Net lease receivables		
Due within 1 year	10,892,890	9,304,757
Due in 1 to 2 years	10,351,223	8,696,021
Due in 2 to 3 years	9,331,899	8,024,276
Due after 3 years and beyond	10,157,231	8,996,238
	<u>40,733,243</u>	<u>35,021,292</u>
Total	<u>40,733,243</u>	<u>35,021,292</u>

12c. CHANGE IN PROVISION FOR LEASE RECEIVABLES AND ACCOUNTS RECEIVABLE

The Group has applied the simplified approach to providing for expected credit losses prescribed by HKFRS 9 from 1 January 2018, which permits the use of the lifetime expected loss provision for lease receivables. To measure the expected losses, lease receivables have been grouped based on similar credit risk characteristics. The expected credit losses below also incorporate forward looking information. The Group has performed historical analysis and identified industry or geographical location of each lessor as the key economic variable impacting credit risk and expected credit losses.

Provision for lease receivables

The loss allowance provisions as of 30 June 2018 are determined as follows:

	Pass (Unaudited) RMB'000	Special Mention (Unaudited) RMB'000	Substandard (Unaudited) RMB'000	Doubtful (Unaudited) RMB'000	Loss (Unaudited) RMB'000	Total (Unaudited) RMB'000
1 January 2018						
Expected loss rate	0.97%	2.96%	27.78%	83.29%	–	1.54%
Provision	285,709	154,444	64,245	34,721	–	539,119
Net lease receivables	29,537,050	5,211,287	231,269	41,686	–	35,021,292
30 June 2018						
Expected loss rate	0.88%	2.47%	27.32%	83.29%	–	1.37%
Provision	301,047	151,084	72,052	34,721	–	558,904
Net lease receivables	34,305,294	6,122,561	263,702	41,686	–	40,733,243

The loss allowance provisions as of 30 June 2017 and 31 December 2017 are determined as follows:

	Individually assessed		Collectively assessed		Total	
	30 June 2017 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000	30 June 2017 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000	30 June 2017 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
At beginning of the period/year	88,557	88,557	316,031	316,031	404,588	404,588
Charge for the period/year	<u>2,846</u>	<u>10,409</u>	<u>19,165</u>	<u>103,400</u>	<u>22,011</u>	<u>113,809</u>
At end of the period/Year	<u><u>91,403</u></u>	<u><u>98,966</u></u>	<u><u>335,196</u></u>	<u><u>419,431</u></u>	<u><u>426,599</u></u>	<u><u>518,397</u></u>

Note: As at 30 June 2018, the amount of the gross lease receivables pledged as security for the Group's borrowings was RMB6,437,355,000 (31 December 2017: RMB4,080,017,000).

Provision for accounts receivable

	At beginning of period/year RMB'000	Acquisition of a subsidiary RMB'000	Provision RMB'000	Reverse RMB'000	Other decrease RMB'000	At end of period/year RMB'000
30 June 2018	<u><u>558</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(148)</u></u>	<u><u>-</u></u>	<u><u>410</u></u>
31 December 2017	<u><u>-</u></u>	<u><u>700</u></u>	<u><u>-</u></u>	<u><u>(142)</u></u>	<u><u>-</u></u>	<u><u>558</u></u>

- 12d.** An ageing analysis of accounts receivable, determined based on the age of receivables since the recognition date, as at the end of the reporting period is as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 1 year	63,561	63,818
More than 1 year	<u>3,617</u>	<u>3,934</u>
Total	<u><u>67,178</u></u>	<u><u>67,752</u></u>

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

12e. BALANCES WITH RELATED PARTIES

The balances of loans and accounts receivable of the Group including the balances with related parties are as follows:

Name		30 June	31 December
		2018	2017
		(Unaudited)	(Audited)
		RMB'000	RMB'000
Gross lease receivables:			
Staff Hospital of Qiqihar No.2 Machine Tool			
(Group) Co., Ltd.	(i)	<u>3,214</u>	<u>—</u>
Net lease receivables:			
Staff Hospital of Qiqihar No.2 Machine Tool			
(Group) Co., Ltd.	(i)	<u>2,877</u>	<u>—</u>
Accounts receivable:			
China National Instruments Import & Export			
(Group) Corporation	(ii)	<u>1,805</u>	<u>1,805</u>

The above related parties are subsidiaries of China Genertec Technology (Group) Holding Limited (“**Genertec Group**”).

- (i) The balances of the net lease receivables bore interest at the annual interest rates of 5.70%.
- (ii) The balances with the related party are unsecured, interest-free and repayable on demand.

13. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Cash and bank balances	2,063,774	1,831,990
Time deposits	<u>140,166</u>	<u>850,270</u>
	2,203,940	2,682,260
Less:		
Pledged deposits and restricted bank deposits related to asset-backed securitisations	(140,087)	(403,106)
Time deposits with original maturity of more than three months	<u>(119,166)</u>	<u>(529,270)</u>
Cash and cash equivalents	<u><u>1,944,687</u></u>	<u><u>1,749,884</u></u>

As at 30 June 2018, the cash and bank balances of the Group denominated in RMB amounted to RMB1,893,835,000 (31 December 2017: RMB1,728,774,000). RMB is not 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 30 June 2018, cash of RMB119,633,000 (31 December 2017: RMB346,741,000) was pledged for bank and other borrowings.

As at 30 June 2018, cash of RMB20,454,000 (31 December 2017: RMB56,365,000) was not available for use by the Group in accordance with the arrangements entered into by the Group and the special purpose trusts in the securitisation transactions described in note 24. The cash collected by the Group from the associated finance lease contracts of the securitisations has to be passed on to the investors of the asset-backed securities without material delay.

As at 30 June 2018, cash of RMB223,039,000 (31 December 2017: RMB130,955,000) was deposited with Genertec Finance Co., Ltd., which is a related party.

14. TRADE PAYABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade payables	1,074,866	264,574
Due to related parties (<i>note 14a</i>)	<u>876</u>	<u>123</u>
	<u>1,075,742</u>	<u>264,697</u>

The trade payables are non-interest-bearing and are repayable within one year or repayable based on the payment schedules agreed between the Group and the respective parties.

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 1 year	1,058,992	246,141
1 to 2 years	4,979	7,708
2 to 3 years	4,890	2,199
Over 3 years	<u>6,881</u>	<u>8,649</u>
	<u>1,075,742</u>	<u>264,697</u>

14a. BALANCES WITH RELATED PARTIES

Particulars of amounts due to related parties are as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade payables:		
General Technology Group International Logistic Company Limited	71	39
Genertec Italia s.r.l.	<u>805</u>	<u>84</u>
	<u>876</u>	<u>123</u>

The above related parties are subsidiaries of Genertec Group.

The balances with the related parties are unsecured, interest-free and repayable within one year or based on the payment schedules agreed between the Group and the respective parties.

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current:						
Bank loans – secured	4.35~4.57	2018~2019	130,500	4.35~5.35	2018	314,401
Bank loans – unsecured	2.17~5.22	2018~2019	2,374,996	2.17~5.00	2018	2,734,863
Current portion of long-term bank loans:						
– secured	4.28~5.70	2018~2019	701,306	4.28~5.23	2018	731,818
– unsecured	3.66~5.94	2018~2019	2,986,670	4.29~4.99	2018	1,972,736
Current portion of long-term other loans:						
– unsecured	5.00	2018~2019	1,500,000	5.00	2018	600,000
Finance lease payables						
– secured	4.75~5.04	2018~2019	776,740	4.75~4.83	2018	99,694
Bonds payables						
– secured	5.50~6.43	2018~2019	406	5.20	2018	218,910
– unsecured	4.08~5.50	2018~2019	6,487,678	4.69~4.90	2018	2,291,130
Due to a related party						
– unsecured	4.35	2018~2019	<u>500,000</u>	4.35~4.75	2018	<u>2,000,000</u>
			<u>15,458,296</u>			<u>10,963,552</u>
Non-current:						
Bank loans – secured	4.28~5.70	2019~2023	1,226,911	4.28~5.23	2019~2022	663,921
– unsecured	2.50~5.94	2019~2021	7,999,874	2.70~5.23	2019~2020	8,367,632
Other loans – unsecured	–	–	–	5.00	2019	900,000
Bonds payable						
– secured	5.50~6.43	2020	546,035	5.50~6.43	2020	546,169
– unsecured	3.13~6.50	2021~2023	3,536,170	3.13~4.08	2019~2021	3,045,939
Finance lease payables						
– secured	4.75~5.04	2020~2023	1,172,560	4.75~4.83	2020	1,395,482
Due to a related party						
– unsecured	4.75	2019	<u>1,000,000</u>	4.75	2019	<u>1,000,000</u>
			<u>15,481,550</u>			<u>15,919,143</u>
			<u>30,939,846</u>			<u>26,882,695</u>

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	6,193,472	5,753,818
In the second year	3,536,327	3,268,298
In the third to fifth years, inclusive	<u>5,690,458</u>	<u>5,763,255</u>
	<u>15,420,257</u>	<u>14,785,371</u>
Other borrowings repayable:		
Within one year	9,264,824	5,209,734
In the second year	2,367,111	2,441,980
In the third to fifth years, inclusive	3,762,654	4,445,610
Above five years	<u>125,000</u>	<u>—</u>
	<u>15,519,589</u>	<u>12,097,324</u>
	<u><u>30,939,846</u></u>	<u><u>26,882,695</u></u>

Notes:

- (a) As at 30 June 2018, the Group's bank and other borrowings secured by lease receivables, cash and bank balances and time deposits were RMB4,554,458,000 (31 December 2017: RMB3,970,395,000); the Group's bank and other borrowings secured by cash and bank balances and time deposits amounted to RMB130,500,000 (2017: RMB1,001,045,000).
- (b) In May 2015, the Company's wholly-owned subsidiary, China Universal Leasing Co., Ltd. ("CULC") issued a batch of leasing assets-backed securities with an aggregate principal amount of RMB1,141,858,000 to institutional investors through an asset management plan. The asset-backed securities have four senior tranches and one subordinated tranche. The Group received proceeds of RMB912,000,000 from the senior tranches which have expected annualised yields ranging from 4.80% to 6.43% and maturity periods from one year to five years. The subordinated tranche amounting to RMB229,858,000 was purchased by CULC itself and thus no proceeds were received. As at 30 June 2018, the amortised cost of the debt securities issued amounted to RMB546,441,000 (31 December 2017: RMB765,079,000).
- (c) As at 30 June 2018, the Group's borrowing of RMB1,500,000,000 (31 December 2017: RMB3,000,000,000) was from Genertec Finance Co., Ltd., which is a related party.

16. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2018 (Unaudited)	31 December 2017 (Audited)	30 June 2018 (Unaudited) <i>RMB'000</i>	31 December 2017 (Audited) <i>RMB'000</i>
Issued and fully paid ordinary shares	<u>1,716,304,580</u>	<u>1,716,304,580</u>	<u>4,327,842</u>	<u>4,327,842</u>

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital <i>RMB'000</i>
As at 1 January 2018 and 31 December 2017 (Audited)	<u>1,716,304,580</u>	<u>4,327,842</u>
As at 30 June 2018 (Unaudited)	<u>1,716,304,580</u>	<u>4,327,842</u>
As at 1 January 2017 and 31 December 2016 (Audited)	<u>1,716,304,580</u>	<u>4,327,842</u>
As at 31 December 2017 (Audited)	<u>1,716,304,580</u>	<u>4,327,842</u>

17. RESERVES

The amounts of the Group's reserves and the movements therein for the interim condensed consolidated financial statements are presented in the consolidated statement of changes in equity.

Capital reserve

The capital reserve represents the share-based compensation reserve which comprises 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 the PRC, 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 profit after taxation reported in its statutory financial statements prepared under the applicable PRC accounting standards to the statutory surplus reserve.

If a subsidiary is registered as a wholly-foreign invested enterprise or a domestic limited liability company, it is required to appropriate 10% of each year's statutory net profits to the statutory surplus reserve according to the PRC accounting standards and regulations (after offsetting previous years' losses) to the statutory surplus reserve. The PRC subsidiary may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contribution to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors. The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to owners. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the PRC subsidiary. The statutory reserve can be transferred to paid-in capital, provided that the balance of the statutory surplus reserve after this 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.

18. CONTINGENT LIABILITIES

At the end of the reporting period, there was no contingent liability that was not provided for the interim condensed consolidated financial statements.

19. PLEDGE OF ASSETS

Details of the Group's bank and other borrowings, which are secured by the assets of the Group, are included in notes 12, 13 and 15 to the interim condensed consolidated financial statements.

20. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its medical equipment under operating lease arrangements, with leases negotiated for terms of more than five years.

Under the lease contracts, all rentals that the Group receives are contingent rentals based on the monthly gross or net income generated by the medical equipment.

(b) As lessee

The Group leases certain properties as its office premises under operating lease arrangements. Lease terms for properties range from one to eight years.

As at 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within one year	21,737	32,685
In the second to fifth years, inclusive	18,859	22,797
Over five years	2,601	3,135
	<u>43,197</u>	<u>58,617</u>

21. COMMITMENTS

In addition to the operating lease commitments detailed in note 20(b) above, the Group had the following capital commitments and credit commitments at the end of the reporting period:

(a) Capital commitments

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Contracted, but not provided for	<u>602</u>	<u>2,377</u>

(b) Credit commitments

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Credit commitments	<u>887,000</u>	<u>1,528,274</u>

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

22. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances in notes 12, 13, 14 and 15 to the interim condensed consolidated financial statements, the Group had the following material transactions and balances with related parties during the reporting period.

(a) Transactions and balances 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 one of the major shareholders of the Company.

The companies under Genertec Group which had transactions and balances with the Group during the reporting period are subsidiaries of Genertec Group.

(i) *Prepayments, deposits and other receivables*

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
<u>Due from related parties</u>		
General Technology Group Property Management Ltd.	994	994
Genertec Italia s.r.l.	–	743
Paryocean Properties Co., Ltd.	506	251
China National Corporation For Overseas Economic Cooperation	112	112
China National Instruments Import & Export (Group) Corporation	400	38
	2,012	2,138

The balances with the related parties are unsecured, interest-free and will be settled within one year.

(ii) *Other payables and accruals*

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
<u>Due to a related party</u>		
Genertec Finance Co., Ltd.	<u>1,781</u>	<u>47</u>
	<u>1,781</u>	<u>47</u>

The balance with the related party is unsecured, interest-free and repayable within one year or repayable based on the payment schedules agreed between the Group and the respective party.

(iii) *Interest income from cash in a bank*

	For the six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Genertec Finance Co., Ltd	<u>2,685</u>	<u>2,094</u>

The interest was charged at the rate of 1.15% per annum.

(iv) *Purchases of products and leased assets from related parties*

	For the six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Genertec Italia s.r.l.	2,029	803
China National Instruments Import & Export (Group) Corporation	<u>400</u>	<u>—</u>

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

(v) *Rental expenses*

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
China National Corporation for Overseas Economic Cooperation	674	–
China General Technology (Group) Holding, Ltd.	1,656	1,656
General Technology Group Property Management Ltd	5,395	5,250
Paryocean Properties Co., Ltd.	344	320

The rental expenses paid to related parties are made on terms mutually agreed between the Group and the respective parties.

(vi) *Interest expense on borrowings*

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Genertec Finance Co., Ltd.	60,018	33,766

The interest expenses were charged at rates from 4.35% to 4.75% per annum.

(vii) *Finance lease income*

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Staff Hospital of Qiqihar No.2 Machine Tool (Group) Co., Ltd.	131	–

The finance lease income was received at a rate of 5.70% per annum.

(viii) Transportation expense

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Genertec International Logistics Co., Ltd.	<u>32</u>	<u>83</u>

The related party transactions in respect of items (iii), (iv), (v), (vii) and (viii) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Significant transactions with other government-related entities

The largest shareholder of the Company is a state-owned enterprise. In accordance with HKAS 24 “Related Party Disclosures”, government-related entities include entities that are directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government. On this basis, related parties include other government-related entities, in addition to Genertec Group and companies under Genertec Group.

During the reporting period, the Group’s significant transactions with other government-related entities constituted a large portion of finance lease services and advisory services. In addition, substantially all restricted deposits, cash and cash equivalents and borrowings as at 30 June 2018 and 31 December 2017 and the relevant interest earned and paid during the six months ended 30 June 2018 and 2017 were transacted with banks and other financial institutions which are controlled by the PRC government.

(c) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Short term employee benefits	<u>3,996</u>	<u>3,727</u>
Total compensation	<u><u>3,996</u></u>	<u><u>3,727</u></u>

23. TRANSFERS OF FINANCIAL ASSETS

Securitisation transactions

The Group enters into securitisation transactions in the normal course of business by transferring lease receivables to special purpose trusts which in turn issue asset-backed securities to investors. The Group may acquire some subordinated tranches of securities and accordingly may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated lease receivables by evaluating the extent to which it retains the risks and rewards of the assets.

As at 30 June 2018, lease receivables with an original carrying amount of RMB543,513,000 (31 December 2017: RMB543,513,000) have been securitised by the Group under arrangements in which the Group retained continuing involvement in such assets. As at 30 June 2018, the carrying amount of assets that the Group continued to recognise was RMB43,961,000 (31 December 2017: RMB43,961,000) and that of the associated liabilities, which represented the maximum amount of the cash flows the Group would forfeit under the subordination plus the consideration for the subordination, was RMB43,961,000 (31 December 2017: RMB43,961,000).

24. 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 receivable, financial assets included in deposits and other receivables, trade payables, financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings.

Cash and cash equivalents, restricted deposits, accounts receivable and current portion of financial assets included in deposits and other receivables, trade payables, short-term borrowings and current portion of financial liabilities included in other payables and accruals

Substantially all of the financial assets and liabilities mature within one year from the end of each reporting period and their carrying values approximate to their fair values.

Lease receivables and long-term interest-bearing bank and other borrowings excluding bonds issued

Substantially all of the lease receivables and long-term interest-bearing bank and other borrowings, excluding bonds issued, are on floating rate terms bearing interest at prevailing market interest rates and their carrying values approximate to their fair values.

Bonds issued

The fair value of the bonds was calculated based on quoted market prices or a discounted cash flow model that is 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 values on the statement of financial position.

	Carrying amounts		Fair values	
	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Bonds issued	<u>10,570,289</u>	<u>6,102,148</u>	<u>10,451,454</u>	<u>5,916,870</u>

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 non-current portion of financial assets included in deposits and other receivables, and the fair values of 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 difference between the carrying amounts and fair values of those financial assets and liabilities is not significant.

Financial instruments measured at fair value

Interest rate swap contracts

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 counterparties and yield curves.

Non-deliverable cross-currency swaps

Non-deliverable cross-currency 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 counterparties, foreign exchange spot and forward rates and interest rate curves.

Foreign exchange rate swap contracts

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.

Asset-backed securities

The fair values of the asset-backed securities recognised as prepayments, deposits and other receivables are measured using discounted cash flow analysis that calculates the fair values based on valuation inputs such as the default rate, loss given default, prepayment rate and yield of the securities' underlying assets. These inputs require an assessment of the securities' underlying assets.

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 asset-backed securities is based on unobservable inputs which include the default rate, loss given default, and prepayment rate and yield of the securities' underlying assets. As at 30 June 2018, fair value changes resulting from changes in the unobservable inputs were not significant.

Assets and liabilities measured at fair value:

As at 30 June 2018 (Unaudited)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial assets				
– Interest rate swap contracts	–	2,710	–	2,710
– Foreign exchange rate swap contracts	–	30,557	–	30,557
Prepayments, deposits and other receivables				
– Asset-backed securities	–	–	43,961	43,961

As at 31 December 2017 (Audited)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments				
– Interest rate swap contracts	–	5,273	–	5,273
Available-for-sale investments				
– Asset-backed securities	–	–	43,961	43,961

Liabilities for which fair values are disclosed:

As at 30 June 2018 (Unaudited)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial debts				
– Interest rate swap contracts	–	163	–	163
– Foreign exchange rate swap contracts	–	13,947	–	13,947
– Non-deliverable cross-currency swaps	–	1,470	–	1,470
Bonds issued	<u>9,964,468</u>	<u>486,986</u>	<u>–</u>	<u>10,451,454</u>

As at 31 December 2017 (Audited)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Bonds issued	<u>5,201,287</u>	<u>715,583</u>	<u>–</u>	<u>5,916,870</u>

During the six months ended 30 June 2018, there were no transfers at fair value measurement between Level 1 and Level 2 and no transfers into or out of Level 3 (year ended 31 December 2017: Nil).

25. EVENTS AFTER THE REPORTING PERIOD

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 (the “**New East District**”) of Handan First Hospital (the “**Project**”), which will be a new branch of Handan First Hospital. Pursuant to the Cooperation Agreement, the Company has agreed to (i) establish a wholly-owned project company (the “**Project Company**”) to construct the New East District (the “**Project Construction**”), 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) by nominating two members by the Company in the supervisory committee; and (ii) through the Project Company, make a capital contribution of no more than RMB28 million to establish a company with Handan First Hospital to provide medical supplies procurement services to Handan First Hospital (including the New East District).

PERFORMANCE OVERVIEW

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Operating Results		
Income	2,094,780	1,653,892
Finance lease income*	1,499,778	1,190,330
Industry, equipment and financing advisory income*	429,617	352,034
Clinical department upgrade services income*	108,292	84,445
Hospital investment and management income*	56,979	24,881
Other business income*	114	2,202
Cost of sales	(767,807)	(574,295)
Interest expense	(699,749)	(536,503)
Cost of clinical department upgrade services	(15,142)	(15,106)
Cost of hospital investment and management	(52,916)	(22,686)
Profit before tax	1,001,659	799,908
Profit for the period	733,253	578,915
Basic and diluted earnings per share (RMB)	0.43	0.34
Profitability Indicators		
Return on total assets ⁽¹⁾	3.64%	3.81%
Return on equity ⁽²⁾	19.17%	17.19%
Net interest margin ⁽³⁾	4.26%	4.57%
Net interest spread ⁽⁴⁾	3.33%	3.64%
Net profit margin ⁽⁵⁾	35.00%	35.00%
Cost to income ratio ⁽⁶⁾	21.08%	23.23%

* After taxes and surcharges

- (1) Return on total assets = profit for the period/average balance of assets at the beginning and end of the period, presented on an annualised basis;
- (2) Return on equity = profit for the period/average balance of equity at the beginning and end of the period, presented on an annualised basis;
- (3) Net interest margin is calculated by dividing net interest income by average balance of interest-earning assets, presented on an annualised basis;
- (4) Net interest spread is the difference between average yield of interest-earning assets and average cost rate of interest-bearing liabilities. Average balance of interest-earning assets is calculated based on the average balance of net lease receivables before provision as at each month end within the reporting year; average balance of interest-bearing liabilities is calculated based on the average balance of bank and other borrowings and lease deposits as at each month end within the reporting year;
- (5) Net profit margin = profit for the period/income;
- (6) Cost to income ratio = (selling and distribution cost + administrative expenses – provision for loans and accounts receivable)/gross profit.

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Assets and Liabilities		
Total assets	42,948,674	37,732,513
Net finance lease receivables	40,733,243	35,021,292
Total liabilities	35,115,804	30,263,687
Interest-bearing bank and other borrowings	30,939,846	26,882,695
Total equity	7,832,870	7,468,826
Net assets per share (RMB)	4.56	4.35
Financial Indicators		
Debt ratio ⁽¹⁾	81.76%	80.21%
Gearing ratio ⁽²⁾	3.95	3.60
Current ratio ⁽³⁾	0.76	0.98
Asset Quality		
Non-performing assets ratio ⁽⁴⁾	0.75%	0.78%
Provision coverage ratio ⁽⁵⁾	183.01%	189.92%
Write-off of non-performing assets ratio ⁽⁶⁾	0.00%	0.00%
Overdue ratio (over 30 days) ⁽⁷⁾	0.41%	0.44%

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review and Prospects

In the first half of 2018, the Group seized the policy opportunities of the medical industry, and it has been pursuing the goal of building itself into a leading medical and health conglomerate in China, and continuing to enrich and integrate its domestic and international medical resources. The Group also expanded its network of hospital clients, and continued to advance the synergetic development of its businesses such as hospital investment and management, medical finance, medical technology and healthcare digitalization services. As a result, the Group achieved a steady increase in its operating performance. For the six months ended 30 June 2018, the Group's revenue increased by 26.7% to RMB2,094.8 million; while the Group's profit before tax increased by 25.2% to RMB1,001.7 million as compared to the corresponding period of the previous year. In the same period, the Group achieved a steady growth in its asset size and maintained good asset quality. The corporate credit rating of China Universal Leasing Co., Ltd., a wholly-owned subsidiary of the Group, was successively uprated to AAA by China Cheng Xin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) and Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信投資服務有限公司), which further optimized the Group's overall financing position.

1.1 Hospital Investment and Management Business

In the first half of 2018, the Group fully utilized its resources advantages, actively seized the policy opportunities available and intensified its efforts to push forward with its hospital investment and management business. On the one hand, the Group steadily pushed ahead with the existing projects and potential cooperative projects. On the other hand, the Group seized the full opportunities of the reform of medical institutions of state-owned enterprises (“SOEs”) by way of spin-off to conduct merger and acquisition negotiations for take-over and integration of the medical institutions owned by SOEs.

Execution of the Contract for Cooperation on Construction of the New East District of Handan First Hospital

On 9 August 2018, the Group formally signed a contract with the Health and Family Planning Committee of Handan and Handan First Hospital (“**Handan First Hospital**”) for co-establishment of a new east district of Handan First Hospital (the “**New East District**”). Handan is an important portal city in southern Hebei province and occupies a central location within Shanxi, Hebei, Shandong and Henan provinces. Handan First Hospital is a large-scale comprehensive Grade III Class A hospital that integrates medical services, teaching, scientific research, disease prevention, health care and rehabilitation. Handan First Hospital plays a leading role in terms of its comprehensive medical strength in the whole city. The New East District planned will operate as a new branch of Handan First Hospital with 2,000 registered beds (to be built in phase I and II), and position as a comprehensive hospital with top specialized departments. In the future, the new branch will work with

Handan First Hospital to provide medical services for approximately 25 million people in Shanxi, Hebei, Shandong and Henan provinces. Total investments for the project will be no more than RMB2 billion, of which the investments in phase I will be RMB1.4 billion and the investments in phase II will be RMB0.6 billion, provided that phase I meets the specific requirements under the contract. Universal Medical will obtain the following two rights in return:

- (1) Construction and operation right. Universal Medical will set up a wholly-owned project company. The project company will exercise the construction and operation right, be responsible for construction of the New East District, participate in the management and operation of Handan First Hospital (including the New East District) and charge the construction and management fee. The construction and operation right bears a term of 30 years.
- (2) Exclusive procurement right. Universal Medical will, through the project company, jointly set up a joint venture with Handan First Hospital, which will be fully responsible for providing medical supplies procurement service to Handan First Hospital (including the New East District). The exclusive procurement right bears a term of 30 years.

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

Orderly Implementation of the International Land Port Hospital Project

First Affiliated Hospital of Xi'an Jiaotong University (西安交通大學第一附屬醫院) (the "**First Affiliated Hospital**") is a large-scale, comprehensive Grade III Class A hospital directly administered by the National Health Commission. Its medical technology and service quality give it a leading position in the Northwest China. First Affiliated Hospital of Xi'an Jiaotong University International Land Port Hospital (西安交大一附院國際陸港醫院) (the "**International Land Port Hospital**") is a new branch of First Affiliated Hospital. The Group is investing no more than RMB2 billion in this project and obtained two rights in return: the construction and operation right of International Land Port Hospital, and the exclusive business cooperation right with International Land Port Hospital and First Affiliated Hospital (for more details, please see the Company's announcement dated 30 August 2016 and the circular dated 21 October 2016).

Up to now, progress on the construction project of International Land Port Hospital jointly undertaken by the Group and First Affiliated Hospital achieved further milestones. The Company has sorted out procurement options for First Affiliated Hospital, as well as the pharmaceutical delivery and upstream production enterprises, and signed a Sunshine Procurement Service Agreement (《陽光採購服務協議》) with First Affiliated Hospital in early August 2018 which has laid a solid foundation for the Company to fully take over the supply chain business of First Affiliated Hospital. Meanwhile, the master plan and building layout plan for International Land Port Hospital have already been finalized, while relocation and construction of the high-voltage lines and other related work are well underway. In the second half of this year, the Company will continue to progress the construction and engineering of International Land Port Hospital, and at the same time speed up the supply chain business operation.

Fully Establishment of Business Development in respect of Merger and Acquisition of Medical Institutions owned by State-owned Enterprises

On 3 August 2017, six ministries and commissions including the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) (the “SASAC”) jointly issued the Guidance on Deepening the Reform of Educational and Medical Institutions of State-owned Enterprises (Guo Zi Fa Gai Ge [2017] No. 134), requiring the reform of medical institutions of SOEs by way of spin-off should be substantially completed by the end of 2018, and proposing to support SOEs primarily engaged in healthcare industry to integrate the resources of such medical institutions. Subsequently, in order to urge implementation of the reform of medical institutions owned by SOEs, SASAC further issued relevant notices, requiring, among others, all central SOEs should prepare plans to ensure that reform of medical institutions of SOEs be completed by the end of 2018; six central SOEs including China General Technology (Group) Holding Company Limited (中國通用技術(集團)控股有限責任公司) (the “GT-PRC”) are allowed to participate in resources consolidation of medical institutions of SOEs; in principle, the central SOEs not engaged in healthcare industry will no longer and not be allowed to establish medical institutions, nor should they establish or directly manage such medical institutions during the restructuring with social capital involved, by circumventing such restrictions.

As the main operating entity of the medical and health segment of GT-PRC, the Group actively responded to these above policies. In the first half of 2018, the Group focused on medical institutions of SOEs with better operational performance, management skills and geographic positions. The Group has been in close contact with several state-owned groups and their quality hospitals, and managed to reach preliminary agreements on cooperation. Further project negotiations, on-site due diligence, approval requests and other work are being undertaken in an orderly manner.

Simultaneous Promotion of Internal and External Developments

In the first half of 2018, the Group actively strengthened the development and interconnection of its external and internal resources, while speeding up its promotion of hospital investment and management business:

- **Teams:** In order to support hospital investment and management business, the Group focused on the key linking characteristics of hospital development and has established a series of professional teams for technology development, process optimization, operational analysis, human resources, marketing and policy research. It has also set up powerful internal communication and coordination mechanisms.
- **Talents:** The Group has brought in and cultivated hundreds of professionals with master degrees or above from medical colleges and institutes. It has also hired dozens of experts for specific posts such as investment assessment, law, medical digitalization, hospital construction, supply chain operation and post-investment management, so as to create its own professional teams.
- **Resources:** The Group continued to accumulate various international and domestic medical resources. To date, the Group has established cooperative relationships with dozens of top international medical institutions and domestic hospitals, and more than 200 experts and academic leaders in various disciplines. In the future, the Group will establish a physician group to provide long-term technology support to hospitals it acquired.
- **Financing:** The Group enjoys various financing channels and sufficient banking facilities. As of the first half of 2018, the Group has cooperated with approximately 100 financial institutions. In addition, the Group is actively seeking to exploit diversified financing channels to ensure sufficient funding support for its hospital investment and management business.

1.2 Medical Finance Business

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

- **The yield of interest-earning assets dropped slightly.** Facing a risk-gathering environment, the Group selected clients more prudently in the first half of the year meaning that we have given priority to clients with higher credit ratings. The yield of interest-earning assets dropped slightly to 7.96%, representing a decrease of 0.32 percentage point from 8.28% of the corresponding period of the previous year.
- **The cost rate of interest-bearing liabilities remained stable.** Since the beginning of the year, a prudent and neutral monetary policy plus stricter regulation policies in terms of risk prevention and deleveraging have contributed to tighter liquidity and climbing interest rates, bringing about rising financing costs. Under an economic environment of tightened banking facilities and rising financing costs, the Group has actively adjusted its financial strategies to optimize debt structures, expand funding sources via multiple channels, and arrange in advance various funds to help the Group maintain sufficient liquidity and ensure the progress of its business. In the first half of 2018, the average cost rate of the Group's interest-bearing liabilities dropped to 4.63% from 4.64% for the corresponding period of the previous year.
- **The Group recorded steady growth in its asset size and remained good asset quality.** As at 30 June 2018, the Group's total assets reached RMB42,948.7 million, representing an increase of 13.8% as compared with the end of 2017. The proportion of healthcare assets in finance lease receivables was 74.9%, showing the Group's assets concentration in healthcare industry. The Group recorded a non-performing asset ratio of 0.75% and a 30-days overdue ratio of 0.41%, remaining the leading position in the industry. We maintained prudent provision policies and as at 30 June 2018, the Group had a provision coverage ratio of 183.01%.

1.3 Medical Technology Service

The Group has further expanded its medical technology services as it continues to enrich its domestic and international resources. It has established cooperative relationships with dozens of top international medical institutions and domestic hospitals. The Group has also established cooperative relationships with more than 200 experts and academic leaders in various disciplinary fields. The Group gives full play to its advantages to help its partnered hospitals establish connections with the most suitable quality medical resources to achieve comprehensive improvements at medical technology and managerial expertise. In the first half of 2018, the Group recorded a gross profit of RMB429.6 million from its industry, equipment and financing advisory services, representing a growth of 22.0% as compared with the corresponding period of the previous year.

In the first half of 2018, the Group recorded a gross profit of RMB93.2 million generated from its clinical department upgrade services, representing a growth of 34.3% as compared with the corresponding period of the previous year. The Group has further expanded its scope of cooperation in cerebral vascular accident (the “CVA”) projects, successively initiating the establishment of several CVA centers at county level, such as at the People’s Hospital of Baihe County (白河縣人民醫院). It has also provided expert resources to organize operational trainings for technology support to these centers in undertaking local prevention and treatment services.

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

1.4 Medical Digitalization Business

The Group’s goal of actively developing its medical digitalization business is to create internet-based medical platforms, establish remote medical networks to provide remote medical services via multiple modes and extend the medical services of hospitals to thousands of households and achieve deep integration of the internet with medical services. In order to meet the development needs of the medical digitalization business, the Group has implemented multiple necessary measures simultaneously, extensively recruited professional talents and established a skillful and professional team for the research, development and operation of its medical digitalization products. In the first half of 2018, the Group further optimized the medical management information system that it researched and developed independently. On the one hand, this has provided technology support for the Company to help its future hospitals achieve internet-based medical platforms. On the other hand, it has gradually developed an independent market. In the first half of 2018, the Group successfully entered into an agreement with People’s Hospital of Baoqing (寶清縣人民醫院) for medical digitalization business cooperation. Meanwhile, the implementation of a framework agreement the Group signed earlier with Qiqihar First Hospital (齊齊哈爾第一醫院) has entered into work stages such as data acquisition and finance system connection. Cooperation will be further expanded and carried out subsequently.

1.5 Prospects for the Second Half of the Year and the Future

Keep feet on the ground and work hard in a persistent way. In the second half of 2018, the Group will continue to focus on the strategic development direction in medical fields, seize policy and market opportunities, speed up the integration of resources, and actively respond to all challenges. Based on our medical finance services, we will continue to vigorously expand hospital investment and management business, cooperatively develop medical digitalization business and steadily implement medical technology services. We will push forward the synergetic development of businesses in all segments, and actively explore the extension and integration mode of medical industry services, so as to build Universal Medical into a leading medical and health conglomerate.

2. Analysis of Profit or Loss

2.1 Overview

In the first half of 2018, the Group seized the development opportunities in the healthcare industry, continued to innovate its business development model, consolidated its operational foundation, and achieved a steady growth in operating results. In the first half of 2018, the Group recorded a revenue of RMB2,094.8 million, representing an increase of RMB440.9 million or 26.7% as compared to the corresponding period of the previous year. Profit before tax was RMB1,001.7 million, representing an increase of RMB201.8 million or 25.2% as compared to the corresponding period of the previous year.

The following table sets forth the Group's statement of profit or loss for the six months ended 30 June 2018:

	For the six months ended 30 June		
	2018	2017	Change
	<i>RMB'000</i>	<i>RMB'000</i>	
	<u>(Unaudited)</u>	<u>(Unaudited)</u>	
Revenue	2,094,780	1,653,892	26.7%
Cost of sales	(767,807)	(574,295)	33.7%
Gross profit	1,326,973	1,079,597	22.9%
Other income and gains	44,208	9,949	344.3%
Selling and distribution costs	(171,216)	(157,916)	8.4%
Administrative expenses	(128,089)	(115,387)	11.0%
Financial costs	(68)	(512)	-86.7%
Other expenses	(70,149)	(15,823)	343.3%
Profit before tax	1,001,659	799,908	25.2%
Income tax expense	(268,406)	(220,993)	21.5%
Profit for the period	733,253	578,915	26.7%
Basic and diluted earnings per share (RMB)	<u>0.43</u>	<u>0.34</u>	<u>26.7%</u>

2.2 Analysis of Business Revenue

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

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

	For the six months ended 30 June				
	2018		2017		Change
	Gross profit RMB'000 (Unaudited)	% of total	Gross profit RMB'000 (Unaudited)	% of total	
Finance lease	800,029	60.3%	653,827	60.6%	22.4%
Industry, equipment and financing advisory	429,617	32.4%	352,034	32.6%	22.0%
Clinical department upgrade services	93,150	7.0%	69,339	6.4%	34.3%
Hospital investment and management	4,063	0.3%	2,195	0.2%	85.1%
Other business	114	0.0%	2,202	0.2%	-94.8%
Total	1,326,973	100.0%	1,079,597	100.0%	22.9%

In the first half of 2018, the Group's gross profit was RMB1,327.0 million, increasing by RMB247.4 million, or 22.9%, as compared to the corresponding period of the previous year. In particular, interest margin gross profit of finance lease business was RMB800.0 million, representing an increase of RMB146.2 million, or 22.4%, as compared to the corresponding period of the previous year; gross profit of industry, equipment and financing advisory services was RMB429.6 million, representing an increase of RMB77.6 million, or 22.0%, as compared to the corresponding period of the previous year; and gross profit of clinical department upgrade services was RMB93.2 million, representing an increase of RMB23.8 million, or 34.3%, as compared to the corresponding period of the previous year. The hospital investment and management business achieved a gross profit of RMB4.1 million, representing an increase of RMB1.9 million, or 85.1%, as compared to the corresponding period of the previous year.

2.2.1 Finance lease business

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

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

	For the six months ended 30 June				
	2018		2017		Change
	<i>RMB'000</i>	% of total	<i>RMB'000</i>	% of total	
	<i>(Unaudited)</i>		<i>(Unaudited)</i>		
Healthcare	1,097,002	73.1%	824,740	69.3%	33.0%
Other	402,776	26.9%	365,590	30.7%	10.2%
Total	1,499,778	100.0%	1,190,330	100.0%	26.0%

The Group's finance lease income is mainly comprised of interest income. In the first half of 2018, the Group recorded interest income of RMB1,499.8 million from finance lease business, representing an increase of RMB309.4 million or 26.0% as compared to the corresponding period of the previous year. The Group focused on healthcare sector, and the interest income from healthcare industry was RMB1,097.0 million, accounted for 73.1% over the total interest income in the first half of 2018.

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

	30 June 2018			30 June 2017		
	Average	Interest	Average	Average	Interest	Average
	balance	income ⁽¹⁾ / expense ⁽²⁾	yield ⁽³⁾ / cost rate ⁽⁴⁾	balance	income ⁽¹⁾ / expense ⁽²⁾	yield ⁽³⁾ / cost rate ⁽⁴⁾
	RMB'000	RMB'000		RMB'000	RMB'000	
	(Unaudited)	(Unaudited)		(Unaudited)	(Unaudited)	
Interest-earning assets	38,217,123	1,507,885	7.96%	29,180,939	1,196,430	8.28%
Interest-bearing liabilities	30,474,009	699,749	4.63%	23,309,989	536,503	4.64%
Net interest margin ⁽⁵⁾	-	-	4.26%	-	-	4.57%
Net interest spread ⁽⁶⁾	-	-	3.33%	-	-	3.64%

- (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, presented on an annualized basis;
- (4) Average cost rate = Interest expense/average balance of interest-bearing liabilities, presented on an annualized basis;
- (5) Net interest margin is calculated by dividing net interest income by average balance of interest-earning assets, presented on an annualized basis;
- (6) Net interest spread is the difference between average yield of interest-earning assets and average cost rate of interest-bearing liabilities.

In the first half of 2018, the average yield of the Group's interest-earning assets was 7.96%, representing a decrease of 0.32 percentage point from 8.28% in the corresponding period of the previous year; average cost rate of interest-bearing liabilities was 4.63%, representing a decrease of 0.01 percentage point from 4.64% in the corresponding period of the previous year. Net interest margin of finance lease was 4.26%, representing a decrease of 0.31 percentage point from 4.57% in the corresponding period of the previous year; net interest spread was 3.33%, representing a decrease of 0.31 percentage point from 3.64% in the corresponding period of the previous year.

Average yield of interest-earning assets: in the first half of 2018, in the environment of gathering market risks, the Group adjusted its market development strategy in a timely manner, implemented a more cautious customer selection strategy, and prioritized cooperation with high-credit customers. The average yield of the Group's interest-earning assets slightly decreased to 7.96%, representing a decrease of 0.32 percentage point from 8.28% in the corresponding period of the previous year. However, benefiting from customer loyalty and the finance advantages of differentiation brought by our integrated healthcare service, the average yield of the Group's interest-earning assets remained at a high level in the market.

Average cost rate of interest-bearing liabilities: in the first half of 2018, faced with the market environment of limited credit scale and increasing financing cost of domestic banks, the Group actively adjusted its financing strategy, optimized debt structure, widened the sources of funds through multiple channels, and effectively ensured the progress of business investment. In the first half of 2018, the average cost rate of interest-bearing liabilities remained basically stable as compared to the corresponding period of the previous year.

2.2.2 Industry, equipment and financing advisory

Industry, equipment and financing advisory services is a part of the Group's integrated services. In the first half of 2018, the gross profit from industry, equipment and financing advisory services was RMB429.6 million, representing an increase of RMB77.6 million or 22.0% as compared to the corresponding period of the previous year. Leveraging on our expanding healthcare resources platform, we continuously optimized the organization allocation in accordance with the characteristics of hospital operation at all stages, and strengthened internal collaboration and staff training so as to provide customers with valuable, flexible and diversified comprehensive services that comprised financial services, equipment replacement, technology and management advisory, and to assist our customers in improving their service quality.

2.2.3 Clinical department upgrade services

The Group's business of clinical department upgrade services mainly comprises the provision of services such as mid-to-long term planning for hospital development, disciplinary groups planning, speciality business training, approach and strategic consulting for chronic disease prevention and treatment, consulting for innovation in specialized areas and continuing medical education. By providing these services, the Group aimed to enhance the technical service capabilities and management efficiency of partner hospitals with sales of equipment as supporting business. In the first half of 2018, the gross profit from clinical department upgrade services was RMB93.2 million, representing an increase of RMB23.8 million, or 34.3%, as compared to the corresponding period of 2017.

The following table sets forth breakdown of the Group's clinical department upgrade services:

	For the six months ended 30 June					
	2018			2017		
	Income RMB'000 (Unaudited)	Gross profit RMB'000 (Unaudited)	% of total gross profit	Income RMB'000 (Unaudited)	Gross profit RMB'000 (Unaudited)	% of total gross profit
Clinical department upgrade advisory services	98,654	98,654	105.9%	64,702	64,702	93.3%
Operating lease	4,683	(7,953)	-8.5%	10,246	642	0.9%
Sales of medical equipment	4,955	2,449	2.6%	9,497	3,995	5.8%
Total	108,292	93,150	100.0%	84,445	69,339	100.0%

2.2.4 Hospital investment and management business

In the first half of 2018, the Group's hospital investment and management business steadily progressed under policy opportunities, brought the hospital investment and management business with income of RMB57.0 million, representing an increase of 129.0%, as compared to the corresponding period of the previous year; and gross profit of RMB4.1million, representing an increase of 85.1%, as compared to the corresponding period of the previous year.

2.3 *Operating cost*

In the first half of 2018, the Group's sales and distribution costs amounted to RMB171.2 million, representing an increase of RMB13.3 million, or 8.4%, as compared to the corresponding period of the previous year. Administrative expenses amounted to RMB128.1 million, representing an increase of RMB12.7 million, or 11.0%, as compared to the corresponding period of the previous year. The increase in operating costs was mainly due to the Company's continuous promotion of new businesses, such as financial leasing business and hospital investment management. On the one hand, the Company constantly attracted more professionals to join, resulting in an increase in related salary and welfare expenditure; on the other hand, the Company intensified market exploitation in finance lease business in the first half of 2018, and vigorously promoted new business such as hospital merger and acquisition and hospital management projects, and business development expenses such as travel expenses increased significantly.

In the first half of 2018, the Group continued to remain high operating efficiency and the cost to income ratio was 21.1%, representing a slight decrease of 2.1 percentage points as compared to 23.2% for the corresponding period of the previous year.

2.4 *Income tax expenses*

During the first half of 2018, the Group's income tax expenses of RMB268.4 million increased by RMB47.4 million as compared with the same period of the previous year, which was mainly due to the increase of profit before tax.

3. Financial Position Analysis

3.1 Overview of Assets

As at 30 June 2018, the Group's total assets was RMB42,948.7 million, representing an increase of RMB5,216.2 million or 13.8% as compared to the end of the previous year. In particular, our loans and accounts receivable was RMB40,241.1 million, representing an increase of RMB5,671.0 million or 16.4% as compared to the end of the previous year; our cash and cash equivalents was RMB1,944.7 million, representing an increase of RMB194.8 million or 11.1% as compared to the end of the previous year. With respect to assets structure, the cash and cash equivalents accounted for 4.5% of the total assets; and our loan and accounts receivable accounted for 93.7% of the total assets.

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

	30 June 2018		31 December 2017		
	<i>RMB'000</i>	% of total	<i>RMB'000</i>	% of total	Change
	<i>(Unaudited)</i>		<i>(Audited)</i>		
Restricted deposits	259,253	0.6%	932,376	2.5%	-72.2%
Cash and cash equivalents	1,944,687	4.5%	1,749,884	4.6%	11.1%
Inventories	25,159	0.0%	21,045	0.1%	19.5%
Loans and accounts receivable	40,241,107	93.7%	34,570,089	91.6%	16.4%
Prepayments, deposits and other receivables	162,920	0.4%	145,237	0.4%	12.2%
Property, plant and equipment	74,189	0.2%	86,883	0.3%	-14.6%
Available-for-sale investments	–	0.0%	43,961	0.1%	-100.0%
Deferred tax assets	193,403	0.5%	163,876	0.4%	18.0%
Derivative financial instruments	33,267	0.1%	5,273	0.0%	530.9%
Goodwill	9,211	0.0%	9,211	0.0%	0.0%
Other assets	5,478	0.0%	4,678	0.0%	17.1%
Total	42,948,674	100.0%	37,732,513	100.0%	13.8%

3.1.1 Cash and cash equivalents

As at 30 June 2018, the Group had cash and cash equivalents of RMB1,944.7 million, which mainly comprised the unutilized bank borrowings raised and the balance of funds raised from listing. The balance of cash and cash equivalents will be gradually arranged of use in accordance with the Group's operation plan.

3.1.2 Loans and accounts receivable

As at 30 June 2018, the balance of the Group's loans and accounts receivable was RMB40,241.1 million, among which the net lease receivables was RMB40,174.3 million, accounted for 99.8% of the loans and accounts receivable.

Lease receivables

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

As at 30 June 2018, the Group's net value of lease receivables was RMB40,174.3 million, representing an increase of RMB5,671.4 million, or 16.4%, as compared to the end of the previous year.

Net finance lease receivables by industry

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

	30 June 2018		31 December 2017		
	<i>RMB'000</i>	% of total	<i>RMB'000</i>	% of total	Change
	<i>(Unaudited)</i>		<i>(Audited)</i>		
Healthcare	30,510,163	74.9%	24,545,511	70.1%	24.3%
Others	10,223,080	25.1%	10,475,781	29.9%	-2.4%
Net finance lease receivables	<u>40,733,243</u>	<u>100.0%</u>	<u>35,021,292</u>	<u>100.0%</u>	<u>16.3%</u>
Less: Provision for asset impairment	<u>(558,904)</u>		<u>(518,397)</u>		<u>7.8%</u>
Net value of finance lease receivables	<u>40,174,339</u>		<u>34,502,895</u>		<u>16.4%</u>

The maturity profile of the net lease receivables

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

	<u>30 June 2018</u>		<u>31 December 2017</u>		
	<i>RMB'000</i>	% of total	<i>RMB'000</i>	% of total	Change
	<u>(Unaudited)</u>		<u>(Audited)</u>		
Within 1 year	10,892,891	26.8%	9,304,757	26.6%	17.1%
1-2 years	10,351,222	25.4%	8,696,021	24.8%	19.0%
2-3 years	9,331,899	22.9%	8,024,276	22.9%	16.3%
Over 3 years	10,157,231	24.9%	8,996,238	25.7%	12.9%
Net lease receivables	<u>40,733,243</u>	<u>100.0%</u>	<u>35,021,292</u>	<u>100.0%</u>	<u>16.3%</u>

The Group formulated reasonable business investment strategies according to the strategic plan so as to ensure the sustained and steady cash inflow. As at 30 June 2018, the distribution of maturity of the Group's net lease receivables was relatively balanced.

Quality of lease receivables

The following table sets forth the classification of five categories ^(Note) of the net lease receivables of the Group:

	<u>30 June 2018</u>		<u>31 December 2017</u>		
	<i>RMB'000</i>	% of total	<i>RMB'000</i>	% of total	Change
	<u>(Unaudited)</u>		<u>(Audited)</u>		
Pass	34,305,294	84.22%	29,537,050	84.34%	16.1%
Special attention	6,122,561	15.03%	5,211,287	14.88%	17.5%
Substandard	263,702	0.65%	231,269	0.66%	14.0%
Doubtful	41,686	0.10%	41,686	0.12%	0.0%
Loss	—	0.00%	—	0.00%	0.0%
Finance lease receivables, net	<u>40,733,243</u>	<u>100.00%</u>	<u>35,021,292</u>	<u>100.00%</u>	<u>16.3%</u>
Non-performing assets ⁽¹⁾	305,388		272,955		11.9%
Non-performing assets ratio ⁽²⁾	<u>0.75%</u>		<u>0.78%</u>		

- (1) Non-performing assets are defined as those lease receivables having objective evidence of impairment as a result of one or more events that occur after initial recognition and that event has an impact on the future cash flows of lease receivables that can be reliably estimated. These lease receivables are classified as “substandard”, “doubtful” or “loss”.
- (2) The non-performing assets ratio is the percentage of non-performing assets over net lease receivables as at the applicable date.

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

The Group has been implementing a stable asset management policy and continuously adopting a stringent and prudent asset classification policy. As at 30 June 2018, the Group had non-performing assets of RMB305.4 million, representing an increase of RMB32.4 million as compared to the end of the last year, which was mainly due to the increase in total finance lease receivables resulting from the expansion of the finance lease business of the Group. Moreover, the Group continuously improved its risk management system, adopted effective risk prevention measures and made greater efforts to clear and recover non-performing assets. As at 30 June 2018, the Group’s non-performing assets ratio was 0.75%.

Ratio of overdue lease receivables

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

	30 June 2018 (Unaudited)	31 December 2017 (Audited)
Overdue ratio (over 30 days) ⁽¹⁾	<u>0.41%</u>	<u>0.44%</u>

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

During the first half of 2018, the Group implemented prudent risk control and asset management policy and continued improving the risk management system. As at 30 June 2018, the overdue ratio (over 30 days) was 0.41%, decreased by 0.03 percentage point as compared to 0.44% at the end of the previous year, remaining at a low level.

Provision for impairment of lease receivables

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

	Pass (Unaudited)	Special mention (Unaudited)	Substandard (Unaudited)	Doubtful (Unaudited)	Loss (Unaudited)	Total (Unaudited)
As at 30 June 2018						
Expected loss rate	0.88%	2.47%	27.32%	83.29%	–	1.37%
Provision	301,047	151,084	72,052	34,721	–	558,904
Net lease receivables	<u>34,305,294</u>	<u>6,122,561</u>	<u>263,702</u>	<u>41,686</u>	<u>–</u>	<u>40,733,243</u>
As at 1 January 2018						
Expected loss rate	0.97%	2.96%	27.78%	83.29%	–	1.54%
Provision	285,709	154,444	64,245	34,721	–	539,119
Net lease receivables	<u>29,537,050</u>	<u>5,211,287</u>	<u>231,269</u>	<u>41,686</u>	<u>–</u>	<u>35,021,292</u>

As at 30 June 2018, the Group's provision coverage ratio was 183.01%, representing a decrease of 6.91 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 did not write off any finance lease assets and it did not have any finance lease assets classified as loss.

3.2 Overview of Liabilities

As at 30 June 2018, the Group's total liabilities amounted to RMB35,115.8 million, representing an increase of RMB4,852.1 million, or 16.0%, as compared to the end of the previous year. Among these, the interest-bearing bank and other borrowings amounted to RMB30,939.8 million, representing an increase of RMB4,057.2 million, or 15.1%, as compared to the end of the previous year; other payables and accruals amounted to RMB2,978.2 million, representing a decrease of RMB6.9 million, or 0.2%, as compared to the end of the previous year. In terms of liabilities structure, the interest-bearing bank and other borrowings account for 88.1% of the total liabilities, while other payables and accruals account for 8.5% of the total liabilities.

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

	<u>30 June 2018</u>		<u>31 December 2017</u>		
	<i>RMB'000</i>	% of total	<i>RMB'000</i>	% of total	Change
	<i>(Unaudited)</i>		<i>(Audited)</i>		
Interest-bearing bank and other borrowings	30,939,846	88.1%	26,882,695	88.8%	15.1%
Trade and bills payable	1,075,742	3.1%	264,697	0.9%	306.4%
Other payables and accruals	2,978,188	8.5%	2,985,135	9.9%	-0.2%
Derivative financial instruments	15,580	0.0%	16,844	0.1%	-7.5%
Taxes payable	62,487	0.2%	70,355	0.2%	-11.2%
Other liabilities	43,961	0.1%	43,961	0.1%	0.0%
Total	35,115,804	100.0%	30,263,687	100.0%	16.0%

3.2.1 Interest-bearing bank and other borrowings

In the first half of 2018, under the complicated domestic and overseas financial environments, the Group actively adjusted financing strategies according to changes in the financial situation, and optimized financing sources in the context of tighter financing market scale. The Group's interest-bearing bank and other borrowings is mainly used to provide capital for its finance lease business. As at 30 June 2018, the balance of the Group's interest-bearing bank and other borrowings was RMB30,939.8 million, representing an increase of RMB4,057.2 million or 15.1% as compared to the end of the previous year. The interest-bearing liabilities of the Group are mainly at fixed interest rates or at floating benchmark lending interest rates promulgated by the People's Bank of China and the London Interbank Offered Rate.

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

	<u>30 June 2018</u>		<u>31 December 2017</u>		
	<i>RMB'000</i>	% of total	<i>RMB'000</i>	% of total	Change
	<i>(Unaudited)</i>		<i>(Audited)</i>		
Bank loans	15,420,257	49.8%	14,785,371	55.0%	4.3%
Due to related parties	1,500,000	4.8%	3,000,000	11.2%	-50.0%
Bonds	10,570,289	34.2%	6,102,148	22.7%	73.2%
Other loans	3,449,300	11.2%	2,995,176	11.1%	15.2%
Total	30,939,846	100.0%	26,882,695	100.0%	15.1%

As at 30 June 2018, the balance of the Group's bank loans was RMB15,420.3 million, accounting for 49.8% of its total interest-bearing bank and other borrowings, representing a decrease of 5.2 percentage points as compared to 55.0% as at the end of the previous year. In the first half of 2018, the domestic bank loan scale was tight and the cost was high, so the Group increased the bond issuance and the bond balance ratio.

Breakdown of interest-bearing and other borrowings by currency:

	30 June 2018		31 December 2017		
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	Change
	<i>(Unaudited)</i>		<i>(Audited)</i>		
RMB	26,300,246	85.0%	22,949,964	85.4%	14.6%
USD	2,795,000	9.0%	2,414,831	9.0%	15.7%
HKD	1,844,600	6.0%	1,517,900	5.6%	21.5%
Total	<u>30,939,846</u>	<u>100.0%</u>	<u>26,882,695</u>	<u>100.0%</u>	<u>15.1%</u>

As at 30 June 2018, the balance of the Group's interest-bearing bank and other borrowings denominated in RMB was RMB26,300.2 million, accounting for 85.0% of its total interest-bearing bank and other borrowings, representing a decrease of 0.4 percentage point as compared to 85.4% as at the end of the previous year. In the first half of 2018, due to the impact of the quota control of the People's Bank of China, the scale of RMB loan of the domestic banks was tight, the difficulty of domestic capital availability was increased, and the cost kept rising. Therefore, the Group increased the proportion of foreign currency financing and made related financial derivatives to hedge the exchange rate risk.

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

	30 June 2018		31 December 2017		
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	Change
	<i>(Unaudited)</i>		<i>(Audited)</i>		
Domestic	26,498,744	85.6%	23,145,990	86.1%	14.5%
Overseas	4,441,102	14.4%	3,736,705	13.9%	18.9%
Total	<u>30,939,846</u>	<u>100.0%</u>	<u>26,882,695</u>	<u>100.0%</u>	<u>15.1%</u>

In the first half of 2018, the domestic bank loan scale was tight and the cost increased, therefore, the Group increased the proportion of overseas financing.

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

	30 June 2018		31 December 2017		
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	Change
	<i>(Unaudited)</i>		<i>(Audited)</i>		
Current	15,458,296	50.0%	10,963,552	40.8%	41.0%
Non-current	15,481,550	50.0%	15,919,143	59.2%	-2.7%
Total	<u>30,939,846</u>	<u>100.0%</u>	<u>26,882,695</u>	<u>100.0%</u>	<u>15.1%</u>

As at 30 June 2018, the total balance of the Group's current interest-bearing bank and other borrowings amounted to RMB15,458.3 million, accounting for 50.0% of its total interest-bearing bank and other borrowings, representing an increase of 9.2 percentage points as compared to 40.8% as at the end of the previous year. In the first half of 2018, under the influence of the deleveraging policy of the People's Bank of China, the domestic medium and long-term borrowing costs increased significantly. On the premise that sufficient liquidity and reasonable debt structure are ensured, the Group tended to obtain short-term funds with lower costs, so the ratio of current liabilities has increased, but it is still under control. In the second half of 2018, China's macro monetary policy would change from deleveraging to stabilizing leverage, and monetary market liquidity would improve. The Group will seize the time window to increase the proportion of non-current interest-bearing liabilities.

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

	30 June 2018		31 December 2017		
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>	Change
	<i>(Unaudited)</i>		<i>(Audited)</i>		
Secured	4,554,458	14.7%	3,970,395	14.8%	14.7%
Unsecured	26,385,388	85.3%	22,912,300	85.2%	15.2%
Total	<u>30,939,846</u>	<u>100.0%</u>	<u>26,882,695</u>	<u>100.0%</u>	<u>15.1%</u>

As at 30 June 2018, the Group's total secured interest-bearing bank and other borrowings amounted to RMB4,554.5 million, accounting for 14.7% of its total interest-bearing bank and other borrowings, representing a decrease of 0.1 percentage point as compared to 14.8% as at the end of the previous year. The Group's secured assets were mainly finance lease assets, and the decrease in its proportion indicated a further improvement of the Group's own financing capabilities.

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

	<u>30 June 2018</u>		<u>31 December 2017</u>		
	<i>RMB'000</i>	% of total	<i>RMB'000</i>	% of total	Change
	(Unaudited)		(Audited)		
Direct financing	10,570,289	34.2%	6,102,148	22.7%	73.2%
Indirect financing	20,369,557	65.8%	20,780,547	77.3%	-2.0%
Total	<u>30,939,846</u>	<u>100.0%</u>	<u>26,882,695</u>	<u>100.0%</u>	<u>15.1%</u>

As at 30 June 2018, among the balance of the Group's interest-bearing bank and other borrowings, the direct financing amounted to RMB10,570.3 million, accounting for 34.2% of its total interest-bearing bank and other borrowings, representing an increase of 11.5 percentage points as compared to 22.7% as at the end of the previous year. As the capital cost in domestic bond market in the first half of 2018 was lower than that of indirect financing such as bank loans, the Group adjusted its financing strategy and increased the proportion of direct financing.

3.2.2 Other payables and accruals

Other payables and accruals primarily comprise the lease deposits paid by customers, the accrued interests on borrowings, as well as the accrued salary and welfare payables. As at 30 June 2018, other payables and accruals amounted to RMB2,978.2 million, representing a decrease of RMB6.9 million as compared to the end of the previous year.

3.3 Shareholders' Equity

As at 30 June 2018, the Group's total equity was RMB7,832.9 million, representing an increase of RMB364.0 million, or 4.9%, as compared to the end of the previous year, which was mainly due to the increase in reserve as a result of an increase in profit for the period.

4. Cash Flows Analysis

	For the six months ended 30 June		Change
	2018 <i>RMB'000</i> <i>(Unaudited)</i>	2017 <i>RMB'000</i> <i>(Unaudited)</i>	
Net cash flows used in operating activities	(3,425,788)	(1,830,444)	87.2%
Net cash flows used in investing activities	390,423	(543,587)	-171.8%
Net cash flows from financing activities	3,254,393	1,736,004	87.5%
Effect of exchange rate changes on cash and cash equivalents	(24,225)	(24,909)	-2.7%
Net increase in cash and cash equivalents	<u>194,803</u>	<u>(662,936)</u>	<u>-129.4%</u>

Due to the Group's business expansion and an increase in the size of interest-earning assets in the first half of 2018, net cash outflows from operating activities amounted to RMB3,425.8 million. Net cash inflows from investing activities amounted to RMB390.4 million, primarily due to the Group's recovery of investment principal such as time deposits. Correspondingly, the Group increased its cash inflow from financing activities such as bank and other borrowings, as a result of which net cash inflow from financing activities amounted to RMB3,254.4 million.

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 maximizes its shareholders' benefits. The Group uses debt ratio and gearing ratio to monitor its capital status. In the first half of 2018, no changes were made to the Group's objectives, policies or processes for capital management.

Debt ratio

	30 June 2018 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2017 <i>RMB'000</i> <i>(Audited)</i>
Total assets	42,948,674	37,732,513
Total liabilities	35,115,804	30,263,687
Total equity	7,832,870	7,468,826
Debt ratio	<u>81.76%</u>	<u>80.21%</u>

Gearing ratio

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Interest-bearing bank and other borrowings	30,939,846	26,882,695
Total equity	7,832,870	7,468,826
Gearing ratio	<u>3.95</u>	<u>3.60</u>

As at 30 June 2018, the Group's debt ratio and gearing ratio have increased slightly as compared to the end of the previous year.

6. Capital Expenditure

The Group's capital expenditure primarily consists of construction expenditure on hospital investment and management projects and expenditure relating to office facilities. In the first half of 2018, the Group had capital expenditure of RMB4.2 million, which primarily consisted of related expenses for the construction of hospital investment and management projects, office renovation costs and office informatization project construction expenditure.

Use of Proceeds from the Initial Public Offering

The Company's shares were listed on the main board of the Hong Kong Stock Exchange on 8 July 2015. After the partial exercise of the over-allotment option, and deducting underwriting commissions and all related expenses, the net proceeds from the initial public offering amounted to approximately RMB2,775.5 million. For the six months ended 30 June 2018, the Group did not change its plan on the use of proceeds as stated in the prospectus of the Company dated 24 June 2015.

7. Risk Management

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

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

7.1 Interest Rate Risk

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

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

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

	Increase/(decrease) in profit before tax	
	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Change in base points		
+100 base points	76,208	45,722
-100 base points	(76,208)	(45,722)

7.2 Currency Risk

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

The Group conducts its businesses mainly in RMB, with certain financing activities denominated in USD and to a lesser extent, other currencies pegged to the USD. The Group's currency risk mainly arises from the transactions denominated in currencies other than RMB. In order to control currency risk, the Group adopted prudent currency risk management which hedges risk exposures one by one under comprehensive risk exposure management. It proactively hedged against foreign exchange exposure based on the currency and terms through using the operation of financial instruments such as forward exchange transaction. As at 30 June 2018, the Group's exposure to foreign exchange risk amounted to approximately US\$687 million, US\$688 million or 100.1% of which had been hedged against by various financial instruments. Thus, the Group's exposure to foreign exchange risk is limited.

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

	Change in exchange rate %	Increase/(decrease) in profit before tax	
		30 June 2018 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2017 <i>RMB'000</i> <i>(Audited)</i>
If RMB strengthens against USD/HKD	(1)	(41)	29,997
If RMB weakens against USD/HKD	<u>1</u>	<u>41</u>	<u>(29,997)</u>

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

7.3 Credit Risk

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

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

Classification criteria

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

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

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

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

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

Asset management measures

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

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

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

On-site customer visits

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

Material events handling and reporting procedures

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

Regular assessments on asset quality and reclassification

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

Credit Risk Analysis

Analysis on industry concentration of finance lease receivables

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

	30 June 2018		31 December 2017	
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>
	<i>(Unaudited)</i>		<i>(Audited)</i>	
Healthcare	30,510,163	74.9%	24,545,511	70.1%
Others	10,223,080	25.1%	10,475,781	29.9%
Total	<u>40,733,243</u>	<u>100.0%</u>	<u>35,021,292</u>	<u>100.0%</u>

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 is related closely to people's basic livelihood and is weakly correlated to the economic cycle.

The quantitative 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:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Net finance lease receivables	39,997,513	34,737,651
Accounts receivable	66,768	67,194
Deposits and other receivables	47,171	114,535
Available-for-sale investment	–	43,961
Derivative financial assets	33,267	5,273

As at 30 June 2018, the financial assets which are past due but are not considered impaired amounted to RMB430.3 million. The days overdue are analyzed as below:

	Within 90 days RMB'000	90 days to 1 year RMB'000	1 year to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
	30 June 2018 (Unaudited)				
Net finance lease receivables	429,654	–	688	–	430,342
	31 December 2017 (Audited)				
Net finance lease receivables	1,938	–	8,748	–	10,686

Among the Group's customers with finance lease receivables that were past due but not impaired, those who overdue within 90 days have good transaction records with the Group, and those who overdue for over 3 years have sufficient guarantee of rental repayment and will not cause substantial loss to the Company. Based on past experience, the Directors are of the view that these balances are not considered impaired as there has not been a significant impact on credit rating and the balances are still considered fully recoverable. Of the past due but not impaired assets as at 30 June 2018, RMB35.2 million finance lease receivables were recovered in July 2018.

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Net finance lease receivables	<u>305,388</u>	<u>272,955</u>

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

7.4 Liquidity Risk

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

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

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

	On demand RMB'000	Within 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
<i>30 June 2018 (Unaudited)</i>						
Total financial assets	2,116,745	3,421,045	9,906,049	33,702,065	563,954	49,709,858
Total financial liabilities	(775,902)	(5,518,590)	(12,162,136)	(19,217,251)	(18,052)	(37,691,931)
Net liquidity gap ⁽¹⁾	<u>1,340,843</u>	<u>(2,097,545)</u>	<u>(2,256,087)</u>	<u>14,484,814</u>	<u>545,902</u>	<u>12,017,927</u>
<i>31 December 2017 (Audited)</i>						
Total financial assets	1,835,303	3,519,979	8,913,093	28,740,655	650,753	43,659,783
Total financial liabilities	(97,415)	(2,320,075)	(10,593,474)	(19,024,097)	(18,052)	(32,053,112)
Net liquidity gap ⁽¹⁾	<u>1,737,888</u>	<u>1,199,904</u>	<u>(1,680,381)</u>	<u>9,716,558</u>	<u>632,701</u>	<u>11,606,671</u>

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

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

8. Pledge of Group Assets

As of 30 June 2018, the Group had finance lease receivables of RMB6,437.4 million and cash of RMB136.1 million pledged or paid to banks to secure the bank borrowings.

9. Material Investments, Acquisitions and Disposals

Based on business development needs, the Group established Universal Medical Leasing (Hengqin) Company Limited(環球醫療融資租賃(橫琴)有限公司) in Hengqin new district, Zhuhai, Guangdong, and completed the business registration on 10 April 2018.

10. Circumstances Including Contractual Obligations, Contingent Liabilities and Capital Commitments

10.1 Contingent Liabilities

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Legal proceedings	—	—
Claimed amounts	<u>—</u>	<u>—</u>

10.2 Capital Commitments and Credit Commitments

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Capital expenditure under signed contracts but not appropriated	602	2,377
Credit commitments ⁽¹⁾	<u>887,000</u>	<u>1,528,274</u>

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

11. Human Resources

As at 30 June 2018, the Group had a total of 655 full-time employees.

We have a highly-educated and high-quality work force, with about 86.3% of our employees holding bachelor's degrees or above, about 46.1% holding master's degrees or above and about 2.4% holding doctor's degrees as at 30 June 2018. 307 employees or 46.9% of our total employees have medical background.

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 Company. We have established a set of remuneration award system based on factors such as their overall performance and accomplishment of work targets. We promote our employees based on their positions, service term and performance by category into professional or managerial group, which provides our employees with a clear career path. We appraise our employees above supervisor level on an annual basis according to business objective obligations, organization construction and accomplishment of teamwork targets.

In accordance with applicable PRC regulations, we have made contributions to social security insurance funds (including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. We also provide other insurance plans for our employees such as supplementary pension, additional medical insurance and accident insurance in addition to those required under the PRC regulations. For the six months ended 30 June 2018, the Group had complied with all statutory social insurance and housing fund obligations applicable to us under the PRC laws in all material aspects.

DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2018.

CORPORATE GOVERNANCE CODE

During the period from 1 January 2018 to 30 June 2018, the Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (The “**Listing Rules**”) (the “**CG Code**”) save for the deviation from code provision A.4.2.

Code provision A.4.2 of the CG Code stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, pursuant to the articles of association of the Company (“**Articles**”), the executive Directors shall not be subject to the rotational retirement provision, without prejudice of 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the securities dealing code regarding the Directors’ and employees’ dealings in the Company’s securities (the “**Securities Dealing Code**”) on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules to regulate the Directors and employees’ dealings in the Company’s securities.

Having made specific enquiry to all the Directors (including those who resigned during the accounting period covered by this announcement), all of them confirmed that they have complied with the Model Code and the Securities Dealing Code throughout the period from 1 January 2018 or the date of his appointment as Director (whichever is later) to the date of his resignation as the Director or the date of this announcement (whichever is earlier).

REVIEW OF FINANCIAL INFORMATION

Audit Committee

The Company has established the audit committee of the Board (“**Audit Committee**”) in compliance with Rules 3.21 of the Listing Rules. It comprises three members, namely Mr. Li Yinquan (chairman), Mr. Liu Xiaoping and Mr. Chow Siu Lui.

The Audit Committee has discussed with the management and the external auditor and reviewed the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 and this announcement.

In addition, Ernst & Young, the external auditor of the Company, has independently reviewed the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

DISCLOSURE UNDER SECTION 436 OF THE COMPANIES ORDINANCE

The financial information relating to the year ended 31 December 2017 that is included in these unaudited condensed interim consolidated financial statements for the six months ended 30 June 2018 as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (“**Companies Ordinance**”) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies as required under section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has submitted a report on the consolidated financial statements for the year ended 31 December 2017. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2018.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company’s website at www.universalmsm.com, respectively. The interim report of the Company for the six months ended 30 June 2018 containing all the information required under the Listing Rules will be despatched to the shareholders of the Company and published on the above-mentioned websites in due course.

By order of the Board of Directors
Genertec Universal Medical Group
Company Limited
通用環球醫療集團有限公司
Guo Weiping
Executive Director

Hong Kong, 21 August 2018

As at the date of this announcement, the executive Directors are Mr. Guo Weiping and Ms. Peng Jiahong; the non-executive Directors are Mr. Zhang Yichen (Chairman), Mr. Luo Xiaofang (Vice-chairman), Mr. Liu Zhiyong, Mr. Liu Xiaoping and Mr. Su Guang; and the independent non-executive Directors are Mr. Li Yinquan, Mr. Chow Siu Lui, Mr. Kong Wei and Mr. Han Demin.