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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)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2019, the revenue amounted to approximately RMB6,815.6 million, representing an increase of 58.6% as compared with that of approximately RMB4,296.9 million for 2018.
- For the year ended 31 December 2019, the profit before tax amounted to approximately RMB2,211.9 million, representing an increase of 19.0% as compared with that of approximately RMB1,859.0 million for 2018.
- For the year ended 31 December 2019, the profit for the year attributable to ordinary shareholders of the parent amounted to approximately RMB1,488.7 million, representing an increase of 10.1% as compared with that of approximately RMB1,352.2 million for 2018.
- As at 31 December 2019, the total assets amounted to approximately RMB57,852.5 million, representing an increase of 22.4% as compared with that of approximately RMB47,256.9 million as at 31 December 2018.
- As at 31 December 2019, the equity attributable to ordinary shareholders of the parent amounted to approximately RMB9,489.3 million, representing an increase of 13.0% as compared with that of approximately RMB8,395.6 million as at 31 December 2018.
- For the year ended 31 December 2019, the return on equity was 16.65%.
- For the year ended 31 December 2019, the return on total assets was 3.11%.

The Board is pleased to announce that the audited consolidated annual results of the Company and its subsidiaries for the year ended 31 December 2019 with the comparative figures for the year ended 31 December 2018 are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*Year ended 31 December 2019*

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

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

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>39,094,629</u>	<u>33,430,605</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	23,015,764	20,635,191
Other payables and accruals	23	2,585,661	2,497,091
Derivative financial instruments	17	<u>45,996</u>	<u>41,515</u>
Total non-current liabilities		<u>25,647,421</u>	<u>23,173,797</u>
Net assets		<u><u>13,447,208</u></u>	<u><u>10,256,808</u></u>
EQUITY			
Equity attributable to the owners of the parent			
Share capital	27	4,327,842	4,327,842
Reserves	28	<u>5,161,462</u>	<u>4,067,769</u>
		9,489,304	8,395,611
Other equity instruments	33	1,652,387	1,652,481
Non-controlling interests		<u>2,305,517</u>	<u>208,716</u>
Total equity		<u><u>13,447,208</u></u>	<u><u>10,256,808</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Equity attributable to the owners of the parent										
	Share capital	Capital reserve*	Statutory reserve*	Exchange fluctuation reserve*	Hedge reserve*	Post-retirement benefit reserve*	Retained profits*	Total	Other equity instrument	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 27)	(Note 28)	(Note 28)	(Note 28)							
At 1 January 2019	4,327,842	33,302	539,955	29,248	(72,829)	–	3,538,093	8,395,611	1,652,481	208,716	10,256,808
Profit for the year	–	–	–	–	–	–	1,488,736	1,488,736	99,600	46,056	1,634,392
Other comprehensive income for the year:											
Cash flow hedges, net of tax	–	–	–	–	14,005	–	–	14,005	–	–	14,005
Actuarial losses on the post-retirement benefit obligations, net of tax	–	–	–	–	–	(1,838)	–	(1,838)	–	(1,755)	(3,593)
Total comprehensive income for the year	–	–	–	–	14,005	(1,838)	1,488,736	1,500,903	99,600	44,301	1,644,804
Acquisition of subsidiaries (Note 30)	–	–	–	–	–	–	–	–	–	2,052,500	2,052,500
Distribution paid to holders of a renewable corporate bond	–	–	–	–	–	–	–	–	(99,694)	–	(99,694)
Dividends	–	–	–	–	–	–	(407,210)	(407,210)	–	–	(407,210)
Appropriation of reserves	–	–	151,427	–	–	–	(151,427)	–	–	–	–
At 31 December 2019	4,327,842	33,302	691,382	29,248	(58,824)	(1,838)	4,468,192	9,489,304	1,652,387	2,305,517	13,447,208

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

Equity attributable to the owners of the parent

	Share capital	Capital reserve*	Statutory reserve*	Exchange fluctuation reserve*	Hedge reserve*	Retained profits*	Total	Holders of a renewable corporate bond	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 27)	(Note 28)	(Note 28)	(Note 28)						
At 1 January 2018	4,327,842	33,302	397,772	29,248	—	2,664,896	7,453,060	—	225	7,453,285
Profit for the year	—	—	—	—	—	1,352,173	1,352,173	—	(1,509)	1,350,664
Other comprehensive loss for the year:										
Cash flow hedges, net of tax	—	—	—	—	(72,829)	—	(72,829)	—	—	(72,829)
Total comprehensive income for the year	—	—	—	—	(72,829)	1,352,173	1,279,344	—	(1,509)	1,277,835
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	210,000	210,000
Issue of a renewable corporate bond	—	—	—	—	—	—	—	1,652,481	—	1,652,481
Dividends	—	—	—	—	—	(336,793)	(336,793)	—	—	(336,793)
Appropriation of reserves	—	—	142,183	—	—	(142,183)	—	—	—	—
At 31 December 2018	4,327,842	33,302	539,955	29,248	(72,829)	3,538,093	8,395,611	1,652,481	208,716	10,256,808

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		<u>2,211,859</u>	<u>1,859,039</u>
Adjustments for:			
Finance costs and interest expense		1,882,175	1,566,721
Interest income	5	(91,251)	(36,606)
Share of profits of a joint venture and an associate		(3,440)	—
Derivative financial instruments – transactions not qualifying as hedges:			
Unrealised fair value gains, net	6	(27,049)	(22,000)
Realised fair value losses, net	6	5,227	14,605
Depreciation, exclusive of right-of-use assets		114,796	30,145
Depreciation of right-of-use assets	6	16,533	—
Gain on disposal of property, plant and equipment, net	5	(8,039)	(48,293)
Amortisation of intangible assets	6	8,581	1,073
Impairment of loans and accounts receivables and other receivables	6	235,213	145,996
Investment income	5	(58)	(7,945)
Foreign exchange losses, net	6	<u>87,644</u>	<u>88,860</u>
		4,432,191	3,591,595
Increase in inventories		(31,817)	(6,402)
Increase in loans and accounts receivables		(5,519,233)	(9,181,742)
Decrease in prepayments, deposits and other receivables		39,507	115,225
Decrease in other assets		4,053	105
Decrease/(increase) in amounts due from related parties		1,152	(2,122)
Increase in trade payables		70,686	303,126
Decrease in other payables and accruals		(220,053)	(40,731)
Increase/(decrease) in amounts due to related parties		<u>26</u>	<u>(25)</u>
Net cash flows used in operating activities before interest and tax		(1,223,488)	(5,220,971)
Interest received		25,723	36,606
Income tax paid		<u>(626,140)</u>	<u>(544,280)</u>
Net cash flows used in operating activities		<u>(1,823,905)</u>	<u>(5,728,645)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment losses		(6,451)	(4,523)
Cash paid for acquisition of property, plant and equipment, intangible assets and other long term assets		(208,240)	(17,640)
Proceeds from disposal of items of property, plant and equipment		14,023	72,163
Acquisition of subsidiaries		456,931	13,802
Dividends received from an associate		441	—
(Decrease)/increase in time deposits		(14,802)	442,198
Other repayments of investments		(1,800)	(147,745)
Other receipt of investments		114,443	—
Purchase of a shareholding in a joint venture		<u>(441,986)</u>	<u>—</u>
Net cash flows (used in)/from investing activities		<u>(87,441)</u>	<u>358,255</u>

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in amounts due to related parties	1,645,432	1,000,000
Decrease in amounts due to related parties	(1,003,675)	(2,000,000)
Cash received from borrowings	27,429,813	23,143,492
Repayments of borrowings	(24,631,399)	(16,257,679)
Principal portion of lease payments	1,634,109	–
Interest paid	(1,927,198)	(1,368,884)
Cash paid for restricted deposits	(7,489,537)	(4,491,691)
Issue of a renewable corporate bond	–	1,651,184
Receipt of restricted deposits	7,764,349	4,432,717
Dividends paid	(407,210)	(336,793)
Receipt of other financing activities	9,866	–
Cash paid on other financing activities	(2,692)	–
	<u>3,021,858</u>	<u>5,772,346</u>
Net cash flows from financing activities		
	<u>3,021,858</u>	<u>5,772,346</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,110,512	401,956
Cash and cash equivalents at beginning of year	2,173,473	1,749,884
Effect of exchange rate changes on cash and cash equivalents	101,882	21,633
	<u>101,882</u>	<u>21,633</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>3,385,867</u>	<u>2,173,473</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,679,376	2,614,953
Less: Restricted deposits	(293,509)	(441,480)
	<u>(293,509)</u>	<u>(441,480)</u>
Cash and cash equivalents as stated in the statement of financial position	<u>3,385,867</u>	<u>2,173,473</u>
Cash and cash equivalents as stated in the statement of cash flows	<u>3,385,867</u>	<u>2,173,473</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structure entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9
HKFRS 16
Amendments to HKAS 19
Amendments to HKAS 28
HK(IFRIC)-Int 23
*Annual Improvements to HKFRSs
2015-2017 Cycle*

Prepayment Features with Negative Compensation
Leases
Plan Amendment, Curtailment or Settlement
Long-term Interests in Associates and Joint Ventures
Uncertainty over Income Tax Treatments
Amendments to HKFRS 3, HKFRS 11,
HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19 and HKAS 28, and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

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

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

As a lessee – Leases previously classified as finance leases

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

Financial impacts at 1 January 2019

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

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

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

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

- (b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between finance leases and operating leases

Leases are required to be classified as either finance leases (which transfer substantially all the risks and rewards of ownership, and give rise to asset and liability recognition by the lessee and a receivable by the lessor) and operating leases (which result in expense recognition by the lessee, with the asset remaining recognised by the lessor).

The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this has involved critical judgements by management.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the tax positions, the likely timing and level of future taxable profits which are affected by future actual operation, tax regulations, market or economic conditions.

Impairment of financial instruments

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

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

- (i) The Group's internal credit grading model, which assigns PDs to the individual grades
- (ii) The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- (iii) Development of ECL models, including the various formulas and the choice of inputs
- (iv) Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs

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

Fair value of financial instruments

For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

Valuation techniques make use of observable market information to the greatest extent, however, when the observable market information cannot be obtained, management will have to make assumptions on the credit risk, market volatility and correlations of the Group and the counterparties, and any changes in these underlying assumptions will affect the fair value of financial instruments.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB69,908,000 (2018: RMB9,211,000). Further details are given in note 14.

4. OPERATING SEGMENT INFORMATION

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

- The finance and advisory business comprises primarily (a) direct finance leasing; (b) sale-and-leaseback; (c) factoring; (d) operating leases and (e) advisory services;
- The hospital group business comprises primarily (a) medical services; (b) hospital and healthcare management and (c) import and export trade and domestic trade of medical-related goods.

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

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

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

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

As at and for the year ended 31 December 2019

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

As at and for the year ended 31 December 2018

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

Geographical information

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

Information about a major customer

There was no revenue derived from a single customer amounted to 10% or more of the total revenue of the Group during the year.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

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

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

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

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

For the year ended 31 December 2018

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

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

For the year ended 31 December 2019

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

For the year ended 31 December 2018

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

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

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

(ii) *Performance obligations*

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

Sale of industrial products

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 210 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return which gives rise to variable consideration subject to certain restrictions.

Service fee income

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

Healthcare service income

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

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

5a. GOVERNMENT GRANTS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Government special subsidies	<u><u>90,267</u></u>	<u><u>35,448</u></u>

6. PROFIT BEFORE TAX

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

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

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

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

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

During 2019, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, details of which are set out in Note 32 to the financial statements.

(a) Independent non-executive directors

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

	2019	2018
	RMB'000	RMB'000
Mr. Li Yinquan	187	179
Mr. Chow Siu Lui	187	179
Mr. Kong Wei (vii)	145	179
Mr. Han Demi	187	179
Mr. Liao Xinbo (viii)	<u>—</u>	<u>—</u>
	<u>706</u>	<u>716</u>

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

(b) Executive directors, non-executive directors and the chief executive

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
2019					
Executive directors:					
Ms. Peng Jiahong (ii)	–	1,848	2,327	245	4,420
Mr. Yu Gang (iii)	–	1,668	2,326	146	4,140
Non-executive directors:					
Mr. Zhang Yichen	–	–	–	–	–
Ms. Liu Kun (v)	–	–	–	–	–
Mr. Liu Xiaoping	187	–	–	–	187
Mr. Liu Zhiyong	–	–	–	–	–
Mr. Su Guang	187	–	–	–	187
	374	3,516	4,653	391	8,934
2018					
Executive directors:					
Mr. Guo Weiping (i)	–	1,620	1,952	306	3,878
Ms. Peng Jiahong (ii)	–	1,595	2,128	301	4,024
Mr. Yu Gang (iii)	–	134	176	10	320
Non-executive directors:					
Mr. Zhang Yichen	–	–	–	–	–
Mr. Jiang Xin (iv)	–	–	–	–	–
Ms. Liu Kun (v)	–	–	–	–	–
Mr. Liu Xiaoping	126	–	–	–	126
Mr. Liu Zhiyong	–	–	–	–	–
Mr. Su Guang	126	–	–	–	126
Mr. Luo Xiaofang (vi)	–	–	–	–	–
	252	3,349	4,256	617	8,474

Notes:

- (i) Chief executive, resigned on 28 November 2018
- (ii) Chief executive, appointed on 30 November 2018
- (iii) Appointed on 30 November 2018
- (iv) Resigned on 1 March 2018
- (v) Appointed on 30 November 2018
- (vi) Appointed on 1 March 2018 and resigned on 28 November 2018
- (vii) Resigned on 18 September 2019
- (viii) Appointed on 2 December 2019

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director and the chief executive (2018: one director and the chief executive), details of whose remuneration are set out in note 7 above. Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

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

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

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

During the year ended 31 December 2019, certain highest paid employees were granted share options, in respect of their services to the Group, under the share option scheme of the Company, details of which are set out in Note 32 to the financial statements.

9. INCOME TAX EXPENSE

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

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year (2018: 16.5%).

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rate of 0% to 25% on the estimated assessable profits for the year, based on existing legislation, interpretations and practices in respect thereof.

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

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

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

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

10. DIVIDENDS

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

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The Group has one category of dilutive potential ordinary shares, namely share options (Note 32), and the number of shares calculated is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

	2019 RMB'000	2018 <i>RMB'000</i>
Profit attributable to ordinary equity holders of the parent	<u>1,488,736</u>	<u>1,352,173</u>
	2019	2018
Weighted average number of ordinary shares in issue outstanding during the year, used in the basic earnings per share calculation	<u>1,716,304,580</u>	<u>1,716,304,580</u>
Effect of dilution – weighted average number of ordinary shares:		
Share options	85,501	–
Weighted average number of ordinary shares for diluted earnings per share	<u>1,716,390,081</u>	<u>1,716,304,580</u>
	2019 RMB	2018 <i>RMB</i>
Basic and diluted earnings per share	<u>0.87</u>	<u>0.79</u>

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

12. PROPERTY, PLANT AND EQUIPMENT

31 December 2019

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

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

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

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

31 December 2018

	Transportation equipment RMB'000	Office equipment RMB'000	Electronic equipment RMB'000	Medical equipment RMB'000	Leasehold improvements RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2018								
Cost	4,699	6,452	10,611	159,088	17,163	–	2,840	200,853
Accumulated depreciation	(2,289)	(2,606)	(5,419)	(99,544)	(4,112)	–	–	(113,970)
Net carrying amount	<u>2,410</u>	<u>3,846</u>	<u>5,192</u>	<u>59,544</u>	<u>13,051</u>	<u>–</u>	<u>2,840</u>	<u>86,883</u>
At 1 January 2018, net of accumulated depreciation	2,410	3,846	5,192	59,544	13,051	–	2,840	86,883
Additions	–	1,674	3,313	11	2,201	–	6,740	13,939
Acquisition of a subsidiary	522	4,309	12,971	35,446	–	169,434	175	222,857
Depreciation provided during the year	(383)	(1,221)	(1,948)	(24,768)	(1,862)	–	–	(30,182)
Transfers	–	–	3,026	–	100	–	(3,126)	–
Disposals	(11)	–	(45)	(22,415)	–	–	–	(22,471)
At 31 December 2018, net of accumulated depreciation	<u>2,538</u>	<u>8,608</u>	<u>22,509</u>	<u>47,818</u>	<u>13,490</u>	<u>169,434</u>	<u>6,629</u>	<u>271,026</u>
At 31 December 2018:								
Cost	5,037	12,310	29,811	108,661	16,304	169,434	6,629	348,186
Accumulated depreciation	(2,499)	(3,702)	(7,302)	(60,843)	(2,814)	–	–	(77,160)
Net carrying amount	<u>2,538</u>	<u>8,608</u>	<u>22,509</u>	<u>47,818</u>	<u>13,490</u>	<u>169,434</u>	<u>6,629</u>	<u>271,026</u>

13. LEASES

The Group as a lessee

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

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

RMB'000

Carrying amount at 1 January 2018	–
Acquisition of a subsidiary	132,134
	<u>132,134</u>
Carrying amount at 31 December 2018	<u>132,134</u>

(b) Right-of-use assets

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

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

(c) Lease liabilities

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

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

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

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

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

The Group as a lessor

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

14. GOODWILL

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

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

The recoverable amount of CGUs has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period which can be justified approved by senior management. The post-tax discount rate applied to the cash flow projections is 15%. The implied pre-tax discount rate for the cash flow projections is 12.63% to 15%. As at 31 December 2019, the Group assessed the impairment of goodwill and the recoverable amount exceeded the carrying amount, and hence the goodwill was not regarded as impaired (2018: Nil).

Assumptions were used in the value in use calculation of the CGUs for 31 December 2019 and 31 December 2018. The following describes each key assumption on which management has based its cash flows projections to undertake impairment testing of goodwill.

Budgeted gross margin – the basis used to determine the value assigned to the budgeted gross margin is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvement, and expected market development.

Discount rate – the discount rate used reflects specific risks relating to the unit. The values assigned to the key assumptions on market development, and the discount rate are comparable to external information sources.

15. INVESTMENT IN A JOINT VENTURE

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

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

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

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

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

	2019 RMB'000
Assets	
Non-current assets	<u>343,905</u>
Cash and cash equivalents	756
Current assets	<u>647,114</u>
Current liabilities	<u>55,853</u>
Non-current liabilities	<u>—</u>
Net assets	<u><u>935,922</u></u>
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	53.30%
Group's share of net assets of the joint venture, excluding excess of consideration over share of net assets acquired	498,846
Unpaid consideration	<u>(54,039)</u>
Carrying amount of the investment	<u><u>444,807</u></u>
	2019 RMB'000
For the period after the Group's investment:	
Revenue	2,096
Administrative expenses	(293)
Other expenses	4
Profit and total comprehensive income for the period after the Group's investment	<u><u>5,293</u></u>

16. INVESTMENT IN AN ASSOCIATE

2019
RMB'000

Share of net assets	<u>4,198</u>
	<u>4,198</u>

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

2019
RMB'000

Carrying amount of the investment	<u>4,198</u>
Share of the associate's profit for the period after the Group's investment	<u>619</u>

17. DERIVATIVE FINANCIAL INSTRUMENTS

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

Cash flow hedge under HKFRS 9

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

There is an economic relationship between the hedged items and the hedging instruments as the terms of the forward currency contracts and interest rate swaps contracts match the terms of the bank loans (i.e., notional amount, expected payment date and interest rate). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the forward currency contracts and interest rate swaps contracts are identical to the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The Group holds forward currency contracts, with (i) a total fair value of RMB151,073,000 (31 December 2018: RMB33,296,000) and a total notional amount of USD1,288,700,000 (31 December 2018: USD850,000,000); (ii) a total fair value of RMB11,740 (31 December 2018: Nil) and a total notional amount of HKD2,600,213,000 (31 December 2018: Nil). These forward currency contracts were designated as hedging instruments in cash flow hedges of currency risks arising from bank loans denominated in United States Dollars and Hong Kong Dollars.

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

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

	Maturity						
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 2 years	2 to 5 years	Total
As at 31 December 2019							
Forward currency contracts							
Notional amount (<i>in USD'000</i>)	5,550	–	5,550	530,000	660,100	87,500	1,288,700
Average forward rate (<i>USD/RMB</i>)	7.05	–	7.06	6.75	7.06	7.22	–
Notional amount (<i>in HKD'000</i>)	–	–	–	1,675,536	924,677	–	2,600,213
Average forward rate (<i>HKD/USD</i>)	–	–	–	7.84	7.84	–	–
Interest rate swap contracts							
Notional amount (<i>in USD'000</i>)	–	–	–	240,000	215,000	–	455,000
Average fixed rate	–	–	–	4.18%	4.02%	–	–
Hedge rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	
As at 31 December 2018							
Forward currency contracts							
Notional amount (<i>in USD'000</i>)	–	–	–	–	850,000	–	850,000
Average forward rate (<i>USD/RMB</i>)	–	–	–	–	6.81	–	6.81
Hedge rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	

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

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

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

	Cash flow hedge reserve	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Unsecured bank loans	<u>179,266</u>	<u>72,829</u>

The effects of the cash flow hedge on the statement of profit or loss and the statement of comprehensive income are as follows:

Year ended 31 December 2019

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

Year ended 31 December 2018

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

Derivative financial instruments – transactions not qualifying as hedges:

- a) Forward currency contracts with a total nominal amount of USD180,000,000 and a total nominal amount HKD535,764,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised gain on the fair value of these financial derivatives amounting to RMB13,446,000 (2018: a gain of RMB30,318,000) was included in the statement of profit or loss during the year ended 31 December 2019.
- b) Interest rate swaps with a total nominal amount of RMB124,000,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised gain on fair value of the financial derivatives amounting to RMB278,000 (2018: a loss of RMB152,000) was included in the statement of profit or loss during the year ended 31 December 2019.
- c) Non-deliverable currency options with a total nominal of amount USD295,000,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised gain on fair value of the financial derivatives amounting to RMB5,664,000 (2018: a loss of RMB6,883,000) was included in the statement of profit or loss during the year ended 31 December 2019.
- d) Cross-currency interest rate swaps with a total nominal of amount USD30,000,000 are not designated for hedge purposes and are measured at fair value through profit or loss. An unrealised gain on fair value of the financial derivatives amounting to RMB7,661,000 (2018: a loss of RMB1,282,000) was included in the statement of profit or loss during the year ended 31 December 2019.

18. INVENTORIES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Finished goods	<u>156,726</u>	<u>40,537</u>
	<u>156,726</u>	<u>40,537</u>

19. LOANS AND ACCOUNTS RECEIVABLES

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

19a. Loans and accounts receivables by nature

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

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

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

19b(1). An ageing analysis of the lease receivables, determined based on the age of the receivables since the effective dates of the relevant lease contracts, as at the end of the reporting period is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Gross lease receivables:		
Within 1 year	–	22,205,420
1 to 2 years	16,980,689	15,526,914
2 to 3 years	9,524,527	9,924,656
3 years and beyond	7,856,509	4,407,569
	34,361,725	52,064,559
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Net lease receivables:		
Within 1 year	–	18,267,549
1 to 2 years	14,452,050	13,351,465
2 to 3 years	8,344,531	8,693,929
3 years and beyond	7,090,750	3,957,721
	29,887,331	44,270,664

19b(2). The table below illustrates the gross and net amounts of the lease receivables the Group expects to receive in the following three consecutive accounting years:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Gross lease receivables:		
Due within 1 year	13,520,871	14,911,405
Due in 1 to 2 years	10,189,446	14,921,639
Due in 2 to 3 years	6,896,503	11,188,175
Due after 3 years and beyond	3,754,905	11,043,340
	34,361,725	52,064,559
	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Net lease receivables:		
Due within 1 year	11,474,588	11,994,156
Due in 1 to 2 years	8,709,385	12,441,386
Due in 2 to 3 years	6,197,283	9,732,913
Due after 3 years and beyond	3,506,075	10,102,209
	29,887,331	44,270,664

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

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

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

	2019 RMB'000
Within 1 year	<u>19,898,308</u>
Total	<u><u>19,898,308</u></u>

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

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

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

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

19d(1). An ageing analysis of the accounts receivable, determined based on the age of the receivables since the recognition date of the accounts receivable, as at the end of the year is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 1 year	646,182	82,033
More than 1 year	20,127	3,282
	<u>666,309</u>	<u>85,315</u>

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

19d(2). Provision for accounts receivables

	At beginning of year <i>RMB'000</i>	Reversal <i>RMB'000</i>	Provision <i>RMB'000</i>	At end of year <i>RMB'000</i>
2019	<u>378</u>	<u>–</u>	<u>34,457</u>	<u>34,835</u>
2018	<u>558</u>	<u>(460)</u>	<u>280</u>	<u>378</u>

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

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

As at 31 December 2019

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

19e. Analysis of interest-bearing assets

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

19f. Change in provision for interest-bearing assets

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

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

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

19g. BALANCES WITH RELATED PARTIES

The balances of loans and accounts receivables of the Group included the balances with related parties as follows:

Gross lease receivables:

	2019 RMB'000	2018 <i>RMB'000</i>
Staff Hospital of Qiqihar No.2 Machine Tool (Group) Co., Ltd.	<u>1,245</u>	<u>2,687</u>

Net lease receivables:

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

Accounts receivables:

	2019 RMB'000	2018 <i>RMB'000</i>
China National Instruments Import & Export (Group) Corporation	<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 an annual rate of 8.69%.
- (ii) The balances with the related party are unsecured, interest-free and repayable on demand.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

20a. BALANCES WITH RELATED PARTIES

Particulars of amounts due from related parties are as follows:

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

The above related parties are subsidiaries of Genertec Group.

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

21. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

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

As at 31 December 2019, the cash and bank balances of the Group denominated in RMB amounted to RMB3,126,757,000 (2018: RMB2,152,030,000). RMB is freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at either fixed or floating rates based on daily bank deposit rates.

As at 31 December 2019, cash of RMB293,509,000 (31 December 2018: RMB441,480,000) was pledged and restricted for bank and other borrowings.

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

22. TRADE PAYABLES

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

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

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

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

22b. BALANCES WITH RELATED PARTIES

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

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

The above related parties are subsidiaries of Genertec Group.

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

23. OTHER PAYABLES AND ACCRUALS

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

23a. Details of contract liabilities are as follows:

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

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

23b. BALANCES WITH RELATED PARTIES

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

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

- (i) The above related parties are subsidiaries of Genertec Group. The balances with related parties were unsecured and repayable based on the payment schedule agreed between the Group and the parties.
- (ii) The above related party is a joint venture of the Group. The balance with a related party was unsecured and repayable based on the payment schedule agreed between the Group and the party.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			31 December 2018		
	Effective annual interest rate (%)	Maturity	RMB'000	Effective annual interest rate (%)	Maturity	RMB'000
Current:						
Bank loans – unsecured	2.73~4.57	2020	2,578,394	3.43~5.22	2019	2,146,653
Current portion of long-term bank loans:						
– secured	4.50~5.51	2020	880,540	4.28~5.70	2019	582,125
– unsecured	2.00~5.94	2020	5,607,520	4.28~5.94	2019	3,160,445
Current portion of long-term other loans:						
– unsecured	—	—	—	5.00	2019	450,000
Lease liabilities (note 13(c))						
– secured	4.75~5.04	2020	1,157,341	4.75~5.04	2019	321,232
– unsecured	4.75~4.90	2020	43,313	—	—	—
Bonds payables						
– secured	5.50~6.43	2020	224,088	—	—	—
– unsecured	2.80~3.45	2020	4,000,000	4.08~5.50	2019	4,687,901
Due to a related party						
– unsecured	4.75	2020	495,883	4.75	2019	998,442
			<u>14,987,079</u>			<u>12,346,798</u>

Notes:

- (a) The Group, as a lessee, engaged in sale and leaseback transactions with certain finance leasing companies for financing purposes. These leases were classified as finance leases prior to HKFRS 16 becoming effective on 1 January 2019 and had remaining lease terms ranging from 2 to 4 years. The equipment selected for the sale and leaseback transactions had been under finance leases pursuant to the finance lease contracts in which the Group was a lessor.

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

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

- (b) In May 2015, the Company's wholly-owned subsidiary, China Universal Leasing Co., Ltd. ("CULC"), issued a batch of leasing asset-backed securities with an aggregate principal amount of RMB1,141,858,000 to institutional investors through an asset management plan. The asset-backed securities have four senior tranches and one subordinated tranche. The Group received proceeds of RMB912,000,000 from the senior tranches which have expected annualised yields ranging from 4.80% to 6.43% and maturity periods from one year to five years. The subordinated tranche amounting to RMB229,858,000 was purchased by CULC itself and thus no proceeds were received. As at 31 December 2019, the amortised cost of the debt securities issued amounted to RMB224,088,000 (2018: RMB546,169,000).
- (c) As at 31 December 2019, the Group's bank and other borrowings secured by loans and accounts receivables, cash and bank balances and time deposits were RMB5,492,886,000 (2018: RMB3,608,940,000).

- (d) As at 31 December 2019, the principal amounts of the Group's borrowings from related parties were RMB1,000,000,000 from China General Technology (Group) Holding Co., Ltd. (PRC) and RMB1,000,000,000 from Genertec HONGKONG International Capital Limited (31 December 2018: RMB1,000,000,000 from Genertec Finance Co., Ltd. and RMB1,000,000,000 from China General Technology (Group) Holding Co., Ltd. (PRC)).
- (e) As at 31 December 2019, China General Technology (Group) Holding Limited provided comfort letter for bank borrowings in amount of RMB10,053,113,000 (31 December 2018: RMB6,576,849,000).

25. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax assets

	Impairment <i>RMB'000</i>	Salary and welfare payable <i>RMB'000</i>	Cash flow hedges <i>RMB'000</i>	Total <i>RMB'000</i>
Gross deferred tax assets at 1 January 2019	163,451	94,371	20,347	278,169
Credited to the statement of profit or loss during the year	50,610	26,592	7,211	84,413
Credited to reserves	<u>—</u>	<u>—</u>	<u>(17,135)</u>	<u>(17,135)</u>
Gross deferred tax assets at 31 December 2019	<u>214,061</u>	<u>120,963</u>	<u>10,423</u>	<u>345,447</u>
Gross deferred tax assets at 1 January 2018	126,952	69,514	—	196,466
Credited to the statement of profit or loss during the year	36,499	24,857	3,998	65,354
Credited to reserves	<u>—</u>	<u>—</u>	<u>16,349</u>	<u>16,349</u>
Gross deferred tax assets at 31 December 2018	<u>163,451</u>	<u>94,371</u>	<u>20,347</u>	<u>278,169</u>

Deferred tax liabilities

	Lease deposits <i>RMB'000</i>	Fair value gain on derivative financial instruments <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Gross deferred tax liabilities at 1 January 2019	29,639	59	–	29,698
Charged to the statement of profit or loss during the year	<u>488</u>	<u>4,902</u>	<u>1,774</u>	<u>7,164</u>
Gross deferred tax liabilities at 31 December 2019	<u>30,127</u>	<u>4,961</u>	<u>1,774</u>	<u>36,862</u>
Gross deferred tax liabilities at 1 January 2018	26,091	1,318	–	27,409
Charged to the statement of profit or loss during the year	<u>3,548</u>	<u>(1,259)</u>	<u>–</u>	<u>2,289</u>
Gross deferred tax liabilities at 31 December 2018	<u>29,639</u>	<u>59</u>	<u>–</u>	<u>29,698</u>

For the purpose of presentation of the consolidated statement of financial position, deferred tax assets and liabilities have been offset as the deferred taxes relate to the same taxable entity and the same taxation authority, and net deferred tax assets are presented as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Net deferred tax assets recognised in the consolidated statement of financial position	<u>308,585</u>	<u>248,471</u>

The Company has tax losses arising in Hong Kong of RMB105,133,000 (2018: RMB79,513,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose and tax losses arising in Mainland China of RMB15,608,000 (2018: RMB8,529,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company that has been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, the funds will be retained to expand the operations in Mainland China and it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB3,796,256,000 (2018: RMB3,051,194,000).

26. POST-RETIREMENT BENEFIT OBLIGATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

27. SHARE CAPITAL

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Issued and fully paid:		
1,716,304,580 (2018: 1,716,304,580) ordinary shares	<u>4,327,842</u>	<u>4,327,842</u>

28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Capital reserve

The capital reserve represents the share-based compensation reserve comprising the fair value of the shares awarded under the share transfer to the management of the Group recognised in accordance with the accounting policy adopted for equity compensation benefits.

Statutory reserve

Pursuant to the relevant laws and regulations and the articles of association of the subsidiaries of the Company in Mainland China, if a subsidiary is registered as a Sino-foreign joint venture, it is required to, at the discretion of the board of directors, transfer a portion of its profits after taxation reported in its statutory financial statements prepared under the applicable PRC accounting standards to the statutory reserve.

If a subsidiary is registered as a wholly-foreign-invested enterprise or a domestic limited liability company, it is required to appropriate 10% of each year's statutory net profits to the statutory reserve according to the PRC accounting standards and regulations (after offsetting previous years' losses) to the statutory reserve. The PRC subsidiary may discontinue the contribution when the aggregate sum of the statutory reserve is more than 50% of its registered capital. Upon contribution to the statutory reserve using its post-tax profit, a company may make further contributions to the statutory reserve using its post-tax profit in accordance with a resolution of the board of directors. The appropriation to statutory and discretionary reserves must be made before distribution of dividends to owners. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the PRC subsidiary. The statutory reserve can be transferred to paid-in capital, provided that the balance of the statutory reserve after such transfer is not less than 25% of its registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with a functional currency other than RMB.

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

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

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

	2019
	RMB'000
Profit for the year allocated to non-controlling interests:	
Genertec Ansteel Hospital Management Co., Ltd.	18,741

Accumulated balances of non-controlling interests at the reporting dates:	
Shanxi Yangmei General Hospital Medical Management Co., Ltd.	649,356
Genertec Ansteel Hospital Management Co., Ltd.	496,008

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

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

30. BUSINESS COMBINATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Bank and other loans RMB'000	Bonds RMB'000	Finance lease payables/Lease liabilities RMB'000	Due to related parties RMB'000
At 31 December 2018	16,894,053	12,764,358	1,328,613	1,994,965
Effective of adoption of HKFRS16 (Note 13(b))	—	—	22,851	—
At 1 January 2019	16,894,053	12,764,358	1,351,464	1,994,965
Changes from financing cash flows				
Proceeds from new borrowing	12,749,353	14,680,460	2,000,000	1,000,000
Acquisition of subsidiaries (Note 30)	149,500	—	—	—
Foreign exchange movement	252,514	—	—	—
Repayment of borrowings	(11,988,461)	(12,642,938)	(365,891)	(1,000,000)
Interest expense	22,111	7,760	134,669	(1,074)
At 31 December 2019	<u>18,079,070</u>	<u>14,809,640</u>	<u>3,120,242</u>	<u>1,993,891</u>
	Bank and other loans RMB'000	Bonds RMB'000	Finance lease payables RMB'000	Due to related parties RMB'000
At 1 January 2018	16,285,370	6,102,148	1,495,176	3,000,000
Foreign exchange movement	342,465	—	—	—
Proceeds from new borrowing	9,904,431	12,690,000	549,061	1,000,000
Repayment of borrowings	(9,576,179)	(6,019,000)	(662,500)	(2,000,000)
Interest paid classified as operating cash flows	(62,034)	(8,790)	(53,124)	(5,035)
At 31 December 2018	<u>16,894,053</u>	<u>12,764,358</u>	<u>1,328,613</u>	<u>1,994,965</u>

(b) Total cash outflow for leases

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

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

32. SHARE OPTION SCHEME

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

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

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

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

On 31 December 2019, the Board announced that, the Company has resolved to the offer to grant Share Options to the Grantees under the Share Option Scheme to subscribe for a total of 15,074,000 ordinary shares in the capital of the Company.

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

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

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

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

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

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

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

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

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

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

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

33. OTHER EQUITY INSTRUMENTS

China Universal Leasing Co., Ltd. ("**China Universal Leasing**"), a wholly-owned subsidiary of the Group, issued the first tranche of the bonds (the "**T1 Bonds**") of the renewable corporate bond with a total principal amount of RMB1,660,000,000, with a basic term of three years from 27 December 2018. The T1 Bonds are with a fixed interest rate of 6% per annum. The issue price is RMB100 per bond, which is equal to 100% of the principal value of the T1 Bonds. China Universal Leasing is entitled, at the end of the agreed basic term and each extended period, to an option to extend the term of the bonds. Distributions of the renewable bond may be paid annually and may be deferred at the discretion of China Universal Leasing unless a compulsory distribution payment event (including distributions to shareholders of China Universal Leasing) has occurred. Following a deferral, arrears of distributions are cumulative. As the Group has no contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group, the Group classified the renewable corporate bond issued as an equity instrument.

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

34. EVENTS AFTER THE REPORTING PERIOD

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

PERFORMANCE OVERVIEW

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

*¹ After taxes and surcharges

*² Before inter-segment offset

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

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

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

1.1 Hospital Group Business

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

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

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

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

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

General Operating Data of the Consolidated Medical Institutions in 2019

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

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

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

1.2 Finance and Advisory Business

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

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

1.3 Prospects for the Future

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

2. Analysis of Statement of Profit or Loss

2.1 Overview

In 2019, our hospital group continued to expand and our medical finance business steadily developed, with the strategic layout of our health industry chain becoming more distinct and the operating efficiency steadily improved. In 2019, the Group recorded revenue of RMB6,815.6 million, representing an increase of 58.6% as compared to the previous year. Profit before tax was recorded RMB2,211.9 million, representing an increase of 19.0% as compared to the previous year. Profit for the year attributable to the ordinary share holders of the Company was RMB1,488.7 million, representing an increase of 10.1% as compared to the previous year.

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

	For the year ended		
	31 December		
	2019	2018	
	<i>RMB'000</i>	<i>RMB'000</i>	Change %
Revenue	6,815,587	4,296,866	58.6%
Cost of sales	(3,636,505)	(1,705,442)	113.2%
Gross profit	3,179,082	2,591,424	22.7%
Other income and gains	218,645	150,740	45.0%
Selling and distribution costs	(404,589)	(387,251)	4.5%
Administrative expenses	(441,408)	(244,350)	80.6%
Impairment of financial assets	(235,213)	(145,996)	61.1%
Financial costs	(11,982)	(419)	2,759.7%
Other expenses	(96,116)	(105,109)	-8.6%
Share of profit of:			
An associate	619	–	100.0%
A joint venture	2,821	–	100.0%
Profit before tax	2,211,859	1,859,039	19.0%
Income tax expense	(577,467)	(508,375)	13.6%
Profit for the year	1,634,392	1,350,664	21.0%
Profit for the year attributable to the ordinary share holders of the Company	1,488,736	1,352,173	10.1%
Basic and diluted earnings per share (RMB)	<u>0.87</u>	<u>0.79</u>	<u>10.1%</u>

2.2 Analysis of Business Revenue

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

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

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

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

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

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

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

2.2.1 Finance and Advisory Business

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

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

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

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

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

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

* Before inter-segment offset

2.2.1.1 Finance lease business

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

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

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

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

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

	31 December 2019			31 December 2018		
	Average	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⁾
	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>	
Interest-bearing assets	48,216,413	3,821,659	7.93%	40,662,307	3,232,943	7.95%
Interest-bearing liabilities	42,987,091	2,016,751	4.69%	33,226,265	1,566,721	4.72%
Net interest margin ⁽⁵⁾	-	-	3.74%	-	-	4.10%
Net interest spread ⁽⁶⁾	<u>-</u>	<u>-</u>	<u>3.24%</u>	<u>-</u>	<u>-</u>	<u>3.23%</u>

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

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

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

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

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

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

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

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

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

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

2.2.1.2 Advisory services business

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

Industry, equipment and financing advisory services is a part of the Group's integrated services. Leveraging on our expanding healthcare resources platform, we continuously optimized the organization allocation in accordance with the characteristics of hospital operation at all stages and strengthened internal collaboration and staff training so as to provide customers with valuable, flexible and diversified comprehensive services that comprised financial services, equipment replacement, technology and management advice, and to assist our customers in improving their service quality. In 2019, industry, equipment and financing advisory services recorded gross profit of RMB804.0 million, representing an increase of 4.2% as compared to the previous year.

The Group's clinical department upgrade services mainly comprises the provision of services such as mid-to-long term planning for hospital development, disciplinary groups planning, specialty business training, approach and strategic consulting for chronic disease prevention and treatment, consulting for innovation in specialized areas and continuing medical education. By providing these services, the Group aimed to enhance the technical service capabilities and management efficiency of partner hospitals. In 2019, clinical department upgrade services recorded gross profit of RMB148.2 million, representing a decrease of 2.8%, as compared to the previous year.

2.2.1.3 Operating cost

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

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

2.2.2 Hospital Group Business

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

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

For the year ended 31 December 2019

RMB'000

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

For the year ended 31 December 2018

RMB'000

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

2.2.2.1 Integrated healthcare services

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

2.2.2.2 Hospital operation and management business

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

3. Financial Position Analysis

3.1 Overview of Assets

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

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

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

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

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

3.1.1 Restricted Deposits

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

3.1.2 Cash and Cash Equivalents

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

3.1.3 Loans and Accounts Receivable

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

3.1.3.1 Interest-bearing assets

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

Net interest-bearing assets by industry

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

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

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

The maturity profile of the net interest-bearing assets

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

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

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

Quality of interest-bearing assets

The Group has been implementing robust asset management policies and continuously adopting stringent and prudent asset classification policies. As at 31 December 2019, the Group had non-performing assets of RMB446.1 million, representing an increase of RMB85.9 million as compared to 31 December 2018. The Group continuously improved its risk management system, adopted effective risk prevention measures and increased the effort in the collection of non-performing assets. As at 31 December 2019, the Group's non-performing assets ratio was 0.90%.

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

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

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

(2) The non-performing assets ratio is the percentage of non-performing assets over net interest-bearing assets 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.

Ratio of overdue interest-bearing assets

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

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

	31 December 2019	31 December 2018
Overdue ratio (over 30 days) ⁽¹⁾	<u>0.84%</u>	<u>0.62%</u>

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

Provision for impairment of interest-bearing assets

As at 31 December 2019, the Group's provision coverage ratio was 198.46%, representing an increase of 8.22 percentage points as compared to the end of the previous year. With the expansion of its business, the Group's management believes that it is imperative to take prudent measures to protect the Group against systematic risks and move towards the international standards and practices. As such, the Group maintained its asset provision coverage ratio at an appropriate level. During the reporting period, the Group's loss assets was RMB41.7 million. Despite the Group's effort in collection through judicial means, those assets available for enforcement were unable to cover risk exposure. The Group will continue to take various ways to recover the leased assets to the maximum extent.

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

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

3.1.3.2 Accounts receivable

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

3.1.4 Other Assets

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

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

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

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

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

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

3.2 Overview of Liabilities

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

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

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

3.2.1 Interest-bearing Bank and Other Borrowings

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

The Group's interest-bearing bank and other borrowings is mainly used to provide capital for its finance lease business. As at 31 December 2019, the Group's interest-bearing bank and other borrowings was RMB38,002.8 million, representing an increase of RMB5,020.9 million or 15.2% as compared to the end of the previous year. The borrowings of the Group are mainly at fixed interest rates or at benchmark lending interest rates promulgated by the People's Bank of China, the London Interbank Offered Rate, Hong Kong Interbank Offered Rate and other floating rates.

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

	31 December 2019		31 December 2018		Change %
	<i>RMB'000</i>	% of total	<i>RMB'000</i>	% of total	
Bank loans	18,079,070	47.6%	16,444,054	49.9%	9.9%
Due to related parties	1,993,891	5.2%	1,994,964	6.0%	-0.1%
Bonds	14,809,640	39.0%	12,764,358	38.7%	16.0%
Other loans	3,120,242	8.2%	1,778,613	5.4%	75.4%
Total	<u>38,002,843</u>	<u>100.0%</u>	<u>32,981,989</u>	<u>100.0%</u>	<u>15.2%</u>

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

Breakdown of interest-bearing and other borrowings by currency:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.2.2 Other Payables and Accruals

Other payables and accruals primarily comprise the lease deposits paid by customers, the accrued interests on borrowings, as well as the accrued salary and welfare payables. As at 31 December 2019, other payables and accruals amounted to RMB4,973.4 million, representing an increase of RMB1,550.6 million as compared to the end of the previous year, mainly due to increase in receivables and payables, security deposits, business working capital of health insurance bureau and guarantee deposits resulted from the hospitals acquired by the Group.

3.3 Shareholders' Equity

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

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

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

4. Cash Flows Analysis

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

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

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

5. Capital Management

The primary objective of the Group's capital management activities is to ensure that it maintains healthy capital ratios in order to support the Group's business and maximize its shareholders' benefits. The Group uses debt ratio and gearing ratio to monitor its capital status. As at 31 December 2019, no changes were made to the Group's objectives, policies or processes for capital management, and the Group's debt ratio and gearing ratio decreased as compared to the end of the previous year.

Debt ratio

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

Gearing ratio

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

6. Capital Expenditure

The Group's capital expenditure primarily consists of expenditure on the purchase of medical equipment and other equipment relating to the Group's operating lease business, construction expenditure on hospital projects and expenditure relating to office facilities. In 2019, the Group had capital expenditure of RMB208.2 million, primarily attributable to the procurement of medical equipment for hospitals.

Use of Proceeds from the Initial Public Offering

The shares of the Company were listed on the Main Board of the Stock Exchange on 8 July 2015. On 30 July 2015, after deducting underwriting commissions and all related expenses, the net proceeds from the initial public offering amounted to approximately RMB2,775.5 million. As at 31 December 2019, the Group did not expect to make any change in the proposed use of proceeds set out in the Prospectus.

The Board closely monitored the use of proceeds from the initial public offering with reference to the use of proceeds disclosed in the Prospectus and confirmed that there was no material change in the proposed use of proceeds as previously disclosed in the Prospectus. As at 31 December 2019, RMB1,249.0 million which we planned to use for supporting our finance lease business, RMB277.6 million which we planned to use for funding general corporate purposes, and RMB416.3 million which we planned to use for our hospital operation and management business, out of the net proceeds from the initial public offering of the Group, have been fully utilized according to the usages disclosed in the Prospectus.

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

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

The remaining amount of RMB117.1 million for CVA project solutions and clinical department upgrade services in other new areas will be used for further development of CVA project solutions and clinical department upgrade services in other new areas and providing hospital customers with financial support for clinical department upgrade in coming years. The remaining amount of RMB318.6 million for hospital digitalization business will be used in coming years, according to the Company's development strategy and plan, for the development and operation of hospital digitalization business, further recruitments to expand our technology solutions team, continuous development of proprietary information management system for hospitals as well as related marketing activities.

7. Risk Management

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

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

7.1 Interest Rate Risk

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

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

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

	Increase/decrease in profit before tax	
	31 December 2019 RMB'000	31 December 2018 RMB'000
Change in base points		
+100 base points	165,379	75,794
-100 base points	(165,379)	(75,794)

7.2 Currency Risk

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

The Group conducts its business mainly in RMB, with certain financing activities denominated in USD and other currencies pegged to the USD. The Group's currency risk mainly arises from the transactions denominated in currencies other than RMB. In order to control currency risk, the Group adopted prudent currency risk management which hedges risk exposures one by one under comprehensive risk exposure management. It proactively hedged against foreign exchange exposure through using the operation of financial instruments such as forward exchange rate. As at 31 December 2019, the Group's exposure to foreign exchange risk amounted to approximately US\$10,413.5 million, US\$10,455.2 million or 100.4% of which had been hedged against by various financial instruments. Thus, the Group's exposure to foreign exchange risk is basically covered.

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

	Change in exchange rate %	Increase/decrease in profit before tax	
		31 December 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
If RMB strengthens against USD/HKD	(1)	(299)	460
If RMB weakens against USD/HKD	<u>1</u>	<u>299</u>	<u>(460)</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 recognized and creditworthy third parties. In accordance with the policy of the Group, the Group examines and verifies the credit risk of all customers with whom the Group has credit transactions. Besides, the Group monitors and controls the interest-bearing assets regularly to mitigate the risk of significant exposure to bad debts. Other financial assets of the Group include cash and bank deposits, accounts receivable and other receivables. The credit risk of these financial assets arises from the counterparty's inability to meet its obligations. The maximum exposure to credit risk equals to the carrying amounts of these assets.

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

Classification criteria

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

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

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

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

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

Asset management measures

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

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

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

On-site customer visits

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

Material events handling and reporting procedures

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

Regular assessments on asset quality and reclassification

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

Credit Risk Analysis

Analysis on the industry concentration of interest-bearing assets

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

	31 December 2019		31 December 2018	
	<i>RMB'000</i>	<i>% of total</i>	<i>RMB'000</i>	<i>% of total</i>
Healthcare	34,629,870	69.6%	34,649,213	78.3%
Others	15,155,769	30.4%	9,621,451	21.7%
Total	<u>49,785,639</u>	<u>100.0%</u>	<u>44,270,664</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 relates closely to people's basic livelihood and is weakly correlated to the economic cycle.

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

	31 December 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Net interest-bearing assets	48,857,612	43,588,515
Accounts receivable	631,474	85,316
Deposits and other receivables	249,983	24,431
Derivative financial assets	220,265	81,250

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

	31 December 2019 <i>RMB'000</i>	31 December 2018 <i>RMB'000</i>
Net interest-bearing assets	446,128	360,223

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

7.4 Liquidity Risk

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

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

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

	On demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 December 2019						
Total financial assets	3,655,877	5,792,264	14,543,548	38,657,506	104,163	62,753,358
Total financial liabilities	(496,991)	(6,327,831)	(12,603,141)	(27,164,976)	(21,645)	(46,614,584)
Net liquidity gap ⁽¹⁾	<u>3,158,886</u>	<u>(535,567)</u>	<u>1,940,407</u>	<u>11,492,530</u>	<u>82,518</u>	<u>16,138,774</u>
31 December 2018						
Total financial assets	2,345,585	3,817,378	11,320,692	36,389,135	435,276	54,308,066
Total financial liabilities	(42,315)	(3,143,147)	(11,817,594)	(23,829,627)	(21,502)	(38,854,185)
Net liquidity gap ⁽¹⁾	<u>2,303,270</u>	<u>674,231</u>	<u>(496,902)</u>	<u>12,559,508</u>	<u>413,774</u>	<u>15,453,881</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.

7.5 Risks in relation to Medical Institutions

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

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

8. Pledge of Group Assets

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

9. Material Investments, Acquisitions and Disposals

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

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

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

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

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

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

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

10.1 Contingent Liabilities

	31 December 2019 RMB'000	31 December 2018 RMB'000
Legal proceedings	—	—
Claimed amounts	—	—

10.2 Capital Commitments and Credit Commitments

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

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

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

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

11. Human Resources

As at 31 December 2019, we had a total of 8,761 employees, representing an increase of 8,056 or 1,143%, compared to 705 employees as at 31 December 2018, which is mainly due to transfer of employees from acquired hospitals.

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

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

In accordance with applicable PRC regulations, we have made contributions to social security insurance funds (including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. We also provide other insurance plans for eligible employees such as supplementary pension, additional medical insurance and accident insurance in addition to those required under the PRC regulations. For the year ended 31 December 2019, the Group complied with all statutory social insurance and housing fund obligations applicable to us under the PRC laws in all material respects.

CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code and has adopted the CG Code as its own code of corporate governance.

During the year, the Company has complied with all code provisions as set out in the CG Code save for the deviation from code provisions A.4.2, A.5.1 and E.1.2.

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, the articles of association of the Company stipulates that the executive Directors shall not be subject to the rotational retirement provision, without prejudice of the power of the Shareholders in general meeting to remove any such Director. To ensure continuity of leadership and stability for growth of the Company, the Board opined that the executive Directors should hold office on a continuous basis.

Code provision A.5.1 of the CG Code stipulates that the number of independent non-executive directors shall represent the majority of the nomination committee. During the period between 18 September 2019 and 1 December 2019, due to the resignation of an independent non-executive Director, namely Mr. Kong Wei, who was also then a member of the Nomination Committee, the Nomination Committee then only consisted of one non-executive Director and one independent non-executive Director. The structure of the Board did not meet the requirements under Rule 3.10A of the Listing Rules. Please refer to the announcement of the Company dated 18 September 2019 for further details. As Mr. Liao Xinbo was subsequently appointed as an independent non-executive Director, as well as, a member of the Nomination Committee, on 2 December 2019 in order to fill the vacancy, such deviation from code provision A.5.1 was rectified and the requirements of Rule 3.10A of the Listing Rules were complied with.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board of directors should attend the annual general meeting. However, the chairman did not attend the annual general meeting held on 5 June 2019 due to a business trip. He will use his best endeavours to attend all future general meetings of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Securities Dealing Code on terms no less exacting than the Model Code, to regulate the Directors' and employees' dealings in the Company's securities.

Having made specific enquiry in writing to all the Directors (including Mr. Kong Wei who resigned during the accounting period covered by this annual results announcement), all of them confirmed that they had complied with the Model Code and the Securities Dealing Code throughout the period from 1 January 2019 or the date of his appointment as Director (as the case may be) and up to the date of his resignation as Director or the date of this announcement (as the case may be).

REVIEW OF FINANCIAL INFORMATION

The Company has established the Audit Committee in compliance with Rules 3.21 and 3.22 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 audited annual consolidated financial statements of the Group for the year ended 31 December 2019 and the annual results.

In addition, Ernst & Young, the external auditor of the Company, has independently audited the consolidated financial statements of the Group for the year ended 31 December 2019 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

DISCLOSURE UNDER SECTION 436 OF THE COMPANIES ORDINANCE

The financial information relating to the Company for the years ended 31 December 2019, 2018, 2017, 2016 and 2015 included in this announcement does not constitute the Company's statutory annual consolidated financial statements for these five years 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 is as follows:

The Company has delivered the consolidated financial statements for the years ended 31 December 2018, 2017, 2016 and 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, as well as section 94 of the Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance in due course.

The Company's auditor has reported on the consolidated financial statements for the years ended 31 December 2019, 2018, 2017, 2016 and 2015. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

DIVIDEND AND CLOSURE OF REGISTER

The Board recommended the payment of a final dividend of HKD0.29 per share for the year ended 31 December 2019 to Shareholders whose names appear on the register of members of the Company on Wednesday, 17 June 2020. The proposed final dividend will be paid on Monday, 29 June 2020, subject to the approval of the Shareholders at the 2020 AGM to be held on Tuesday, 9 June 2020.

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

- (i) from Thursday, 4 June 2020 to Tuesday, 9 June 2020, both days inclusive and during which period no share transfer will be registered, for the purpose of ascertaining Shareholders' entitlement to attend and vote at the 2020 AGM. In order to be eligible to attend and vote at the 2020 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 3 June 2020; and
- (ii) from Monday, 15 June 2020 to Wednesday, 17 June 2020, both days inclusive and during which period no share transfer will be registered, for the purpose of ascertaining Shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 12 June 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.universalsm.com, respectively. The annual report of the Company for the year ended 31 December 2019 containing all the information required under the Listing Rules will be despatched to the Shareholders and published on the above-mentioned websites in due course.

DEFINITION

“2020 AGM”	the annual general meeting of the Company to be held on 9 June 2020
“Ansteel General Hospital”	Ansteel Group General Hospital (鞍鋼集團公司總醫院)
“Ansteel Group”	Ansteel Group Corporation Limited (鞍鋼集團有限公司)
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of directors of the Company
“CEC”	China Electronics Corporation
“CEC Caihong”	CEC Caihong Group Co., Ltd. (咸陽中電彩虹集團控股有限公司)
“CG Code”	the “Corporate Governance Code” contained in Appendix 14 to the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong, which has become effective from 3 March 2014), as amended, supplemented or otherwise modified from time to time
“Company” or “Universal Medical”	Genertec Universal Medical Group Company Limited (通用環球醫療集團有限公司) (formerly known as Universal Medical Financial & Technical Advisory Services Company Limited (環球醫療金融與技術諮詢服務有限公司), Universal Medical Services & Health Management Company Limited (環球醫療服務有限公司) and Universal International Leasing Co., Limited (環球國際租賃有限公司)), a company incorporated with limited liability under the laws of Hong Kong on 19 April 2012
“CRFG”	China Railway First Group Co., Ltd.
“CR State Asset”	China Railway State Asset Management Co., Ltd. (中鐵國資資產管理有限公司)
“CVA”	cerebral vascular accident
“Director(s)”	the director(s) of the Company
“Group”, “we” or “us”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“Hospital Investment Co., Ltd.” or “Wiseman”	Genertec Universal Hospital Investment & Management (Tianjin) Co., Ltd. (通用環球醫院投資管理(天津)有限公司), previously known as Wiseman Hospital Investment Management (Tianjin) Co., Ltd. (融慧濟民醫院投資管理(天津)有限公司), a wholly-owned subsidiary of the Company established in the PRC in 2015
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Company
“Pangang Group”	Panzhuhua Iron and Steel (Group) Company Limited (攀鋼集團有限公司)
“Pangang Mining”	Panzhuhua Pangang Group Mining Company (攀鋼集團礦業有限公司)
“PRC” or “China”	The People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus issued by the Company on 24 June 2015
“Qianshan Hot Spring Sanatorium”	Qianshan Hot Spring Sanatorium of Ansteel General Hospital
“RMB”	Renminbi, the lawful currency of the PRC
“Securities Dealing Code”	the Company’s own code of conduct regarding directors’ and employees’ dealings in the Company’s securities
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“SOE”	State-owned enterprise

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USD”	United States dollars, the lawful currency of the United States
“Yangmei Hospital Management”	Shanxi Yangmei General Hospital Medical Management Co., Ltd. (山西陽煤總院醫療管理有限公司)
“Yang Quan Coal Industry”	Yang Quan Coal Industry (Group) Co., Ltd. (陽泉煤業(集團)有限公司)

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
Peng Jiahong
Executive Director

Hong Kong, 24 March 2020

As at the date of this announcement, the executive Directors are Ms. Peng Jiahong (Vice-chairwoman) and Mr. Yu Gang; the non-executive Directors are Mr. Zhang Yichen (Chairman), Ms. Liu Kun, 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. Han Demin and Mr. Liao Xinbo.